

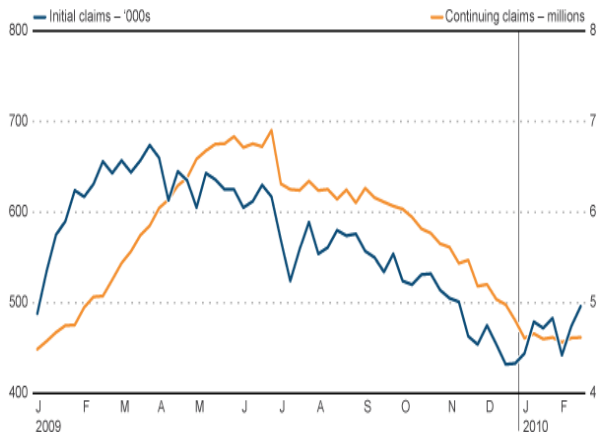
# INSIDE DEBT

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Thursday, February 25, 2010

## CHART OF THE DAY

### U.S. jobless claims



Initial claims and continuing claims rose unexpectedly in the latest week, defying analyst expectations.

## TODAY'S TOP NEWS

- Bernanke wants answers on Goldman role in Greece
- U.S. durable orders ex-transport slip, jobs data weak
- U.S. thrift regulator: need to encourage safe lending
- Obama, Republicans clash at health summit
- Firm 7Y U.S. debt sale rounds out record supply week
- [For more stories, please click here](#)

## ECON WATCH

FOR FRIDAY FEBRUARY 26

ET	Indicators	Unit	Reuters	Prior
02:00	GB Nationwide mm	ind	0.4	1.2
04:30	GB GDP 2nd release qq Q4	%	0.2	0.1
05:00	EZ Inflation, final mm	%	-0.8	0.3
05:00	EZ Infl ex food & energy mm	%	-1.1	0.4
08:30	US GDP preliminary Q4	%	5.7	5.7
08:30	US GDP deflator, prelim Q4	%	0.6	0.6
08:30	US GDP sales, prelim Q4	%	2.0	2.2
08:30	US Core PCE prices	%	1.4	1.4
08:30	US PCE prices, prelim Q4	%	2.7	2.7
08:30	US ISM-New York index	ind	-	403.9
09:45	US Chicago PMI	ind	60.0	61.5
09:55	US U.Mich sentiment final	ind	74.0	74.4
09:55	US U.Mich conditions final	ind	82.0	81.1
09:55	US U.Mich expectation final	ind	69.9	70.1
10:00	US Existing home sales mm	mIn	5.50	5.45
10:00	US Existing homes pct mm	%	1.0	-16.7
-	DE HICP pre mm	%	0.5	-0.6

## MARKETS TODAY

**TODAY'S TOP STORY:** U.S. regulators are looking into how Wall Street firms like Goldman Sachs helped debt-stricken Greece arrange derivatives deals that critics say were used to disguise the size of its budget deficits. [For more please click here](#)

**TREASURIES:** Treasuries prices rose as stock losses, weak economic data, and concerns about sovereign credit drew investors to U.S. government debt.

- Traders had expected the new securities to yield 3.087 percent, while the yield on 7-yr Treasuries was 3.069 percent in the open market.
- 30-yr bond prices rose nearly a point to yield 4.58 pct.
- 10-yr Treasury prices were up 14/32 to yield 3.64 pct.
- 5-yr Treasury notes yielded 2.34 pct.
- 2-yr notes rose 3/32 to yield 0.83 pct.

**FOREX:** The dollar and euro fell against the yen as worries about Greece's debt crisis and an unexpected rise in U.S. new jobless claims boosted safe-haven flows into the Japanese currency.

- Euro rose 0.18 pct to \$1.3558. Earlier, it hit a high of \$1.3571.
- The dollar fell 1.17 pct to 89.05 yen, after earlier touching 88.81 yen.
- Euro was down 1.02 pct to 120.74 yen. It fell as low as 119.66 yen, the lowest since February 2009.
- Sterling fell 0.92 pct to \$1.5265.
- Dollar index shed 0.2 pct to 80.687.

**CORPORATES:** U.S. corporate bond spreads widened as ongoing concerns about European sovereign credit and weak economic data fueled more doubts about the strength of the recovery.

- The CDX.IG-13 index widened by about 1 bps to 94 bps.
- Five-year CDS on Greek government debt rose to 399 bps from 382 bps on Wednesday.
- Fannie Mae said it sold \$1.0 bln of five-year notes.

**STOCKS:** U.S. stocks fell, but were off session lows after weak employment and durable goods data added to recent worries about the strength of the economic recovery.

- Dow fell 0.51 pct to 10,321.03, S&P shed 0.21 pct to 1,102.94 and Nasdaq was down 0.08 pct to 2,234.22.
- Caterpillar Inc was off 0.3 pct at \$56.79. JP Morgan Chase fell 0.5pct at \$40.64.
- Coke shares fell 3.7 pct to \$53.12, while CCE soared 32.85 pct to \$25.48.
- The Morgan Stanley healthcare payor index rose 0.02 pct.
- S&P financial index shed 0.33 pct, S&P technology fell 0.24 pct.

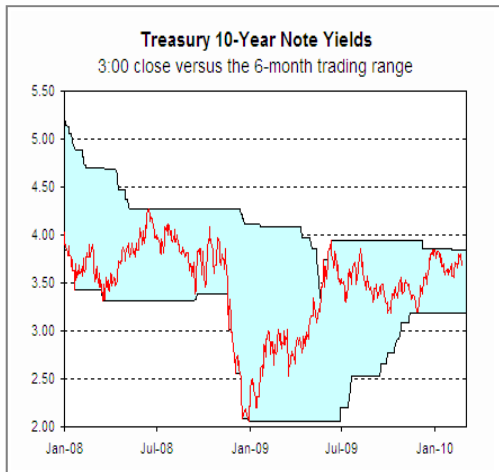
**C & E:** Oil dropped more than 2 percent as weak U.S. employment and durable goods data raised more concerns about a recovery in the world's top energy consumer.

- U.S. crude prices fell 2.1 pct to \$78.32 per barrel.
- Gold rose 0.75 pct to \$1,105.5 an ounce.
- Reuters-Jefferies index was down 1.41 pct at 270.87.

- [For MARKET SNAPSHOT click here](#)
- [For NEXT UP click here](#)
- [For DEEP DIVE click here](#)



MARKET SNAPSHOT as of 3:00 pm EST



**TREASURIES <5> <500>**

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.095	0.06	0.096	0.011
3-Mo Bill	0.120	0.110	0.122	0.007
6-Mo Bill	0.180	0.170	0.183	0.001
1-Year	0.290	0.280	0.295	-0.022
2-Year	100.078	100.109	0.836	0.074
3-Year	100.031	100.063	1.365	0.129
5-Year	100.156	100.203	2.342	0.270
7-Year	100.391	100.438	3.062	0.414
10-Year	99.844	99.906	3.644	0.422
30-Year	100.688	100.750	4.582	0.891

**EQUITIES**

	INDEX	CHANGE
DJIA	10288.38	-85.78
NASDAQ	2224.24	-11.66
S&P 500	1098.78	-6.46

**OIL**

	PRICE	CHANGE
NYMEX	78.1	-1.9
BRENT	75.8	-2.3

**EURODOLLAR FUTURES**

	CLOSE	CHANGE
Mar-10	99.735	0.005
Jun-10	99.640	0.005
Sep-10	99.485	0.030
Dec-10	99.190	0.045

**REPURCHASE AGREEMENTS**

G/C		MORTGAGE REPOS	
O/N	0.210	O/N	0.200
2-Week	0.210	2-Week	0.220
1-Month	0.220	1-Month	0.220
3-Month	0.220	3-Month	0.240
AGENCY REPOS		i-REPO <sup>SM</sup> INDEX	
O/N	0.200	10:00 AM	0.140
2-Week	0.210	3:00 PM	0.141
1-Month	0.220		
3-Month	0.230		

**IR SWAPS <19901>**

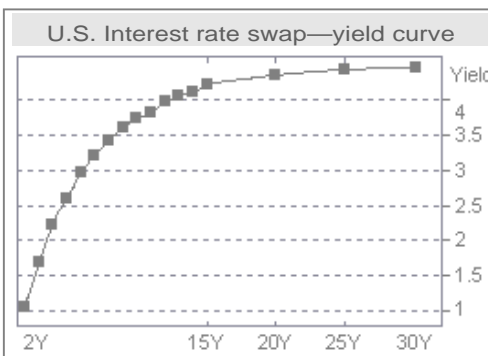
	SPREAD		RATE	
2-Year	21.75	25.75	1.05	1.07
3-Year	29.25	33.25	1.65	1.67
5-Year	25.75	29.75	2.59	2.60
7-Year	12.75	16.75	3.19	3.18
10-Year	5.75	9.75	3.70	3.69
30-Year	-16.50	-12.50	4.42	4.39

**FUTURES**

	PRICE	CHANGE
CBOT 5 yr	116.81	0.34
CBOT 10 yr	118.55	0.47
CBOT 30 yr	118.47	0.75

**EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)**

	BID	ASK	BID	ASK
O/N	0.130	0.150	-	-
1-Month	0.200	0.280	0.140	0.150
3-Month	0.220	0.400	0.155	0.165
6-Month	0.250	0.450	0.176	0.186
12-Month	0.600	1.000	0.300	0.310



**CURRENCIES**

	BID	ASK
Euro	1.3539	1.3542
Sterling	1.5239	1.5244
JP Yen	89.11	89.14
Swiss Franc	1.0804	1.0808
Can Dollar	1.0620	1.0624
Mexico	12.8096	12.8172

**FED FUNDS NYFR<sup>SM</sup> - 10AM**

Open	0.1300	1m	0.2138
High	0.1400	3m	0.2488
Low	0.0800		

**ACTIVE FANNIE MAE AGENCIES**

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.875	12/01/2012	4	3	0.88
3-Year	1.375	09/01/2013	12.5	11.5	1.5
5-Year	2.875	09/02/2015	26	24.5	2.6
7-Year	5.125	18/10/2016	25.5	24.75	3.32
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	35	34.5	4.93

**ACTIVE FREDDIE MAC AGENCIES**

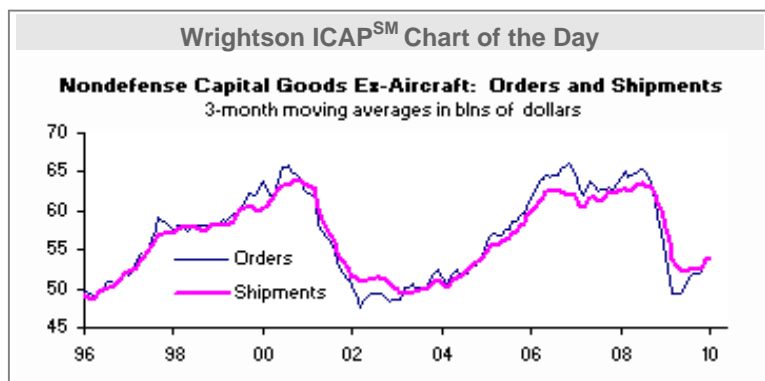
TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	0	-3.5	<blank>
3-Year	1.75	22/02/2013	20	19	1.58
5-Year	2.625	20/11/2014	14	13.5	2.49
7-Year	5.25	15/09/2016	22	21.25	3.28
10-Year	3.75	27/03/2019	19	17	3.85
30-Year	6.25	15/07/2032	33	32.25	4.91

**Active MBS 15YR**

	CPN	BID	ASK	YIELD
FNMA	5.0	105.0710	105.0910	2.690
FHLMC	5.0	105.0710	105.0910	2.690

**Active MBS 30YR**

	CPN	BID	ASK	YIELD
FNMA	5.5	105.0710	105.0910	3.075
FHLMC	5.5	105.2110	105.2310	2.843
GNMA	5.5	105.1920	105.2120	3.561



## TODAY'S TOP NEWS

**Bernanke wants answers on Goldman role in Greece**

U.S. regulators are looking into how Wall Street firms like Goldman Sachs helped debt-stricken Greece arrange derivatives deals that critics say were used to disguise the size of its budget deficits.

Federal Reserve Chairman Ben Bernanke made the disclosure and suggested securities regulators also wanted the information. "We are looking into a number of questions related to Goldman Sachs and other companies in their derivatives arrangements with Greece," Bernanke said in response to a question from U.S. Senate banking Committee Chairman Sen.

Bernanke said the SEC similarly was "interested" in Wall Street's activities in helping Greece do derivatives deals.

He stopped short of saying an official inquiry of Goldman Sachs' activities was under way by either the Fed or SEC. The SEC had no immediate comment when contacted.

Goldman Sachs spokesman Michael DuVally said, "As a matter of policy, we don't comment on legal or regulatory matters."

Separately, EU inspectors and ratings agencies piled pressure on Greece to deliver promised cuts to its huge budget deficit, as Athens prepares to borrow on jittery markets in the middle of a debt crisis. The European Union inspectors, visiting Athens with IMF experts, have delivered a grim assessment of the nation's economy, Greek government officials said.

**U.S. thrift regulator: need to encourage safe lending**

U.S. regulators need to ensure that credit availability is not restricted so much that loans are denied to credit-worthy borrowers, although institutions need to be wary of rising defaults, the top U.S. thrift regulator said.

John Bowman, acting director of the Office of Thrift Supervision, said some tightening in credit was needed after years in which lending standards were too loose.

Bowman said the OTS was encouraging thrift institutions to make all types of loans allowed by law, as long as they were prudently underwritten to credit-worthy borrowers.

Bowman said the lack of a strong secondary market for loans meant institutions have to hold more loans in their own portfolios, necessitating higher capital as a cushion against potential losses, which acts as a restraint on more lending.

Institutions also should not automatically refuse credit to a small business solely based on the borrower's particular industry or location, Bowman said.

Separately, regulator of the largest U.S. banks said some institutions may have become too conservative in pulling back their lending, according to testimony released.

**Firm 7Y U.S. debt sale rounds out record supply week**

Solid demand for \$32 billion of seven-year U.S. Treasury notes closed out the record debt supply the government sold this week and soothed some worries over the appetite for U.S. securities.

The overall bid for the seven-year notes was the strongest since this maturity was reintroduced a year ago in an effort to raise money to fund the government's massive stimulus program and various financial bailouts. "Given the market's sentiment over a weaker economy, the seven-year represents one of the cheaper points on the curve," said James Caron, head of global rates research at Morgan Stanley in New York.

Weaker-than-expected economic data and gyrations in the stock market also stoked a safe-haven bid for Treasuries, analysts said. The intense bidding for the new seven-year notes led their yield to clear at 3.078 percent, nearly 1 basis point below what traders had expected.

**U.S. durable orders ex-transport slip, jobs data weak**

Demand for a wide range of U.S. manufactured goods unexpectedly fell in January, while new applications for jobless benefits rose again last week, suggesting a step back in the economic recovery.

The U.S. Commerce Department said durable goods orders, excluding transportation, slipped 0.6 percent last month after increasing 2.0 percent in December. That was below market expectations for a 1.0 percent rise.

Overall orders, however, jumped 3.0 percent on hefty aircraft bookings, double market expectations and building on the 1.9 percent increase in December.

Separately, the number of people filing for first-time state unemployment insurance rose 22,000 to 496,000 last week, the U.S. Labor Department said. It was the second straight week claims rose and exceeded market expectations for 455,000.

The overall tone of the January durable goods report was negative, with orders for machinery posting their biggest decline in a year. Motor vehicles and parts orders fell their largest in eight months, and a closely watched gauge of business spending dropped 2.9 percent after a 3.3 percent rise in December.

Shipments, which go into the calculation of GDP, slipped 0.2 percent in January. They rose 2.4 percent in December.

**Obama, Republicans clash at health summit**

President Barack Obama and Republicans clashed frequently at a summit on his stalled healthcare overhaul, battling over the size and cost of the proposal and moving no closer to a compromise agreement.

Obama told about 40 congressional leaders his comprehensive overhaul was "absolutely critical" to a sustained economic recovery, but Republicans said he should scrap the current plans and start over with a smaller approach. Obama hoped the day-long summit at Blair House would revive momentum in Congress for his faltering overhaul. Obama urged lawmakers to go beyond political theater and partisan finger-pointing, but the polite tone was interrupted several times by tense exchanges with Republicans, including his 2008 presidential foe John McCain. Republican Senator Lamar Alexander and Obama clashed sharply on whether Democratic plans would raise the cost of insurance premiums, with each interrupting the other to make their points. Republicans said Obama's healthcare overhaul was too costly and would mean more taxes, more regulations and higher premiums for consumers.

**U.S. Fed optimistic on changing Wall St pay packages**

The Federal Reserve expects the largest U.S. banks to make progress this year in overhauling their pay practices, while acknowledging that more dramatic changes may take longer to implement, a Fed official said.

Wall Street pay has been a frequent source of controversy in the wake of a financial meltdown that brought global markets to the brink of collapse and prompted multibillion-dollar taxpayer bailouts for individual financial firms. Scott Alvarez said the Fed expects to issue final guidance "shortly" on the pay guidelines it issued in October to combat excessive risk-taking at banks.

He said the Fed is also working on a two-tier system after public comments said smaller banks may face a heavier regulatory burden as supervisors increase scrutiny of pay practices. But no single firm has unleashed more anger than bailed-out insurer AIG Inc, which this month paid out another \$100 million in bonuses to employees of the unit that made bad bets on credit default swaps and brought the firm to the brink of collapse.



## TODAY'S TOP NEWS

**U.S. mortgage rates rise above 5 pct again-Freddie Mac**

U.S. mortgage rates rose for the first time in three weeks, leaping above 5 percent, a key level that could suppress demand for home loans, a closely watched mortgage survey showed.

Interest rates on U.S. 30-year fixed-rate mortgages averaged 5.05 percent for the week ended Feb. 25, up from the previous week's 4.93 percent, according to a survey released by Freddie Mac. That is slightly below the year-ago level of 5.07 percent, but above the record low of 4.71 percent in early December. Freddie Mac started the survey in 1971.

Separately, the U.S. commercial paper market expanded for a third straight week, adding to other signs that U.S. economic activity continued to expand, Federal Reserve data showed. For the week ended Feb. 24, the size of the U.S. commercial paper market rose by \$16.5 billion to \$1.154 trillion outstanding, from \$1.138 trillion outstanding the previous week.

**U.S. Treasury: GMAC stabilized, IPO seen a year away**

Government-controlled auto finance company GMAC has largely been stabilized, but an initial public stock offering that will reduce the taxpayers' stake is probably at least a year away, senior U.S. Treasury officials said.

Ronald Bloom told the Congressional Oversight Panel that the chances that GMAC Financial Services would need additional government capital had diminished after a successful private debt offering earlier this month.

Bloom added that GMAC still faces challenges and the Treasury's principal focus now was to support GMAC management's efforts to refinance debt and make the company viable long-term. The government holds a 56.3 percent stake in GMAC as a result of capital infusions that have totaled over \$17 billion, including a \$3.8 billion investment on Dec. 30.

GMAC Chief Executive Michael Carpenter said the firm would not be able to sell \$17 billion worth of shares all at once but said a modest IPO could probably be achieved in the next year or two. He added that it was unlikely that GMAC would require more capital from Treasury.

**Euro zone sentiment eases, adds to recovery worry**

Euro zone economic sentiment eased marginally in February against January, defying market expectations of a small rise and adding to concerns about the sustainability of a recovery in the economy.

Sentiment eased to 95.9 points from 96.0 in January against market expectations of a rise to 96.2, the European Commission said as pessimism among households and retailers offset gains in industry and services. Sentiment in industry improved to -13 from -14 points and in the services sector to +1 from -1.

But the mood deteriorated to -17 from -16 among households and to -9 from -5 in the retail sector. The indicator of consumer inflation expectations, which the ECB monitors for its policy decisions, rose to 0 from -2 in January, suggesting households no longer expected prices to fall but did not see them rising either.

In industry, selling-price expectations increased to -4 from -6, but they deteriorated to -9 from -6 in the retail sector.

**BoE's King warns of bigger crisis without bank reform**

Failure to act now on sweeping banking reform could pave the way for an "even bigger" financial crisis in the future, Bank of England Governor Mervyn King said.

Giving evidence to a cross-political party commission on the future of banking, King also stressed his opposition to having firms that are deemed "too big to fail" because of the potential cost to the taxpayer if they need to be bailed out.

Policymakers around the world are trying to redesign the financial system to repair the damage done after the credit crisis and to reduce pockets of risk so that banks and the authorities are better equipped to deal with future shocks.

King said devising plans for banks in trouble and imposing tougher liquidity and capital rules on the financial sector were needed but said structural reforms such as "firebreaks and firewalls" in the system were also necessary.

Britain's Labour government is not in favor of splitting banks but wants to impose internationally-agreed restraints to make sure financial institutions hold more capital and don't incentivise risky behaviour.

## NEXT UP

**Weak data seen fueling market gains**

The U.S. Treasury debt market is poised for further gains, if more data fall short of expectations and intensify doubts over the strength of a U.S. economic recovery.

Investors will keep a keen eye on existing home sales as the real estate sector has exhibited evidence of softening even after the government extended its first-time home buyer credit program, analysts said.

Another poor housing reading could overshadow data on factory activity in Chicago and New York, consumer sentiment from Reuters/University of Michigan and the government's revision of its fourth-quarter figures on GDP, they said.

Still, existing home sales are expected to show a modest increase in January, as traders brace for them to fall short of forecast given a startlingly weak new home sales report this week.

Analysts polled by Reuters expected home re-sales likely grew to an annualized rate of 5.50 million units from a 5.45 million unit pace in December.

Meanwhile, month-end portfolio rebalancing, volatility in the stock market and lingering concerns over Greece's fiscal health could add bids for Treasuries on Friday, analysts said.

**U.S. investor equity holdings at post-crisis high in Feb**

U.S. fund managers added further exposure to equities in February to reach their highest level in 14 months on signs an economic recovery is strengthening, a Reuters poll showed.

Based on 11 U.S. based fund management firms surveyed between Feb. 11 and 24, the poll found they held an average of 66.2 percent of their assets in equities, compared with 64.8 percent a month earlier and 65.0 percent in December, the high for 2009. Two of the funds in February's sample were different from those in the January survey, but on a like-for-like basis, the overall group's direction is the same.

The Reuters results are corroborated by the latest findings from the Investment Company Institute which said domestic and foreign equity funds had estimated inflows of \$1.11 billion for the week ended Feb. 17. It was the first such inflow in February. Domestic equity funds had estimated inflows of \$14 million while estimated inflows to foreign equity funds were \$1.09 billion. Investors also took comfort equities would perform well this year after U.S. Federal Reserve Chairman Ben Bernanke told Congress on Wednesday a weak job market and tame inflation warrant low interest rates for "an extended period."



## DEEP DIVE Commentary and Analysis

**Investor confidence not too helpful**

By Jim Saft

Once again someone in charge -- Mary Schapiro of the U.S. Securities and Exchange Commission this time -- is going on about how they are making changes in order to "preserve investor confidence."

As if this were in some way a good thing.

I would feel a whole lot better if instead the SEC were talking about making investors more sceptical.

The SEC on Wednesday moved by a 3-2 vote to place additional limits on short selling of stocks, the practice of betting on a decline in a given stock by borrowing shares, selling them and contracting to buy them back later at what the seller hopes will be a lower price.

The new curb would serve as a so-called circuit breaker for shares that have fallen 10 percent or more in a trading session.

"It is a rule that is designed to preserve investor confidence and promote market efficiency," said Schapiro, the SEC's chairman.

Now Schapiro is in part talking about confidence among investors that markets are fair, efficient and not subject to abuse. That's absolutely crucial and the SEC should be ferocious in going after abuse and in ensuring transparency. The SEC's reason for existing is to ensure that U.S. markets are places where everyone gets a fair shake. That makes people willing to give their capital to strangers who have promised to use it productively and share the fruits.

This urge to buttress confidence however, sadly often bleeds into an effort to prop up confidence among investors that everything is in pretty good shape after all, or even worse in attempts to deny investors access to information that might make them believe that the prospects of a specific company are poor.

Short sellers are the much needed vinegar in the overwhelmingly sickly sweet sauce that passes for analysis in financial markets. They give investors valuable clues that all might not be well with a given company, and so long as they don't sell shares that they can't actually lay their hands on, spread false rumors or fail to disclose they ought to be mostly left alone, though tightly monitored.

If you read through the submissions to the SEC by members of the public -- usually in the securities business or in companies who raise money through it -- who support the new rules there is a recurring theme: that short selling might ruin a business by giving people the idea that it is in trouble and impairing its access to capital.

Well, duh.

Ultimately that is what short sellers are hoping and ultimately we will all be better off if less capital is allocated to weak firms rather than to strong ones. Among the loudest in complaining about short selling in 2008 were representatives of the securities industry. Executives at both Lehman Brothers and Bear Stearns were both vociferous in blaming their problems on short sellers. But neither firm was brought low by short sellers; they were brought low by reality, a reality which short sellers grasped before the rest of us.

**AN OVERCONFIDENT INDUSTRY**

The entire securities industry is hugely biased towards overconfidence; in fact you could make an argument that its revenues depend in substantial part on over-confidence. Buy ratings on U.S. stocks are five times more common than sell ratings, even now after tighter regulation of Wall Street and following the worst bear market since the Depression. That ratio was certainly even higher two years ago and much higher over the past decade, a period in which precious few investors in stocks in the United States have been able to avoid losing money.

And the overconfidence isn't just among analysts trying to gauge company performance, it is crucially rampant among investors who wrongly think that they, rather than their neighbor, will be able to beat the market by active investing.

That confidence, that an investor will somehow not only be able to identify a good active manager but also know when that manager will change from good to bad, underlies the entire active investing industry. In aggregate this confidence proves to be misplaced.

So, in an industry with so much demonstrable over-confidence the question has to be asked: why expend so much energy clamping down on some of the few negative voices?

My guess is that people confuse the power that confidence has in interpersonal relationships with some real power that is independent of psychology. You might be able to convince your neighbor that you can fly, but it works less well with the air, much less the ground.

It is also true that the systemic overconfidence benefits the people who work in the system more than those who trust their capital to it.

(At the time of publication James Saft did not own any direct investments in securities mentioned in this article. He may be an owner indirectly as an investor in a fund.)

**U.S. delay on global accounting leaves world waiting**

By Emily Chasan

Accountants have increasingly felt in recent years that it was only a matter of time until the United States adopted international accounting standards. Now, U.S. securities regulators may have thrown the whole system into flux.

The U.S. Securities and Exchange Commission appeared on Wednesday to abandon a road map that could have had U.S. firms reporting in International Financial Reporting Standards as soon as 2014. Instead the U.S. investor protection agency said it would commit to a new "work plan" that would delay any move to international standards until at least 2015.

The United States is the last major economy operating off of its own set of accounting rules. While maintaining the status quo could prove to be a popular decision in the United States, some experts said it could send the wrong message to the rest of the world.

"Stakeholders across the world have been awaiting clear signals from the Securities and Exchange Commission as to how and when it is going to start the process of completing the convergence to International Financial Reporting Standards (IFRS)," said Dr. Nigel Sleigh-Johnson, head of the Institute of Chartered Accountants in England and Wales Financial Reporting Faculty.

More than 110 countries have already adopted or announced intentions to adopt IFRS, which is viewed as more principle-based and more concise than U.S. Generally Accepted Accounting Principles, which rely on specifically outlined rules.

The London-based International Accounting Standards Board and Norwalk, Connecticut-based Financial Accounting Standards Board are under a June 2011 deadline set by the G-20 to complete major convergence projects so that the two sets of standards will be more aligned.

SEC Chairman Mary Schapiro said on Wednesday the SEC still supports the creation of a single set of high-quality globally accepted accounting standards, but the U.S. is only at the beginning of its discussion about how to get there.

The commission backed off an earlier plan that would have encouraged early adoption of IFRS in the United States and did not say whether it would adopt the standard at all.



## DEEP DIVE Commentary and Analysis

While the SEC staff will look to address concerns in the United States about IFRS over the next year, the lack of commitment to the standard disappointed many.

"If you look at this from the international community's perspective, it could be seen as a signal that the U.S. is still not fully committed," said Stephen Chipman, chief executive of accounting firm Grant Thornton LLP.

The U.S. has traditionally had broad influence on the IASB, with several of the board's members from the United States, but political pressure on the board has increased since the global financial crisis and controversy over mark-to-market accounting. Some worry the lack of a clear timeline could jeopardize the United States having a seat at the table.

"It's going to be harder and harder to influence the process the

longer we sit on the sidelines," Chipman said.

Chipman said the move would probably be welcomed by companies in the United States as many worried about the cost of switching to IFRS in the middle of a difficult economic period.

The SEC said it would give more details on its timeline next year.

"It's just a matter of time for the U.S. to move to IFRS," said Cindy Fornelli, executive director of the Center for Audit Quality in Washington, D.C. "The train left the station 110 countries ago."

Fornelli said it was important for the United States to focus not just on whether to adopt IFRS, but also whether the rules could be consistently applied, interpreted and enforced by U.S. companies, regulators and auditors.

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar and Pronita Naidu in Bangalore)

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