

United States Senate

WASHINGTON, DC 20510

November 14, 2007

Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Chairman Cox:

We write with respect to an item on the agenda of the Commission's meeting on Thursday, November 15, 2007, to consider whether to accept financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) without filing an audited reconciliation to generally accepted accounting principals as used in the United States (U.S. GAAP). While we agree that a single set of high quality accounting standards would benefit the U.S and global markets, the SEC's current proposal makes achieving such a goal considerably less likely than would a more thoughtful policy of encouraging convergence to the best standards, and continuing to monitor progress on that convergence through reconciliation of differences. In this regard, we have serious concerns with the Commission's proposal to eliminate the reconciliation to U.S. GAAP for foreign private issuers using the International Accounting Standard Board's version of the IFRS prior to the achievement of convergence. In addition, the IASB's lack of an independent funding source is troubling and inconsistent with the framework set by Congress for the SEC's recognition of any accounting principles established by a standards-setter other than the SEC itself.

ELIMINATION OF RECONCILIATION

Many prominent investors and users of financial statements, including the CFA Institute and FASB's Investors Technical Advisory Committee, have concluded that it is premature for the Commission to eliminate the reconciliation requirement. In addition, the American Accounting Association's Financial Accounting and Reporting Section's Financial Reporting Policy Committee has pointed to important research indicating that elimination of the reconciliation requirement is unjustified and would be detrimental to the interests of investors. With the convergence of U.S. GAAP and IFRS not projected to be achieved until 2011-2012, the elimination of the reconciliation requirement is premature and being unduly rushed.

Moreover, some financial statement analysts, such as Standard & Poors, have indicated that if the reconciliation is eliminated, they will continue to ask companies to provide reconciliation as part of the package of non-public information credit rating agencies request. S&P's intention to continue to request reconciliation information shows that this information is both necessary and helpful. Unfortunately, if the SEC eliminates the requirement to provide the reconciliation, any reconciliation S&P does obtain informally from company managements will likely not be audited. Given that credit rating agencies have recently stated that information they received from managements related to subprime and other loan securitizations was inaccurate, depriving S&P and investors at large of an audited reconciliation seems particularly ill-advised.

According to the proposed rule, "The work towards acceptance of financial statements from foreign private issuers prepared in accordance with IFRS as published by the IASB without reconciliation to U.S GAAP seeks to foster the continued movement to a single set of high-quality, globally accepted accounting standards." However, many investors and others who are close observers of the IASB/FASB convergence process have indicated that the existence of the Commission's reconciliation requirement is the incentive that keeps the IASB, the European Union, and other parties that participate in the convergence process active and supportive of the IASB/FASB effort to produce a single set of high quality financial reports. Those observers believe that the IASB/FASB convergence process will likely be abandoned if the SEC takes away the incentive by eliminating the reconciliation requirement long before convergence has been achieved.

Through the convergence efforts, differences in U.S. GAAP and IFRS are being eliminated. However, the differences that remain are too significant to warrant the removal of the reconciliation. According to testimony by Dr. Terri Lombardi Yohn during an October 24, 2007 Senate Subcommittee on Securities, Insurance, and Investment hearing on convergence, research shows that "material reconciling items remain," including significant differences in net income and equity. Dr. Yohn goes on to say that "research also documents that the IFRS-U.S. GAAP reconciliation is value relevant and used by U.S. investors."

The Banking Committee has received testimony that many U.S. investors and accounting professionals are not prepared for dropping the reconciliation. Without the reconciliation and until convergence is reached, investors and accounting professionals will have to rely on their knowledge of IFRS in order to correctly interpret financial statements. Witnesses have testified before the Banking Committee that U.S. accountants and CFOs have limited knowledge of IFRS and there is a major shortage of accounting programs in our universities that teach IFRS standards. U.S. regulators charged with protecting investors against misleading financial reporting appear to be in a not much better situation. While a small team of accountants in the SEC's Division of Corporation Finance reportedly have gained some experience reviewing IFRS filings (*with* the benefit of an audited reconciliation), it is not clear that the staff is now prepared to handle additional IFRS filings nor has an evaluation been made of the cost or time it will take for

the SEC and PCAOB to be in a position to enforce the federal securities laws when a company reports only under IFRS.

While an initial objective of removing the reconciliation requirement was seemingly to increase the number of foreign companies listing in the U.S., John White, Director for the Commission's Office of Corporate Finance, testifying at a Senate Subcommittee on Securities, Insurance and Investments, suggested otherwise when he said that "I would not have thought that we were expecting any significant increase in the number of U.S. listings."

IASB LACKS INDEPENDENT FUNDING SOURCE

We believe the IASB's current practice of accepting donations from companies as their funding source is not in the public's best interest. The potential perils of subscribing to the IASB's funding mechanism were illustrated in testimony presented at congressional hearings held in 2002 to examine the Enron scandal and related systemic weaknesses in accounting and auditing about when the then Chairman of the International Accounting Standards Committee, Paul Volcker, sought a \$500,000 donation from Enron executives, the Enron executives turned to their auditors at Arthur Andersen to understand better how much influence such a contribution would buy. See "*Enron Considered Influencing Accounting Body*," Financial Times (Feb. 13, 2002).

On the basis of this and other evidence, the Sarbanes-Oxley Act included an express provision to address the risk that the FASB, the IASB, or any other accounting standards-setter could be influenced by contributions from companies and accounting firms. Specifically, Section 108(a) of the Sarbanes-Oxley Act directed the Commission to establish a program for recognizing accounting principals as "generally accepted," by considering the qualifications of the accounting standard setter. The Act set forth several required qualifications, including that the standards-setter have independent funding in the same manner as the PCAOB and FASB and that the standard-setter "considers, in adopting accounting principles...the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors." While the Sarbanes-Oxley Act preserved the SEC's authority to set its own accounting standards, the SEC's proposal to treat standards set by the IASB as generally accepted, whether expressly or impliedly, is an end-run around Congress's intent in establishing the independent funding mechanism and other qualifications necessary to justify reliance on a standards-setter other than the SEC itself. We are interested in your opinion on the SEC's authority to avoid Section 108, as well as any information you may have on the IASB's plans for establishing independent funding.

CONCLUSION

We ask the Commission to keep these concerns in mind and to proceed with extreme care in considering the proposal to eliminate the reconciliation in order to protect the needs of investors and promote market integrity.

Sincerely,



Jack Reed
Chairman
Subcommittee on Securities, Insurance
and Investment



Christopher C. Dodd
Chairman
Committee on Banking, Housing and
Urban Affairs