



The Corporate Reporting Users' Forum

Nancy M. Morris
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090
USA

24 September 2007

Dear Ms Morris

S7-13-07: Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to US GAAP

We are writing as members of the Corporate Reporting User Forum to support the Commission's proposals to remove the reconciliation requirement for foreign private issuers and also to allow US companies to use IFRS.

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. 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. CRUF members have investments in and experience of analyzing both US companies and foreign companies listed on the US markets that provide reconciliations to US GAAP, as well as non-US companies and markets.

The CRUF is a discussion forum. The chairmanship of the CRUF rotates at each meeting and 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.

All CRUF participants, however, agree with the CRUF Principles, a copy of which is attached for information.

CRUF participants take part in discussions and joint representations as individuals, not as representatives of their employer organisations. Our comments on other accounting issues can be accessed via our website at www.cruf.com. The participants in the Forum that have specifically endorsed this response are listed below.



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Comments on proposal

We agree that there is a balancing act to be struck between investors' need for comparable information and the public interest in having investment opportunities in a variety of securities but believe that the benefits of removing the reconciliation requirement far outweigh the costs.

We believe that the information provided in accordance with IFRS is sufficient for our purposes relative to information provided under US GAAP, and we agree with the Commission that this is an important step towards the development of a global, high quality set of accounting principles.

We agree with the Commission's 2003 study that an optimal approach to accounting standard-setting would be based on a consistently applied conceptual framework and clearly stated objectives and that agreement on principles should be easier than agreement on detailed rules.

We welcome the commitment that the Commission has demonstrated over the years to support convergence with international standards and we agree with the Commission that convergence should be towards the optimal standard, whether based on US GAAP, IFRS or a new approach.

As supporters of a principles-based approach to financial reporting, we believe that securities regulators need to balance the desire to respond to requests for clarification on accounting issues against the need for market participants to exercise their own judgement. Too many accounting interpretations may lead to detailed rules and the development of divergent applications of accounting rules in different jurisdictions. In view of this, we welcome the Commission's recognition that it would not expect to issue guidance inconsistent with IFRS or IFRIC.

Our responses to your specific questions are attached. If you would like to discuss any of these points in more detail please contact Susannah Haan in the first instance.

Yours sincerely

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Nick Anderson
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Roger Hirst
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Elmer Huh, CFA
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Answers to specific questions which would appear to be most relevant to investors

A Robust Process for Convergence

1. Do investors, issuers and other commenters agree that IFRS are widely used and have been issued through a robust process by a stand-alone standard setter, resulting in high-quality accounting standards?

Yes

2. Should convergence between U.S. GAAP and IFRS as published by the IASB be a consideration in our acceptance in foreign private issuer filings of financial statements prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation? If so, has such convergence been adequate?

Yes - the convergence process has achieved a considerable amount thus far and should therefore be considered adequate for the removal of the reconciliation requirement. We would not be in favour of requiring any further convergence as a precondition for the removal of the reconciliation.

What are commenters' views on the processes of the IASB and the FASB for convergence? Are investors and other market participants comfortable with the convergence to date, and the ongoing process for convergence?

To some extent, the convergence process to date has been carried on mainly between standard setters. In future the process needs to incorporate greater dialogue with market participants and to focus on real investor needs.

How will this global process, and, particularly, the work of the IASB and FASB, be impacted, if at all, if we accept financial statements prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation?

We believe that global convergence will be facilitated and that the IASB and FASB will continue to undertake their dialogue, encouraged by users and preparers.

Should our amended rules contemplate that the IASB and the FASB may in the future publish substantially different final accounting standards, principles or approaches in certain areas?

Whilst we view such a possibility as extremely unlikely (particularly in relation to principles), it would be sensible to allow for such an outcome. However, we



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believe that any such situation would be best dealt with based upon the specific issues arising at the time rather than by establishing rules beforehand.

We do not believe that complete convergence between IFRS and U.S. GAAP is necessary for the efficient functioning of the capital markets and any attempt to force such a result is likely to result in costs which far outweigh the benefits.

The robust processes in place for the development of high quality standards by both boards and the opportunities for public consultation should minimize the risk of significant differences arising.

Consistent and Faithful Application of IFRS

3. Is there sufficient comparability among companies using IFRS as published by the IASB to allow investors and others to use and understand the financial statements of foreign private issuers prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation?

Yes

4. Do you agree that the information-sharing infrastructure being built in which the Commission participates through both multilateral and bilateral platforms will lead to an improved ability to identify and address inconsistent and inaccurate applications of IFRS? Why or why not?

Yes and we believe that it will be important that such issues are dealt with on an international basis.

5. What are commenters' views on the faithful application and consistent application of IFRS by foreign companies that are registered under the Exchange Act and those that are not so registered?

We do not see any difference

6. Should the timing of our acceptance of IFRS as published by the IASB without a U.S. GAAP reconciliation depend upon foreign issuers, audit firms and other constituencies having more experience with preparing IFRS financial statements?

No

7. Should the timing of any adoption of these proposed rules be affected by the number of foreign companies registered under the Exchange Act that use IFRS?



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No

The IASB as Standard Setter

8. The IASB *Framework* establishes channels for the communication of regulators' and others' views in the IFRS standard-setting and interpretive processes. How should the Commission and its staff further support the IFRS standard-setting and interpretive processes?

By commenting upon the IASB's public consultation documents and publicizing the opportunities for comment via its own website / updates.

9. How should the Commission consider the implication of its role with regard to the IASB, which is different and less direct than our oversight role with the FASB?

The Commission must recognize the international nature of the IASB as opposed to the domestic role of the FASB. This means that the Commission cannot have and should not seek the same oversight role. Instead, it must continue to work via international institutions such as IOSCO to co-ordinate with other national securities regulators.

Summary

10. The Commission has gathered certain information from representatives of issuers, investors, underwriters, exchanges and other market participants at its public roundtable on IFRS. We are interested in receiving information from a broader audience. Is the development of a single set of high-quality globally accepted standards important to investors?

Yes

To what degree are investors and other market participants able to understand and use financial statements prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation?

Perfectly well.

We also encourage commenters to discuss ways in which the Commission may be able to assist investors and other market participants in improving their ability to understand and use financial statements prepared in accordance with IFRS. How familiar are investors with financial statements prepared in accordance with IFRS as published by the IASB?



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We are very familiar with IFRS and as professional investors do not see a role for the Commission in assisting our own understanding.

Private US investors, however, may be less familiar with IFRS financial statements and it would make sense for the Commission to encourage the provision of information and training for such investors.

Will the ability of an investor to understand and use financial statements that comply with IFRS as published by the IASB vary with the size and nature of the investor, the value of the investment, the market capitalization of the issuer, the industry to which the issuer in question belongs, the trading volume of its securities, the foreign markets on which those securities are traded and the regulation to which they may be subjected, or any other factors?

Yes, but no more than is already the case with investors using U.S. GAAP information. Professional investors will not find IFRS financial statements any more difficult to understand or analyze than those prepared under U.S GAAP

If so, should any removal of the reconciliation requirement be sensitive to one or more of these matters, and, if so, how?

No

Eligibility Requirements

11. Without a reconciliation, will investors be able to understand and use financial statements prepared using IFRS as published by the IASB in their evaluation of the financial condition and performance of a foreign private issuer?

Yes

How useful is the reconciliation to U.S. GAAP from IFRS as published by the IASB as a basis of comparison between companies using different bases of accounting?

Not very useful.

Is there an alternative way to elicit important information without a reconciliation?

Yes – long term work towards convergence on the important issues, exactly as the Commission has been doing for the past few years.

12. In addition to reconciling certain specific financial statement line items, issuers presenting Item 18 reconciliation provide additional information in accordance with



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U.S. GAAP. What uses do investors and other market participants make of these additional disclosures?

We do not use much information from reconciliation statements - the only information which as investors we find really useful in the reconciliation process is that covering oil and gas companies, where US GAAP (FAS 69) provides us with additional information.

However, we would hope to persuade the IASB to adopt similar rules in its review of the extractive industries and would not see the current lack of such rules as a reason to hold up the reconciliation process.

We believe that most companies would voluntarily continue to disclose such additional information given its importance to investors.

IFRS Treatment of Certain Areas

24. Are there accounting subject matter areas that should be addressed by the IASB before we should accept IFRS financial statements without a U.S. GAAP reconciliation?

No. We agree with the Commission's statement on page 26 that a particular degree of convergence is not necessary as a prerequisite for acceptance of IFRS.

25. Can investors understand and use financial statements prepared using IFRS as published by the IASB in those specific areas or other areas that IFRS does not address?

Yes

If IFRS do not require comparability between companies in these areas, how should we address those areas, if at all?

Not at all

Would it be appropriate for the Commission to require other disclosures in these areas not inconsistent with IFRS published by the IASB?

No

30. Are there issues on which further guidance for IFRS users that do not reconcile to U.S. GAAP would be necessary and appropriate?



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No

General request for Comment

44. If progress does not continue towards implementing a single set of high quality globally accepted accounting standards, will investors and issuers be served by the absence of a U.S. GAAP reconciliation for financial statements prepared using IFRS as published by the IASB?

Yes

45. Where will the incentives for continued convergence lie for standard setters, issuers, investors and other users of financial statements if the reconciliation to U.S. GAAP is eliminated for issuers whose financial statements are prepared using IFRS as published by the IASB?

In market pressure – in the desire of investors for high quality standards and for comparability across industries.

46. Are there additional interim measures, beyond the proposed elimination of the U.S. GAAP reconciliation from IFRS financial statements, that would advance the adoption of a single set of high-quality globally accepted accounting standards? If so, what are they? Who should undertake them?

The SEC could publicly support the adoption of similar standards to those of FAS 69 in the IASB review of accounting for extractive industries as highlighted above and encourage investors to respond.

We would encourage the IASB to adopt content similar to FAS 69 in this area and we would encourage investee companies to disclose such information even without the reconciliation requirement.

CRUF Guiding Principles

A

Such standards should be based on the presumption that the stated principles are faithfully applied. Therefore standards should avoid unnecessary detailed prescription and not unduly restrict companies in presenting meaningful results that are in accordance with those principles.

C

Accounting standards should require compliance with their spirit rather than their letter so that preparers are required to disclose economic 'substance' rather than accounting or legal 'form'.

Corporate reports should be prepared with the objective of providing a fundamental source of information for investors and creditors on which to base their decisions.

C

No single primary statement should take precedence.

Not all information that is relevant for users of corporate reports has to be reflected in the primary financial statements. Some information, such as contextual and non-financial information may best be presented outside the primary financial statements.

Accounting standards should not discourage companies from presenting additional information that is useful to users.

T

F

The cashflow should be capable of comparison and reconciliation with the profit and loss and balance sheet. The impact of acquisitions and disposals on these cashflows should also be clear.

T

The purpose should not be to determine the entity's fair value. Further information regarding the values of individual assets and liabilities (including assumptions and sensitivities), should be provided in the notes.

T

The profit and loss and the accompanying notes should clearly differentiate and analyse relevant information, such as: operating performance from financing activities; recurring from non-recurring activities; value changes from trading activities.