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

Our ref **MT/288**

Contact **Mary Tokar**
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24 September 2007

Dear Ms. Morris

Re File Number S7-13-07 Acceptance from Foreign Private Issuers of financial statements prepared in accordance with International Financial Reporting Standards without reconciliation to U.S. GAAP

We appreciate the opportunity to comment on the U.S. Securities and Exchange Commission (SEC) proposed rule change: *Acceptance from Foreign Private Issuers of financial statements prepared in accordance with International Financial Reporting Standards without reconciliation to U.S. GAAP* (the proposed rule change). This letter expresses the views of the international network of KPMG member firms.

We believe that International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) (IASB IFRSs) are sufficiently high-quality and comprehensive to be used by foreign private issuers (FPIs) without reconciliation to U.S. generally accepted accounting principles (U.S. GAAP). Therefore we support the SEC proposed rule change that would allow FPIs to prepare financial statements in accordance with IASB IFRSs without reconciliation to U.S. GAAP in U.S. markets. In addition to supporting the relief proposed by the SEC, we also encourage the SEC to permit FPIs to be able to reconcile from their local GAAP, including local versions of IFRSs, to either U.S. GAAP or IASB IFRSs. Further we believe that acceptance of IASB IFRSs without reconciliation should not be conditioned on achieving further convergence or maintaining existing convergence with U.S. GAAP, although we continue to support ongoing convergence efforts.

Other major views expressed in our comment letter include that:

- the IASB is an independent standard setter with adequate due process and oversight to maintain and continue to develop standards that are responsive to the information needs of capital market participants;



- the SEC, in conjunction with other regulators, should continue exploring ways to restructure the IASB's funding, perhaps moving to a financial market levy basis as contemplated by the IASB trustees;
- the current auditor Appendix K procedures, included as part of the Public Company Accounting Oversight Board (PCAOB) interim standards, should be modified to apply only to U.S. GAAP information;
- SEC guidance on the interpretation and application of accounting standards, including line item presentation guidance, should not apply to IFRS-based financial statements with only a few limited exceptions; and
- regulators should continue to share information about application of IFRSs and to consult and coordinate to avoid diverging interpretations of IFRSs.

In our response to the proposed rule change we have not responded to every request for comment made by the SEC. Our responses to requests for comment are grouped into categories and we have indicated the question(s) in the proposing release that we are responding to.

Please contact Mary Tokar at +44 (0) 207 694 8288 or Sam Ranzilla at +1 212 909 5837 if you wish to discuss any of the issues raised.

Yours faithfully,

KPMG IFRG Limited

KPMG IFRG Limited

cc: SEC
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Thomas Ray, Chief Auditor and Director of Professional Standards

IASB
Sir David Tweedie, Chairman

1. IFRSs and the IASB standard-setting process

The comments below address issues raised by the SEC in questions 1, 8, 10, 24 and 46 regarding IFRSs and whether they are widely used, the IASB standard-setting process and the familiarity of U.S. investors with IFRSs.

We support the development of a single set of high-quality globally accepted accounting standards. We also support the IASB as an appropriate standard-setting body to be a focal point for development of such accounting standards.

We believe that the IASB is an independent standard setter with adequate due process that has developed a body of sufficiently high-quality and comprehensive accounting standards to be used without reconciliation to U.S. GAAP.

- *Independent standard setter with an appropriate objective* – The IASB is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation. In accordance with the IASC Foundation’s Constitution the IASB has full discretion in developing and pursuing its agenda and work plan¹. The members of the IASB are drawn from a range of functional backgrounds selected and considered for appointment or reappointment through an open process that provides the Trustees with an opportunity to consider both the qualifications of the individual and the balance of skills and background of the group as a whole.

We encourage the SEC to work with the IASC Foundation Trustees and other regulators to enhance the stability of the IASB’s funding. Currently the operations of the IASC Foundation are financed mainly by voluntary contributions from private companies, accounting firms, international organisations and central banks. The IASC Foundation Trustees have published their priorities regarding funding, and a long-term objective is to shift the organisation from a voluntary contribution model to significant funding drawn from levies. We believe that such a change would be beneficial to the stability of the organisation and would share its costs more equitably.

The main objective of the IASB is to “develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards that require high-quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions”². We believe that this is the appropriate objective in order for the IASB to develop standards that respond to the information needs of capital market participants.

- *Sufficiently high-quality and comprehensive accounting standards developed via a robust process* – The due process of the IASB includes exposure of proposals for comment and redeliberation of proposals to consider comments. Often it includes soliciting comments at a proposal stage either formally (e.g., by publication of a Discussion Paper or via a public Roundtable) or less formally via meetings of constituents and discussions with its topic-specific advisory groups. The Board’s deliberations are conducted in public and are readily accessible in person and via Web-based transmissions and recordings. We believe that the

¹ IASC Foundation Constitution, section 31(c), 2005

² Preface to IFRSs, section 6(a)



IASB's structure and due process includes the necessary stages to address the requirements of transparency and accessibility, extensive consultation and responsiveness, and accountability³.

The IASB has not developed accounting standards for all accounting topics. Areas for which guidance is limited under IFRSs include accounting for insurance contracts, extractive activities and business combinations involving step acquisitions, entities under common control and mutual entities, and the minimum line item requirements for the balance sheet and income statement, especially the presentation of income statements. With the exception of entities under common control, the topics outlined above have been added to the IASB's agenda⁴. Accounting for mutual entities has been addressed in phase II of the business combinations project. While no formal decision has been made on how to address accounting for entities under common control, the IASB has discussed recently the possibility of adding this issue to its agenda⁵. In addition, the IASB has issued interim standards on insurance contracts (IFRS 4 *Insurance Contracts*) and extractive activities (IFRS 6 *Exploration for and Evaluation of Mineral Resources*) that reduce variances in practice to an acceptable range, while also pursuing longer-term comprehensive projects. We believe that the lack of specific guidance for some topics should not delay the elimination of the U.S. GAAP reconciliation or require the adoption of supplemental guidance provided by the SEC as we consider that IASB IFRSs are sufficiently robust in totality, including disclosures.

We believe that it is important for regulators, including the SEC, to continue to be part of the standard-setting and interpretative process. We believe that the most appropriate role for regulators in the standard-setting process is one of an active contributor and observer, i.e., observing the process, providing timely input to the process and enforcing the outcomes of the process. We believe that regulators should not dictate specific outcomes of the standard-setting process as doing so would be contrary to the objective of having an independent standard setter. Further we believe that the SEC should not supplement IFRSs with additional guidance in accounting topic areas in which IFRSs do not have a comprehensive standard. In our view, the decision to eliminate the U.S. GAAP reconciliation should be made based on whether IASB IFRSs as a whole form a sufficiently high-quality body of accounting standards. Specifying additional requirements to IFRSs in effect would make the SEC a standard setter for IFRSs as used in U.S. markets.

We note that IFRSs are used widely, mostly via regional or national versions of IFRSs such as IFRSs as adopted by the European Union (EU); currently, the main regional or national versions of IFRSs (local IFRSs) in widespread use are very similar to IASB IFRSs. We believe that U.S.-based investors are becoming increasingly familiar with IFRSs via their current investments in foreign companies. IFRSs have been endorsed for direct or indirect use in some form by more than 100 countries⁶. The ownership by U.S.-based investors of foreign equity securities has increased significantly since the 1980s. The SEC's Director of Market Regulation noted that in 2005 nearly two thirds of U.S.-based equity investors held shares in foreign equities either as individual shares of foreign companies or via ownership of mutual funds that held such

³ IASC Foundation Due Process Handbook, page 6

⁴ IASB Work Plan – projected timetable as at 30 June 2007

⁵ IASB Update, May 2007

⁶ IASC Foundation Annual Report 2006, page 3



investments⁷. The number of countries that have adopted or endorsed IFRSs and the level of foreign investment by U.S.-based investors implies that many U.S.-based investors currently are utilising IFRS-based financial statements as published in the home jurisdictions of many companies that are not SEC registrants and therefore do not provide U.S. GAAP reconciliations. We believe that investors in this group are likely to be the most relevant users of financial statements prepared by FPIs taking advantage of the proposed rule change. Therefore we believe that many U.S.-based investors have enough understanding of IFRSs to make an informed investment decision. See also our additional comments in section 3 of this letter.

⁷ Speech by SEC staff: Trading Foreign Shares, Eric R Sirri, 1 March 2007

2. Application of proposed rule change

The comments below address issues raised by the SEC in question 13 regarding whether there should be limits on the eligibility to omit the U.S. GAAP reconciliation.

2.1. IASB IFRSs

The proposed rule change would apply only to FPIs that file financial statements in accordance with the English language version of IFRSs as issued by the IASB. Conceptually it is difficult to disagree with this scope, given the difficulties and uncertainties that would be involved in trying to determine when local versions of IFRSs are sufficiently close to IFRSs to qualify for this relief. If the rule is finalised as proposed, however, then it may have only limited application due to the large number of jurisdictions requiring financial statements to be prepared in accordance with a local version of IFRSs, as distinct from IASB IFRSs. The relief offered by the proposed rule change may be limited to FPIs within those jurisdictions that have either permitted or required adoption of IASB IFRSs (e.g., Switzerland and South Africa), or jurisdictions in which entities that prepare financial statements in accordance with a local GAAP can make a “dual compliance” claim – that one set of financial statements complies with both a local version of IFRSs and with IASB IFRSs.

We believe that the SEC should seek to broaden the applicability of the proposed rule change while still focusing on a single global alternative to U.S. GAAP. Therefore we suggest that the SEC’s proposed rule change allow FPIs preparing financial statements in accordance with a local GAAP, including local versions of IFRSs, to satisfy the reconciliation requirements of Item 17. *Financial Statements* and Item 18. *Financial Statements* of Form 20-F by reconciling to *either* U.S. GAAP (existing requirements apply) *or* IASB IFRSs (allowed alternative). We believe that such an allowed alternative would allow far wider application of the relief proposed by the rule change. We believe that this choice would permit entities to elect the reconciliation that they believe would be most useful in communications with their shareholders, lenders, analysts and other stakeholders.

The applicability of the rule change as proposed is limited because the adoption of IFRSs in many jurisdictions requires use of a local version of IFRSs. For example in the European Union entities subject to the IAS Regulation⁸ are required to prepare financial statements in accordance with IFRSs as adopted by the EU and do not have the option to use IASB IFRSs to satisfy this statutory requirement. Currently the limited differences between most local versions of IFRSs and IASB IFRSs should allow many entities within such jurisdictions to assert dual compliance for a single set of financial statements (i.e., financial statements comply with both a local version of IFRSs and IASB IFRSs). Many entities in such jurisdictions generally elect not to assert dual compliance and in the future it may not always be possible to make such a dual compliance assertion. Delays in the endorsement process for local versions of IFRSs may result in periods when entities in such jurisdictions may be unable to assert compliance with IASB IFRSs in addition to the local version of IFRSs, even if the endorsement subsequently results in an identical standard to the IASB IFRS. For example, the endorsement of certain IFRSs in the

⁸ See Regulation (EC) no 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, Article 4. This regulation requires companies in EU countries where debt or shares are listed on a regulated exchange to use IFRSs as adopted by the EU for their consolidated financial statements.

EU previously has taken in excess of 12 months; see section 5.3 for a discussion of additional issues. FPIs preparing financial statements to meet the regulatory requirements in such jurisdictions would be faced with preparing an additional set of financial statements in accordance with IASB IFRSs or continuing to comply with existing U.S. GAAP reconciliation requirements if the present scope of the proposed rule change is retained.

We appreciate that a reconciliation to IASB IFRSs could be viewed as replacing one GAAP reconciliation requirement with another. However, we believe that our proposed allowed alternative, i.e., a reconciliation from local GAAP to IASB IFRSs, would result in many FPIs having fewer but more meaningful reconciling items than at present. For example, FPIs in jurisdictions with IFRS-based standards that have endorsement delays or in jurisdictions in which standard setters make specific local amendments to the local versions of IFRSs would provide additional information only for those specific areas. We believe that focusing the reconciliation on a smaller number of differences will result in the reconciliation being easier for users of financial statements to understand than the current U.S. GAAP reconciliation while retaining its usefulness to those users.

Today an FPI may have reconciling items between its IFRS-based financial statements and U.S. GAAP even in areas for which there is high-level convergence. Often this is because of differences in transition and effective dates. For example, differences arise due to different effective dates, e.g., for IFRS 2 *Share-based Payment* (1 January 2005) and Statement of Financial Accounting Standards (SFAS) 123(R) *Share-Based Payment* (15 June 2005), and for different transition methods, e.g., for International Financial Reporting Interpretations Committee (IFRIC) 4 *Determining whether an Arrangement Contains a Lease* (applied retrospectively for arrangements existing at the beginning of the comparative period for reporting periods beginning on or after 1 January 2006) and Emerging Issues Task Force (EITF) 01-8 *Determining Whether an Arrangement Contains a Lease* (applied prospectively to arrangements entered into, committed to or modified after the beginning of an entity's next reporting period beginning after 28 May 2003). Some view reconciling these items as less meaningful data that only serves to complicate the U.S. GAAP reconciliation.

2.2. *Effective date*

In addition we believe that the proposed rule change should be available for FPIs for filings containing audited financial statements for the first year end following the issuance of the final rule. We believe that there should be no phase in of the effective date and no limitations should be placed on the eligibility of FPIs to take advantage of the proposed rule change. Therefore the application of the proposed rule change should not depend on whether the FPI is a well known, seasoned issuer or has a minimum market capitalisation or public float.

2.3. *English language version of IFRSs*

We note that the IASC Foundation Constitution states that the “authoritative text of any Exposure Draft or International Accounting Standard or International Financial Reporting Standard or Draft or final Interpretations shall be that published by the IASB in the English language”⁹. We believe that since IASB IFRSs are limited to those published by the IASB in the

⁹ IASC Foundation Constitution, section 32, 2005



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English language it is unnecessary for the proposed rule change to specify that the English language version of IASB IFRSs must be used.

3. FASB / IASB convergence process

The comments below address issues raised by the SEC in questions 2, 44 and 45 regarding the degree and significance of convergence between IASB IFRSs and U.S. GAAP and whether appropriate incentives for convergence would remain if the U.S. GAAP reconciliation was removed for IFRS users.

We believe that the substantial convergence efforts to date have addressed many significant differences while at the same time U.S. investors' exposure to IFRSs has grown via investments in foreign companies (see section 1). In addition to amendments being made to standards to reduce or eliminate differences between IFRSs and U.S. GAAP we believe that the extensive discussions about the differences and the proposed amendments to U.S. GAAP have promoted understanding of IFRSs.

Just over ten years ago the U.S. Financial Accounting Standards Board (FASB) issued the first edition of its *IASC-U.S. Comparison Project*. At that time the differences between the two bodies of standards were significant, at both the conceptual and detail level. IFRSs had no financial instrument measurement standard, no impairment standard and no detailed guidance on provisions and contingencies. The FASB had yet to complete even the first phase of its liabilities and equity project and had not finalised its general standard on hedge accounting. Neither IFRSs nor U.S. GAAP required share-based payments to be measured based on their grant date fair value.

Between 1995 and 2000 many significant improvements have been made to IFRSs. Many of the revised or new standards also reduced difference between IFRSs and U.S. GAAP as a result of convergence efforts over the last decade. In 2000 the International Organization of Securities Commissions (IOSCO) endorsed International Accounting Standards as issued by the International Accounting Standards Committee (IASC) for the purpose of multinational offerings and cross-border listings¹⁰. After the restructuring of the IASC into the IASB in 2000 / 2001, the new Board devoted a large proportion of its work to short- and long-term convergence projects aimed at reducing differences between IFRSs and U.S. GAAP. In particular significant convergence has occurred in the areas of share-based payments, business combinations, the treatment of changes in accounting policies and errors, the presentation of assets held for sale, and earnings per share calculations.

Despite these convergence efforts conceptual and application differences remain between U.S. GAAP and IASB IFRSs. However, we believe that the IASB and the FASB have achieved an adequate degree of convergence of U.S. GAAP and IFRSs, so that it is possible for an informed user to understand the significant differences between the two sets of GAAPs and the likely effects of differences between IASB IFRSs and U.S. GAAP on the financial statements of a specific entity. We believe that future joint projects of the FASB and the IASB are an appropriate approach for achieving further meaningful convergence. We believe that existing differences are not a sufficiently significant barrier to warrant retaining the U.S. GAAP reconciliation.

¹⁰ IASC Standards – Assessment Report, Report of the Technical Committee of the International Organization of Securities Commissions, 2000



Eliminating the U.S. GAAP reconciliation may be viewed by some as removing an incentive for continued convergence work by the FASB and the IASB. We believe that there will continue to be incentives to pursue convergence even if the U.S. GAAP reconciliation is eliminated:

- both standard-setting bodies and the bodies charged with their oversight are committed to convergence in the future;
- the SEC has reaffirmed its support of continued convergence between the FASB and the IASB in the proposing release¹¹;
- the IASC Foundation has established convergence efforts between the IASB and other standard setters as one of its main priorities in its 2006 Annual Report¹²; and
- joint projects increase resources available to standard setters.

We support continued efforts to enhance further convergence between the IFRSs and U.S. GAAP. However we agree with the SEC's view that acceptance of financial statements prepared in accordance with IASB IFRSs without a U.S. GAAP reconciliation should not be based on a particular degree of convergence between IASB IFRSs and U.S. GAAP¹³. Even today users cannot assume that the U.S. GAAP reconciliation always ensures direct comparability with U.S. GAAP financial statements of other entities. That reconciliation may not remeasure net income and shareholders' equity of FPIs to a full U.S. GAAP basis because of existing reconciliation relief (i.e., with regard to inflation and price level adjustment accounting)¹⁴. Users relying on financial statements in Form 20-F have to understand how the company's operations, its primary GAAP and any applicable reconciliation relief interact. We acknowledge that, without the U.S. GAAP reconciliation, financial statement users may have to spend more time to understand how IFRSs and U.S. GAAP differences impact a particular entity.

We believe that it is appropriate to assume that financial statement users will understand any future differences between IFRSs and U.S. GAAP and that the IASB's (and the FASB's) standard-setting process will appropriately consider users' needs. Therefore we believe that it is unnecessary for the SEC to condition elimination of the U.S. GAAP reconciliation on the FASB and the IASB committing to avoiding future differences in accounting standards.

We expect that there is unlikely to be deep, widespread and in-depth IFRS knowledge in the U.S. beyond institutional investors, large credit rating agencies, senior analysts and large accounting firms today. Because this proposed rule change is limited to FPIs, modifying the reconciliation requirement may demand IFRS knowledge only from selected portions of the U.S. investor community. Further, as discussed in section 1 there is evidence of willingness on the part of U.S. investors to invest in entities that are not listed in the U.S., often without receiving U.S. GAAP financial information.

¹¹ SEC Release no 33-8818, page 27, 2007

¹² IASC Foundation Annual Report 2006, page 3

¹³ SEC Release no 33-8818, page 26, 2007

¹⁴ Form 20-F, Part III, Item 17(c)(2)(iv)(a)



4. Interpretation, application and enforcement

The comments below address issues raised by the SEC in questions 4, 5, 9, 30 and 42 regarding information sharing by regulators, the faithful application of IFRSs, the SEC's oversight of the IASB, the understanding of IFRS financial statements and the current auditor Appendix K procedures.

We believe that interpretation is an essential part of the application of the IASB's principles-based approach to an accounting standard framework and is not indicative of a weakness in the framework. Overall we believe that adequate interpretative and enforcement safeguards are in place to provide guidance to entities with regard to faithful and consistent application of IFRSs. The basis for this view is explained below, beginning with an overview of the efforts taken by the KPMG network of member firms to support consistent application of IFRSs.

4.1. Efforts within the KPMG Network

The network of KPMG member firms has established a central global International Financial Reporting Group (IFR Group) as a focal point for the network's IFRS activities, coordinating and supporting the work performed by each member firm's Department of Professional Practice. Questions of interpretation of IFRSs arise through the global KPMG network. The IFR Group responds to questions from member firms about interpretation in most IFRS accounting topic areas. We note that certain topic areas require more judgement than others and in our experience questions of interpretation of IFRSs occur most frequently in the topic areas of financial instruments, share-based payments, employee benefits, revenue, income taxes and consolidation.

The approach taken within the KPMG network has been that effective global adoption and implementation of IFRSs requires globally distributed knowledge of IFRSs, access to specialist resources and ongoing communication regarding current issues. KPMG has committed significant resources to IFRSs throughout the member firm network, both in terms of centralised IFRS support infrastructure, specialist IFRS personnel within member firms and IFRS training for professionals. The IFR Group has developed and maintains a number of publications providing technical and practical guidance for users of IFRSs including *Insights into IFRS*, *The Application of IFRS*, *Disclosures in Practice*, the *First Impressions* series, *Illustrative IFRS Financial Statements* and *IFRS compared to U.S GAAP*. The KPMG network has an internal IFRS accreditation policy to establish appropriate levels of training and experience for accounting professionals working on IFRS engagements.

4.2. Impact of the International Financial Reporting Interpretations Committee

We believe that the IASB's interpretative body, the International Financial Reporting Interpretations Committee (IFRIC), has developed into an effective mechanism for identifying and addressing potentially significant divergent IFRS accounting treatments. The IFRIC is responsible for providing interpretations of accounting issues that are likely to give rise to divergent or unacceptable treatments in the absence of authoritative guidance. The IFRIC has been in existence for six years and in that period has developed 14 interpretations and has published a further four draft interpretations as well as working actively on several interpretation projects. The IFRIC focuses on questions in which principles are unclear and avoids addressing narrow industry specific issues / structures. The IFRIC also does not issue

application guidance. We believe that this is the appropriate focus for the IFRIC and that the IFRIC has addressed or referred onto the IASB most of the significant issues raised with the IFRIC. We also believe that the IFRIC's recent practice of expanded commentary on agenda discussions is helpful to building a shared understanding of IFRSs.

4.3. SEC regulations, guidance and staff positions, and the interpretation and application of IFRSs

For SEC registrants U.S. GAAP is, in practice, a combination of standards issued by the FASB and bodies that the FASB oversees, including the Emerging Issues Task Force (EITF), the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA), as well as SEC regulations, guidance and staff positions. The specific requirements of Form 20-F, Regulation S-K and Regulation S-X, Staff Accounting Bulletins (SABs), Financial Reporting Releases (FRRs), various "Frequently Asked Questions" and other formal and informal staff guidance on the application of U.S. GAAP is a body of literature that has evolved over the years. Examples of SEC materials shaping U.S. GAAP include SAB 54 *Push Down Basis Of Accounting Required In Certain Limited Circumstances* and the disclosure requirements of Regulation S-X Article 5 *Commercial and Industrial Companies*. Additionally the SEC requires the disclosure of non-financial statement information that cross-references U.S. GAAP definitions and disclosure requirements, e.g., Item 402. *Executive Compensation of Regulation S-K*.

The SEC has solicited comment on whether the proposed amendments to Form 20-F are sufficient to achieve the objectives of the proposed rule change and how the SEC should address requirements of Regulation S-K and Regulation S-X that currently refer to U.S. GAAP.

We believe that the SEC's approach to the proposed amendments to SEC regulations, guidance and staff positions should be considered on the basis of the following categories:

- *SEC regulations, guidance and staff interpretations that supplement the interpretation and application of U.S. GAAP* – the SEC approach should be consistent with our stated position on the role of regulators in the standard-setting process, i.e., that regulators should be active contributors and observers of the standard-setting process, but should not dictate specific outcomes of the process.
- *SEC requirements for non-financial statement disclosures* – the SEC should retain the non-financial statement disclosure requirements that the SEC considers necessary for users of financial statements.

4.3.1. Supplementing the requirements of IFRSs

We believe that it would be preferable for the SEC to state explicitly that SEC regulations, guidance and staff positions developed to supplement the requirements of U.S. GAAP do not apply to financial statements prepared in accordance with IFRSs unless explicitly stated by the SEC. Under our preferred approach the SEC, and its fellow regulators, would encourage the IASB to address interpretation and application issues rather than supplementing IFRSs with additional material (see our comments in section 1 of this letter). This approach supports maintaining IFRSs as a comprehensive integrated body of standards without additional layers of

interpretative material that apply only in selected jurisdictions. Differences in interpretative material can encourage rather than discourage global divergence in the application of IFRSs.

Many of the application, interpretive and presentation questions addressed in the SEC regulations and staff guidance also arise when applying IFRSs. In some cases such issues are addressed directly in the standards or in the IFRIC interpretations; for example, IAS 1 *Presentation of Financial Statements* specifies the requirements for disclosure and discussion of critical accounting policies and estimates; the SEC requires these disclosures as part of FRR 501.14 *Critical Accounting Estimates*.

SEC requirements that we expect that the SEC would continue to include explicitly in SEC regulations relative to FPIs are:

- requirements to present financial statements of other entities, e.g., guarantors of financial statements, significant acquirees and investees (Regulation S-X Rule 3-10, 3-05, 3-09 and 3-16);
- requirements regarding the periods for which primary financial statements would be presented (Rule 3-01 through 3-04); and
- requirements for how *pro forma* financial information should be prepared including items for which *pro forma* adjustments are appropriate (Article 11 of Regulation S-X).

4.3.2. Non-financial statement disclosure requirements

The proposed rule change incorporates IFRSs into the SEC's non-financial statement disclosure requirements by instructing FPIs preparing financial statements in accordance with IASB IFRSs to follow the appropriate provisions of IFRSs that contain the "principles embodied in the referenced U.S. GAAP items"¹⁵. We support this approach however we note that it is likely to result in a number of application questions especially when one objective of non-financial statement disclosures may be to supplement U.S. GAAP-based financial statement disclosures. If comparable IFRS guidance or financial statement disclosures differ from those in U.S. GAAP, then supplemental information designed for U.S. GAAP may not satisfy fully the original regulatory objectives.

The U.S. KPMG member firm has been working in conjunction with the Center for Audit Quality (CAQ) on the CAQ response to the proposed rule change. The CAQ has prepared schedules identifying several specific examples of SEC regulations, guidance and staff positions that include references to U.S. GAAP as part of the SEC requirements including references in non-financial statement disclosure requirements. We understand that the CAQ will include these schedules in the CAQ comment letter on the proposed rule change. We hope that these schedules will help the SEC staff work with issuers, auditors and users to address and perhaps anticipate some of the application issues that are expected to arise.

¹⁵ SEC Release no 33-8818, pages 118 and 119, 2007

4.3.3. Materiality guidance

The SEC asked in the proposed rule change whether SAB 99 *Materiality* and SAB 108 *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements* should apply to entities preparing financial statements under IFRSs. We believe that SAB 99 and SAB 108 provide valuable guidance on assessments of materiality by issuers and auditors. However, as discussed above, we prefer an approach whereby the SEC would encourage the IASB to address the issues covered in these SABs rather than supplementing IFRSs with additional interpretative material.

4.4. Regulatory initiatives

The evidence from recent reviews by regulators of application of IFRSs supports the view that IFRSs have been applied in practice within an acceptable range of interpretations. Items that we considered in forming this view include:

- *U.S. SEC review* – In 2006 the SEC staff reviewed over 100 sets of financial statements of FPIs prepared in accordance with IFRSs as part of its normal review process. In a number of instances the SEC staff asked companies to provide further information or revise financial statement presentations. Specific comments with regard to the application of and compliance with IFRSs included disclosure and presentation issues, and recognition and measurement issues with regard to revenue, intangible assets, impairment, leases, contingent liabilities and financial instruments¹⁶. We note that as a result of the review the SEC did not reach any comprehensive conclusion about companies' overall compliance with, or consistency in application of, IFRSs but also did not cite any pervasive problems or significant diversity in the application of IFRSs.
- *United Kingdom (U.K.) Financial Reporting Review Panel (FRRP) review* – In 2006 the FRRP conducted a review of IFRS implementation by a selection of U.K. listed companies¹⁷. The preliminary report on the results of the review noted that companies had achieved a "good level" of compliance with IFRSs and that entities had worked hard to meet the requirements of IFRSs. The review identified disclosure as the main area for improvement and noted that the FRRP did not find it necessary to require any corrections of significant breach of IFRS requirements.
- *Autorité des Marchés Financiers (AMF) review* – In 2006 the AMF conducted a review of the financial statements of French companies preparing financial statements in accordance with IFRSs¹⁸. While the AMF noted that some divergence exists in accounting practices, particularly in the areas of financial statement disclosures, overall the AMF commented that a considerable effort had been made to achieve compliance with IFRSs.

We note that there have been a number of other such regulatory body reviews in jurisdictions that have adopted IFRSs, including Belgium, Finland, Hong Kong, Netherlands, New Zealand, Norway, Russia, Spain and Switzerland. Not all of the regulatory bodies released the results of

¹⁶ Press release: SEC Staff Observations in the Review of IFRS Financial Statements, 2 July 2007

¹⁷ Press release: Financial Reporting Review Panel Preliminary Report IFRS Implementation

¹⁸ Press release: AMF recommendations on accounting information reported in financial statements for 2006, 19 December 2006



the reviews publicly and a number of those that did release information publicly released only high-level summary information. From our review of available information we believe that the regulatory body reviews demonstrate that although the initial application of IFRSs has not been without issues, regulators are not citing pervasive weaknesses in the IFRS information presented by issuers.

We support the approach that the SEC and other members of the international regulatory community are taking with regard to improved communication and information sharing with other regulatory bodies. An example of this improved communication is the protocol between the SEC and the U.K. Financial Reporting Council to share information on the application of IFRS¹⁹. Further participation in such initiatives is important to avoiding conflicting interpretations on the application of IFRSs between the financial reporting regulatory bodies of different jurisdictions.

4.5. Appendix K procedures

Currently an FPI's SEC filings that include or incorporate a non-U.S. member firm audit report are reviewed by a partner knowledgeable in U.S. accounting, auditing and independence standards. Such a review was adopted as Appendix K of the SEC Practice Section of the AICPA, subsequently adopted as part of the interim auditing standards of the PCAOB.

We believe that it is not appropriate to continue to apply the types of procedures currently specified in Item A (Procedures for Certain Filings by SEC Registrants) of the PCAOB's interim standards when financial statement do not contain U.S. GAAP information. Therefore, we believe that Item A of the PCAOB's interim standards should be modified such that it is applicable to SEC filings of an FPI only when that issuer is preparing U.S. GAAP financial statements or reconciling to U.S. GAAP.

The SEC Practice Section of the AICPA adopted Appendix K in 1999. Many of the issues that it sought to address have been mitigated through other changes including introducing the PCAOB requirement for registration and inspection of non-U.S. member firms. For example, prior to 2000, the SEC allowed non-U.S. auditors' reports to make reference to its local auditing standards as long as those standards were substantially similar to U.S. auditing standards. Since 2000, the SEC has required stated compliance with U.S. auditing standards. In addition, with the implementation of PCAOB Auditing Standards No. 2 and No. 5, the auditing methodology and tools required to execute an integrated audit have been adopted by registered firms auditing SEC registrants, thus mitigating the need to evaluate differences in auditing standards applied locally compared to U.S. standards. Similarly, significant efforts have been devoted to implementing global platforms for monitoring independence standards since 1999, and requiring audit committee pre-approval for services provided by their auditors, thus reducing the amount of time that the Appendix K filing reviewer spends on such issues. In our experience, a very large proportion of the time spent by Appendix K reviewers – we estimate in excess of 80 percent – is spent on U.S. GAAP related issues. If U.S. GAAP information no longer is required for certain FPIs, then the primary focus of Appendix K reviews will be removed. We encourage the PCAOB to limit the application of Appendix K procedures only to U.S. GAAP information either in primary financial statements or as a reconciliation in the SEC filings of applicable

¹⁹ Press release: SEC, U.K. FSA, and U.K. FRC sign protocol for sharing information on application of IFRS



KPMG IFRG Limited

*Re File Number S7-13-07 Acceptance from Foreign Private Issuers of financial statements prepared in accordance with International Financial Reporting Standards without reconciliation to U.S. GAAP
24 September 2007*

FPIs. We believe that networks can establish cross-border consultation arrangements to support non-U.S. member firms with questions regarding SEC regulations, PCAOB standards and U.S. auditor independence requirements in those cases when U.S. GAAP information is not included in an SEC filing.



5. Requests for data

5.1. Comparability

The comments below address issues raised by the SEC in questions 3 and 25 regarding sufficient comparability of IFRS financial statements and investor understanding of IFRS financial statements.

We believe that currently there is sufficient comparability among companies using IFRSs, whether IASB IFRSs or local versions of IFRSs, to allow investors and others to use and understand the financial statements of FPIs prepared in accordance with IASB IFRSs without the need for a U.S. GAAP reconciliation; see also our recommendation to modify the proposed rule change in section 2. Within the KPMG network we have not observed any widespread or systemic problems in the comparability of financial statements prepared using IFRSs. We have observed an expected level of questions arising via our KPMG network query process (see section 4.1). We have not observed any widespread or systemic problems in the application of IFRSs or any significant variances from IASB IFRSs in most national or regional IFRS-based standards that refer explicitly to IASB IFRSs.

In the future, local processes for adoption of IASB IFRSs as local IFRSs may create significant differences between a local version of IFRSs and IASB IFRSs. We believe that requiring FPIs to reconcile from the local version of IFRSs to either IASB IFRSs or U.S. GAAP will provide motivation for FPIs to prepare financial statements in accordance with IASB IFRSs when possible, and would provide users of financial statements prepared in accordance with a local version of IASB IFRSs with a quantification of any such difference that should enhance comparability across financial statements prepared using different local versions of IFRSs.

5.2. Disclosures, including safe-harbour protection

The comments below address issues raised by the SEC in questions 25, 28 and 29 regarding possible supplementary disclosure requirements and safe harbours for certain forward-looking information.

There are a limited number of accounting topics for which the IASB has not developed accounting standards or for which IFRSs permit potentially divergent treatments. We believe that the SEC and other regulators should bring these issues to the attention of IASB and encourage standard setters to address those issues that regulators believe are pervasive. We believe that it would not be desirable for the SEC to require additional disclosures within the financial statements in the areas that IFRSs do not address specifically for the same reasons that we do not support the SEC issuing guidance on the interpretation and application of IFRSs (see sections 1 and 4.3).

Differences between IFRSs and U.S. GAAP regarding presentation of some forward-looking information creates a problem that we encourage the SEC to address. Currently the SEC has extended safe-harbour protection to specific forward-looking unaudited information that it requires to be presented (e.g., SFAS 69 *Disclosures about Oil and Gas Producing Activities* and market risk disclosures required by Item 305 of Regulation S-K). We note that entities preparing financial statements in accordance with IFRSs may be required to include some forward-looking information within the body of the audited financial statements, e.g., some

information required by IFRS 7 *Financial Instruments: Disclosure*. We presume that users of IFRS financial statements understand and accept that there is a different degree of certainty regarding such forward-looking disclosures as compared to historical information. Conceptually we believe that it would be preferable to avoid providing such safe-harbours for IFRS disclosure requirements in the financial statements of FPIs. However we believe that preparers and auditors of financial statements prepared in accordance with IFRSs without safe-harbour protection will be at a disadvantage compared to companies that prepare financial statements in accordance with U.S. GAAP for which similar information is provided outside the financial statements as entities using U.S. GAAP can take advantage of safe-harbour protection. Therefore we encourage the SEC to develop limited safe-harbour protection for forward-looking information that IFRSs requires to be provided as part of the financial statements.

5.3. Compliance

The comments below address issues raised by the SEC in question 16 regarding possible barriers to claiming compliance with both IASB IFRSs and local versions of IFRSs.

Many jurisdictions that have adopted a local version of IFRSs require issuers within that jurisdiction to prepare financial statements in accordance with the local version of IFRSs, e.g., issuers within EU countries must prepare financial statements in accordance with IFRSs as adopted by the EU. We have solicited information from our network of member firms on barriers to FPIs claiming compliance with both IASB IFRSs and local versions of IFRSs (dual compliance). With a small number of exceptions, member firms did not identify any legal or professional barriers to FPIs claiming dual compliance if the local versions of IFRSs were aligned with IASB IFRSs. Similarly, again with a small number of exceptions, our network of member firms did not identify any legal or professional barriers to accounting firms providing non-statutory audit opinions on financial statements prepared asserting dual compliance with IASB IFRSs and local versions of IFRSs.

Even though there are few jurisdictions that had legal or professional barriers to claiming dual compliance and there are currently few differences between IASB IFRSs and most local versions of IFRSs, we note that relatively few entities within such jurisdictions, including FPIs, claim dual compliance. Further, even when dual compliance was claimed not all auditors' reports addressed both GAAPs. KPMG network guidance generally does not preclude the auditor's opinion from referring to both IASB IFRSs and local versions of IFRSs when the financial statements claim dual compliance. However, this is not a practice that we have encouraged to date primarily due to a concern that an entity's ability to claim dual compliance consistently from one year to the next is very much dependent on the local jurisdiction's IFRS endorsement process and this is, therefore, not totally within an entity's control. We believe that inconsistent references from year to year are not desirable as they may create unnecessary confusion in the marketplace.

Differences between IASB IFRSs and local versions of IFRSs could arise in a number of situations, including:

- delays in the local endorsement of IASB IFRSs (potential "timing" endorsement differences – see section 2);



- differences between local versions of IFRSs and IASB IFRSs created during an endorsement or adoption process (potential “permanent” endorsement differences); and
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (potential permanent differences).

There is potential for difficulties any time that recognition or measurement differences occur between IASB IFRSs and local versions of IFRSs, unless an entity is able to avoid the issue by choosing a treatment that complies with both frameworks. For example, if the European Commission determined that it would not endorse the amendment to IAS 23 *Borrowing Costs*, which removes the option to expense all borrowing costs, an entity could comply with both frameworks by adopting an accounting policy to capitalise qualified borrowing costs. However, a problem would arise if the EU decided not to permit an approach that is required under IASB IFRS, or to require an approach that is prohibited under IASB IFRSs.

We expect that even if permanent differences are not created, timing differences may preclude entities from claiming dual compliance in specific periods. When entities move back and forth between being unable and able to claim compliance with IASB IFRSs they may have to address IFRS 1 transition issues when returning to claiming dual compliance after a period of asserting compliance only with local versions of IFRSs.

There also is some uncertainty that arises in particular jurisdictions (e.g., Hong Kong), when an entity has been preparing financial statements in accordance with local GAAP that has been converged with IASB IFRSs over a period of time, if the entity never has gone through an IFRS 1 adoption of IASB IFRSs. Some of the transition adjustments permitted or required by IFRS 1 affect the recognition and measurement of balance sheet items. This issue also could impact those entities described above that elect to assert dual compliance after periods of complying only with local versions of IFRSs. We have encouraged the IASB to address this issue with its planned Annual Improvements project amendments to IAS 1.14.

We believe that many of the current and potential issues with FPIs asserting dual compliance and auditors providing opinions on dual compliance financial statements would be resolved if the SEC allowed FPIs to reconcile local GAAP (including local versions of IFRSs) to *either* U.S. GAAP *or* IASB IFRSs (see proposed allowed alternative in section 2).

6. *First-time adoption of IFRSs*

The comments below address issues raised by the SEC in questions 31 – 34 regarding the existing relief for first-time adopters of IFRSs and whether the U.S. GAAP reconciliation requirement should be retained to bridge the transition from previous GAAP to IFRSs.

6.1. *First-time adoption relief*

We believe that the current accommodations for first-time adopters contained in General Instruction G should be extended. We believe that investors in U.S. markets benefit from convergence to IASB IFRSs from a wide range of national GAAPs. Continued availability of the accommodations for first-time adopters would be an ongoing incentive to adopt IFRSs.

If the SEC believes that financial statements lacking a sufficient “track record” on a consistent basis is an issue, then the SEC should consider requiring a reconciliation of the un-restated third year to IASB IFRSs. We believe that this reconciliation would be preferable to requiring presentation of the third year on an IASB IFRS basis as that would create “permanent” differences with the home country IFRS financial statements due to differences in the dates of transition to IFRSs between the jurisdictions.

The SEC has asked whether a U.S. GAAP reconciliation for first-time adopters of IASB IFRSs would be a useful “bridge” from an FPI’s previous GAAP to IASB IFRSs when applying the first-time adoption relief offered in General Instruction G of Form 20-F. We believe that the usefulness of the U.S. GAAP bridge reduces as the use of IFRSs increases. The SEC’s first-time adoption rule was introduced in 2005 for the first significant increase in entities preparing financial statements in accordance with IFRSs²⁰. A U.S. GAAP reconciliation was one way to help bridge the transition and provide users of such financial statements with information about transition adjustments. We believe that the basis of the decision to eliminate the U.S. GAAP reconciliation requirement would be that IASB IFRSs are sufficiently robust in theory and application such that the reconciliation is no longer needed.

6.2. *Reconciling interim financial statements to U.S. GAAP*

If IASB IFRSs are sufficiently robust in theory and application such that the U.S. GAAP reconciliation is no longer needed, then we believe that a bridge reconciliation to U.S. GAAP is not needed for interim financial statements.

If an FPI is required to present IFRS interims to update “stale” annual financial statements prepared under previous GAAP to comply with the Securities Act of 1933 or the Securities Exchange Act of 1934, then the SEC may wish to consider requiring those interim financial statements to be a full set of financial statements rather than condensed interim financial statements. We believe that this would be of equal or greater use to users of financial statements than reconciling these first IFRS interim financial statements to U.S. GAAP.

²⁰ Form 20-F, General Instruction G, *First-Time Application of International Financial Reporting Standards*



7. *Effective date*

The comments below address issues raised by the SEC in questions 6, 7, 13 and 17 regarding timing of and potential limits of eligibility for the elimination of the U.S. GAAP reconciliation requirement.

We believe that the rule change should be available for FPIs for filings containing audited financial statements for the first year end following the issuance of the final rule. If the final rule is published by early 2008, then financial statement users will have at least a year's notice for calendar year-end companies that U.S. GAAP information will not be available in future Form 20-F filings. We have not identified any reason to delay the effectiveness of a final rule.

We believe that if it is finalised, then the rule should be adopted by all FPIs as described above and should not be phased in. We believe that adoption of the final rule should not be influenced by the number of FPIs using IFRSs and registered under the Exchange Act. Further it is our view that factors such as the issuer's public float, the type of float or the nature of the filing should not affect the ability of the issuer to prepare financial statements without a U.S. GAAP reconciliation.

As discussed in section 4.1, our network of member firms has made significant investments in IFRS training and resources. We believe that at this time there is sufficient experience with auditing the application of IFRSs by FPIs to not require a delay.



8. Due dates for filing

The comments below address issues raised by the SEC in question 14 regarding the possible modifications of the due dates for Form 20-F.

The Form 20-F disclosure requirements extend beyond many home country requirements for annual reporting. For example:

- U.S. specific information, e.g., Form 20-F, Item 5. *Operating and Financial Review and Prospects*;
- major shareholder and related party transactions;
- unresolved SEC staff comments; and
- off-balance sheet items.

Home country financial statements often are not prepared in English and require translation for inclusion in the Form 20-F.

Such additional requirements mean that it may be onerous to conform Form 20-F deadlines to home country due dates for annual financial statements. We suggest that the SEC allow further experience to see if voluntary changes are made to filing dates and reconsider this issue at a later date. One possible approach would be to give FPIs a specified additional period of time following the due date for filing in the home jurisdiction in order to prepare the SEC specific information.

9. *Interim financial reporting*

The comments below address issues raised by the SEC in questions 15 and 21 – 23 regarding the preparation of interim financial statements under IAS 34 Interim Financial Reporting and whether different reconciliation requirements should apply to interim financial statements.

The SEC notes four significant differences between IAS 34 *Interim Financial Reporting* and the requirements of Regulation S-X Article 10 *Interim Financial Statements*²¹:

- interim financial statements prepared in accordance with IAS 34 may be more condensed than those prepared under Article 10;
- Article 10 contains an explicit statement that interim financial statements must be sufficient to make interim period information presented not misleading; IAS 34 contains no such statement;
- Article 10 requires contingent liability disclosure even if no change has occurred since the previous year-end; IAS 34 only requires disclosure of any changes; and
- Article 10 requires disclosure (footnote) of summarised information for certain equity investees; IAS 34 contains no such requirement.

We believe that in relation to such differences the SEC should accept IAS 34 as a comprehensive interim reporting standard.

As discussed in our response in section 4.3 we believe that it would be preferable if the SEC did not carry over the guidance in Regulation S-X regarding financial statement presentation to IFRS financial statements. Therefore we believe that if FPIs prepare interim financial statements in accordance with IAS 34, then such issuers should not be required to comply with any additional requirements of Article 10.

Interim financial statements are not required in all jurisdictions and in some cases entities are allowed to satisfy interim reporting requirements with information that is less than a full set of condensed interim financial statements as described in IAS 34. Some interim financial information that does not assert compliance with IFRSs note that IFRS-based recognition and measurement principles have been applied or that accounting policies used in preparing interims financial information is consistent with IFRSs recognition and measurement principles. Existing requirements for FPIs to furnish home country interim financial information appears to be working and we see no reason to change these requirements.

However we believe that if an entity is undertaking a transaction that triggers a requirement under the SEC regulations to present interim financial information, then it would be appropriate for the SEC to require presentation of interims that comply with IAS 34.

²¹ SEC Release no 33-8818, page 50, 2007