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September 24, 2007

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

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

The Center for Audit Quality (CAQ) is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the American Institute of CPAs. The CAQ's mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies. We welcome the opportunity to share our views on the Securities and Exchange Commission's (the SEC or the Commission) proposing release, *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP* (the SEC Proposal or the Release).

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OVERALL APPROACH AND USE OF IFRS

Under the SEC Proposal a foreign private issuer would not need to reconcile to U.S. GAAP provided that:

- It prepares financial statements that comply fully with the English language version of International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB)¹,
- It makes a statement of unreserved compliance with IFRS, and
- Its auditor opines on compliance with IFRS.

Overall, the Center supports the elimination of the U.S. GAAP reconciliation for foreign private issuers using IFRS, which we believe is an important step in the process toward development of a single-set of high-quality globally-accepted accounting standards. In addition, we do not believe that the elimination of the U.S. GAAP reconciliation should be predicated on the adequacy or continuation of the convergence process, nor on the development of further guidance in areas not currently addressed by IFRS. We do believe, however, that the Commission should develop a plan to solicit and evaluate user feedback after a year or two once U.S. investors gain more experience using IFRS financial statements without reconciliation.

While we support the overall approach taken by the Commission in the Release, we note that there may be certain implications of limiting its scope to IFRS. As proposed, the acceptance of IFRS financial statements without reconciliation might have limited applicability in the future. The governments of many countries, including the United States, have the sovereign power to establish accounting standards for use within their respective jurisdiction. When considering competing national priorities, a government (or its designated regulatory authority) might make modifications to such standards as they believe necessary in the circumstances. For example, there are jurisdictions such as the European Union that require endorsement or approval of IFRS before such standards can be used. As a result, there might be situations where a foreign private issuer is required to follow the jurisdictional version of IFRS in preparing its financial statements, and, therefore, is unable to make an explicit and unreserved statement of compliance with IFRS because certain standards have not been endorsed (or are still in the process of being endorsed).

In light of these practical realities, we believe that foreign private issuers that use local GAAP (including jurisdictional IFRS) should have an ability to reconcile to IFRS in lieu of reconciling

¹ For purposes of this letter, references to IFRS are in the context of the English language version of IFRS, as published by the IASB, unless otherwise noted.

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to U.S. GAAP. Under this alternative, all foreign private issuers would have the following options in preparing financial statements filed with the SEC:

1. U.S. GAAP;
2. IFRS;
3. Any comprehensive basis of GAAP, reconciled to U.S. GAAP; or
4. Any comprehensive basis of GAAP, reconciled to IFRS.

This approach would give IFRS equal prominence with U.S. GAAP. We note that the IASB, as part of its annual improvement project, is considering amending IAS 1, *Presentation of Financial Statements*, to require financial statements that can not assert compliance with IFRS to describe each difference between the basis of accounting used to prepare the financial statements and IFRS and how reported financial position and performance would have differed under IFRS. However, in cases where jurisdictional IFRS is used, we believe that an issuer, when reconciling to IFRS, should provide both a narrative description of the differences and a quantitative reconciliation of specific financial statement line items (i.e., in a manner that would be substantially similar to the current requirements of Items 17 or 18 of Form 20-F, as applicable).

We believe that this proposal has the following advantages:

- It creates a common benchmark, IFRS, for all companies located outside the U.S. that are raising capital in the U.S. markets.
- For many companies, their local GAAP is more closely aligned with IFRS, not U.S. GAAP. As a result, there is the potential to reduce their costs of complying with U.S. reporting requirements if the SEC were to permit reconciliation to IFRS in lieu of reconciliation to U.S. GAAP.
- The acceptance of IFRS as a benchmark standard should, over time, discourage countries from adopting jurisdictional variants that differ greatly from IFRS. Given this expectation, the reconciliation between a jurisdictional variant of IFRS and IFRS should be more easily understandable to investors than a reconciliation to U.S. GAAP.
- Most importantly, it achieves the objectives desired in the Release while recognizing the pragmatic reality that sovereign governments might modify, selectively endorse or delay endorsing accounting standards in certain circumstances.

In lieu of reconciling to U.S. GAAP, an alternative would be to require each foreign private issuer to prepare, and file with the SEC, financial statements using IFRS. In many cases however, such IFRS financial statements filed with the SEC would be different than the financial

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statements, filed in the home country and distributed to shareholders, that are prepared using local GAAP or jurisdictional IFRS. In our view, this would be an undesirable situation. Not only would this force foreign private issuers to prepare, and obtain audits of, two sets of financial statements, it would be potentially confusing to investors. Accordingly, we strongly believe that Form 20-F should continue to require only the English version of the same financial statements that the foreign private issuer uses in its communications to shareholders.

Technical amendments and references to U.S. GAAP

The Commission, in its rules, forms and releases, and the SEC staff in its Staff Accounting Bulletins, frequently make reference to specific U.S. GAAP accounting standards (e.g., SFAS 57 on related parties) in setting forth various non-financial statement disclosure requirements. This can become problematic as accounting standards are constantly changing and such references can become outdated. In addition, with the contemplated acceptance of IFRS without reconciliation, the references, definitions, and scope of the related disclosure instructions might be different for an issuer using IFRS rather than U.S. GAAP.

Instead of making reference to the applicable IFRS, the SEC Proposal incorporates IFRS into the instructions of Form 20-F through a broad-based approach by instructing the preparer to “follow the appropriate provisions of IFRS that contain the principles embodied in the referenced U.S. GAAP items.” We do not support such an ambiguous approach and believe that it could lead to inefficient and inconsistent interpretations in practice.

We acknowledge that in many cases the corresponding IFRS notion of the principles embodied in the referenced U.S. GAAP can be readily identified, as IFRS includes a definition or guidance similar to the U.S. GAAP principle. However, there are numerous instances where the principle or rule embodied in the referenced U.S. GAAP pronouncement is not readily apparent, or not even included, in IFRS. In addition, there are definitions referenced in U.S. GAAP that are different in IFRS. For example, while the fundamental objectives of disclosures about related parties are similar under IFRS and U.S. GAAP, their definitions of a related party are not the same.

In a reporting framework that allows for the use of IFRS without reconciliation, we believe it is important for the Commission to specifically identify areas where U.S. GAAP pronouncements are referenced and address the implications, if any, of using IFRS. We believe that this issue would become more important as the SEC considers allowing U.S. companies the option of using either U.S. GAAP or IFRS, as discussed in the Commission’s *Concept Release On Allowing U.S. Issuers To Prepare Financial Statements In Accordance With International Financial Reporting Standards* (Release No. 33-8831).

Therefore, we recommend that in future drafting of rules, forms, releases and other materials, both the Commission and the SEC staff avoid making references to specific accounting standards

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when the respective requirement is intended to apply to all registrants regardless of the basis of accounting used in their primary financial statements. Instead, we recommend that the SEC's non-financial statement disclosure requirements describe the concept and objective of the required disclosure, and differentiate the operational instructions as necessary based on whether the registrant uses U.S. GAAP or IFRS. For example, instead of making reference to related parties as defined by SFAS 57, make reference to related parties as defined by the GAAP used in the primary financial statements.

As a way of addressing this issue in existing SEC forms, rules and regulations, the SEC might wish to categorize each reference to a U.S. GAAP pronouncement as follows:

- *Category 1 – Instances where similar guidance exists in both U.S. GAAP and IFRS.* These cases appear straightforward and should not present any difficulties for issuers using IFRS. However, in the interest of clarity the Commission may wish to include the corresponding reference to IFRS. Alternatively, we recommend that the Commission amend the instructions to describe the underlying concept in generic terms without making reference to a specific U.S. GAAP or IFRS pronouncement.
- *Category 2 – Instances where no guidance exists in IFRS.* In these cases, the SEC would need to consider whether the non-financial statement disclosure requirement is even applicable for issuers using or reconciling to IFRS. If the Commission concludes that the disclosure remains relevant, then it may want to retain the U.S. GAAP reference as a basis for the disclosure and specifically indicate that the disclosure also is required for an issuer using IFRS. Alternatively, we recommend that the Commission amend the instructions to describe the underlying concept in generic terms without making reference to a specific U.S. GAAP pronouncement.
- *Category 3 – Instances where the guidance in U.S. GAAP and IFRS is different.* In these cases, the SEC would need to consider the implication of having different definitions under IFRS versus U.S. GAAP. Depending on the nature and significance of the difference, the Commission should reconsider the applicability of the disclosure to an issuer using or reconciling to IFRS. If still applicable, the Commission should amend the instructions to describe the underlying concept in generic terms without making reference to a specific U.S. GAAP or IFRS pronouncement. If not applicable, the Commission should amend the instructions to clarify that the disclosure only applies to an issuer using or reconciling to U.S. GAAP.

The Appendix to this letter provides specific examples of items in each of the above categories.

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Interim period financial statements

The SEC Proposal would require that interim period financial statements comply with the requirements of Article 10 of Regulation S-X even if they comply with IFRS. We do not see any incremental benefit to requiring additional interim disclosures under Article 10. We believe that IAS 34 *Interim Reporting* represents a comprehensive interim reporting standard that does not differ materially from Article 10 and APB Opinion No. 28, *Interim Financial Reporting*, as amended.

If the Commission accepts interim financial statements prepared in accordance with IFRS then it would need to amend Instruction 2 to Item 8.A.5 of Form 20-F, which states that the required interim financial statements may be in condensed form using the major line items from the audited financial statements, determined based on Rule 10-01(a)(1)-(7).

TRANSITION AND TIMING

We believe foreign private issuers using IFRS should not have to reconcile to U.S. GAAP once the proposed amendments are adopted. For example, if the SEC adopts the proposed amendments and they become effective on January 15, 2008, then any IFRS financial statements included in a filing with the Commission made on or after January 15, 2008, should not require a reconciliation to U.S. GAAP.

First-time adopters of IFRS

The Release extends the accommodation for first time adopters of IFRS for an additional five years. However, we would propose extending the accommodation for an indefinite period. This accommodation should be available to any company transitioning to IFRS for the first time. To remove this accommodation after a period of time might create inequality for those that decide to move to IFRS after the period, which might hinder the progression towards a single-set of high-quality globally-accepted accounting standards. Extending the accommodation indefinitely would serve as an incentive for other issuers to adopt IFRS in filings with the SEC.

FILING DUE DATES

At this time, the Center does not support making any changes to the current filing due dates of the periodic reporting forms used by foreign private issuers. Instead, we believe that this is a larger issue that is beyond the scope of the SEC Proposal. Accordingly, if the Commission believes there should be an acceleration in any due dates applicable to foreign private issuers, we recommend that the SEC further consider this question in a separate release.

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SAFE HARBOR AND FORWARD-LOOKING INFORMATION

The SEC Proposal asks whether the Commission should address the implications of forward-looking disclosure contained in a footnote to the IFRS financial statements as required by IFRS 7 *Financial Instruments: Disclosures* (IFRS 7). IFRS 7 requires disclosure in the notes to the annual financial statements of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Regarding market risk, IFRS 7 requires financial statement disclosure of, among other things, either a sensitivity analysis for each type of market risk exposure, or a value-at-risk measure that reflects interdependencies between various types of market risks. There is no corresponding disclosure requirement in U.S. GAAP, although under Item 11 of Form 20-F, foreign private issuers must disclose similar information outside the financial statements, where it is subject to the statutory safe harbor for forward-looking statements, to the extent it constitutes “forward-looking statements,” and also is subject to safe harbor protection under Commission rules.

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 provide safe harbor protection for forward-looking statements, subject to certain conditions and limitations. However, these statutory safe harbor provisions do not extend to forward-looking statements “included in a financial statement prepared in accordance with generally accepted accounting principles.”

As a matter of equitable treatment, we do not believe foreign private issuers that use or reconcile to IFRS should incur a higher exposure in private securities litigation just because IFRS requires more forward-looking disclosures than U.S. GAAP. Accordingly, we encourage the SEC to utilize its rule-making authority to extend the statutory safe harbor protections to the forward looking information required in the notes to financial statements under IFRS 7.

ADDITIONAL DETAILED RESPONSES

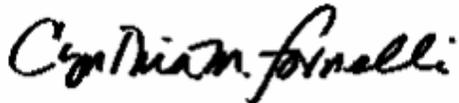
See the Appendix for more detailed responses to specific aspects of the SEC Proposal and the Exhibit for a summary of non-financial statement disclosures and references to U.S. GAAP.

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We appreciate the opportunity to comment on the SEC Proposal and would welcome the opportunity to meet with you to clarify any of our comments.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: SEC
Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Annette L. Nazareth
Commissioner Kathleen L. Casey
Conrad Hewitt, Chief Accountant
John W. White, Director of the Division of Corporation Finance

PCAOB
Mark W. Olson, Chairman
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Member
Charles D. Niemeier, Member
Thomas Ray, Chief Auditor and Director of Professional Standards

This Appendix provides more detailed responses to specific aspects of the Release and summarizes various technical amendments and references to U.S. GAAP that we believe should be considered.

Eligibility Requirements (Q11-Q17)

The SEC Proposal asks whether the Commission should place any limitations on the eligibility of a foreign private issuer that uses IFRS to file financial statements without reconciliation to U.S. GAAP. The Center supports the elimination of the U.S. GAAP reconciliation for all foreign private issuers that use or reconcile to IFRS and does not support placing any limitations on the eligibility requirements.

U.S. GAAP Reconciliation (Q18-Q25)

Amendments to Items 17 and 18

If, as we recommend, the Commission chooses to allow foreign private issuers that use local GAAP (including jurisdictional IFRS) to reconcile to IFRS in lieu of reconciling to U.S. GAAP, then we recommend that the Commission also make conforming revisions to Items 17 and 18 to reflect the issuer's choice of reconciliation.

Furthermore, we have several observations in response to the SEC Proposal's request as to whether any other changes to Items 17 or 18 of Form 20-F, or elsewhere, are needed to implement fully the proposed elimination of the reconciliation requirement for issuers using IFRS. We believe the SEC should address the following:

- Instruction 3 to Item 8.A.2 of Form 20-F provides that in initial registration statements, the earliest of the three years of financial statements may be omitted if the financial statements are prepared in accordance with U.S. GAAP and those financial statements haven't been included in a previous filing with the SEC. If the SEC accepts financial statements prepared in accordance with IFRS without reconciliation, we believe this accommodation should be extended to an initial registration statement in which the foreign private issuer presents financial statements prepared under IFRS but had been not previously publicly distributed any IFRS financial statements for the earliest of the three years.
- Footnote 80 of the Release indicates that the SEC does not read Item 17(b) as imposing U.S. GAAP requirements on financial statements prepared using IFRS. Some have read Item 17(b) to mean that financial statements shall disclose information content substantially similar to U.S. GAAP and Regulation S-X. Notwithstanding the discussion in Footnote 80, we believe that Item 17(b) could be interpreted otherwise, and therefore, in the interest of clarity should be amended to address the fact that the primary financial statements can be prepared using IFRS without U.S. GAAP and Regulation S-X disclosures.

- Instruction 2 to Item 17 requires disclosure of earnings per share in accordance with U.S. GAAP, if materially different than the earnings per share otherwise presented. If the SEC accepts financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP, then we believe that this instruction should be amended to accept earnings per share as calculated pursuant to IFRS.
- The proposed change to Instruction 2.b. of General Instruction G(h) is not clear. The Release changes the word “need” to “should” within the sentence that discusses the reconciliation to U.S. GAAP. Some may view this change as confusing. Therefore, we suggest as an alternative that the second sentence of Instruction 2.b. be deleted, as it is clear that if the issuer is not required to present the U.S. GAAP reconciliation, then it follows the operating and financial review and prospects information would not include references to U.S. GAAP.
- The proposed change to Item 17(c)(2)(v) and (vi) is unclear. Therefore, we suggest as an alternative that the following language be added to the first sentence of Item 17(c)(2)(v) and (vi): “U.S. generally accepted accounting principles *or on the basis of the English language version of IFRS as published by the IASB...*”

IAS 21 accommodation

The Commission notes in the Release that not many foreign private issuers use the IAS 21 accommodation related to hyperinflationary economies. While this may be the case, we nonetheless believe that the accommodation is still useful for those foreign private issuers that rely on it and, therefore, suggest that it not be eliminated. In addition, its limited use is partially a function of the fact that currently there are very few economies that are highly inflationary. As this could change in the future, the accommodation could become applicable to more companies.

Accounting and Disclosure Issues (Q26-Q34)

Other non-financial statements disclosures

The table below provides illustrative examples of items in each of the categories described in the attached letter. While we have not attempted to identify all items where U.S. GAAP pronouncements have been referenced in the SEC rules and regulations, we have noted additional examples of references to U.S. GAAP in the Exhibit to this letter.

APPENDIX

Category	Form 20-F or Applicable Regulation	Text of Form 20-F or Applicable Regulation	Observation on applicable IFRS notion
1	Instruction 1C to Item 11(a) of Form 20-F	Functional currency means functional currency as defined by generally accepted accounting principles (see FASB Statement of Financial Accounting Standards No. 52, “Foreign Currency Translation”, (“ FAS 52 ”) paragraph 20 (December 1981)).	See IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> (December 2006), paragraphs 9-14.
2	Item 5(E)(2)(d) of Form 20-F	Any obligation, including a contingent obligation, arising out of a variable interest (as referenced in FASB Interpretation No. 46, Consolidation of Variable Interest Entities (January 2003), as may be modified or supplemented) in an unconsolidated entity that is held by, and material to, the company, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with, the company.	IFRS (SIC 12 <i>Consolidation – Special Purpose Entities</i>) does not contain the term “variable interest.”
3	Rule 1-02(u) of Regulation S-X	The term “related parties” is used as that term is defined in the Glossary to Statement of Financial Accounting Standards No. 57, <i>Related Party Disclosures</i> (“ FAS 57 ”).	The definition of related parties in IFRS (see IAS 24 <i>Related Party Disclosures</i>) is different than the definition in FAS 57.

FAS 69

IFRS does not currently provide comprehensive guidance with respect to Oil & Gas producing activities, other than guidance provided in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. We believe that supplemental information on reserves as required by FAS 69 is necessary to understanding the financial statements of an oil and gas company and to allow comparability among such companies.

Most large foreign oil and gas companies follow Item 18 and therefore provide FAS 69 disclosures. We believe a continuation of these disclosures would be in the best interests of investors. Accordingly, we believe that, for the time being, foreign private issuers that prepare financial statements in accordance with or reconciled to IFRS should be required to comply with the disclosure requirements of FAS 69.

We suggest that the Commission continue to monitor IFRS developments in this area.

Materiality

With regard to materiality and misstatements, we note that practice has been such that foreign private issuers generally have looked to the guidance in Staff Accounting Bulletin Topic 1.M (SAB 99). We expect that would continue for foreign private issuers using IFRS and do not believe that the elimination of the U.S. GAAP reconciliation would have an impact on how materiality is applied in filings with the SEC.

Regulation S-X (Q35-Q37)

Application of the Proposed Amendments to Rules 3-05, 3-09, and 3-16

If the Commission does not allow foreign private issuers the ability to reconcile to IFRS, then we believe the SEC should at least consider allowing acquirees, investees, and guarantors providing financial statements prepared using local GAAP the ability to reconcile those financial statements to IFRS for purposes of Rules 3-05, 3-09, and 3-10. For example, it would not seem logical to require a significant equity investee to reconcile its financial statements to U.S. GAAP when the issuer does not provide any U.S. GAAP information.

The SEC staff has published guidance indicating that significance tests should be determined based on U.S. GAAP financial information. The Release, however, provides that significance tests should be determined based on the primary financial statements. However, that assumes that either IFRS or U.S. GAAP is used in the preparation of the primary financial statements. If the Commission allows a foreign private issuer to use local GAAP (including jurisdictional IFRS) and then reconcile to U.S. GAAP or IFRS, then the SEC should clarify that significance testing should be based on either U.S. GAAP or IFRS, depending on the GAAP to which the financial statements of the issuer are reconciled.

Rule 3-05 Requirements for the Acquisition of a Foreign Business

Historically, the significance tests under Rule 1-02 (w) of Regulation S-X have been performed using U.S. GAAP amounts. Under the proposed amendments, if a U.S. company acquires a foreign business whose financial statements are prepared in accordance with IFRS, the financial statements filed under Rule 3-05 of Regulation S-X would not be required to include a reconciliation to U.S. GAAP. However, notwithstanding this accommodation, it still would be necessary to reconcile the historical financial statements of the acquired business to U.S. GAAP solely to perform the significance test. As proposed, a foreign private issuer using IFRS would face a similar requirement to determine the significance of its acquisition of a business that does not prepare financial statements using IFRS.

We believe Rule 1-02(w) of Regulation S-X should be modified to allow, as an alternative, the significance test of an acquired business with a different basis of accounting to be performed using pro forma amounts (i.e., based on the pro forma adjustment of the acquired company's historical financial information to reflect the registrant's purchase accounting under either U.S. GAAP or IFRS, as applicable). Under this concept, the issuer would prepare a pro forma income statement for the most recent annual period and balance sheet under Article 11 of Regulation S-X reflecting the business combination. The differences between the historical amounts of the issuer and the pro forma amounts for assets and pretax income would be used for the significance tests. For example, if the historical pretax income of the issuer was 750 and its pro forma pretax income assuming the acquisition was 1,000, the difference of 250 would be compared to the 750 and the acquisition would be significant at the 33% level under the income test.

While it would be necessary to determine information related to the acquired business on the basis of either U.S. GAAP or IFRS to prepare the pro forma information, that information would be based on fair value estimated in the pro forma purchase price allocation, which would frequently be more efficient to determine than reconciling the historical information of the acquired business solely to determine significance.

Application of the Proposed Amendments to other Forms, Rules and Schedules (Q38-Q41)***Conforming Amendments to Securities Act Forms F-4 and S-4 and Rule 701***

Unlike Form 20-F that contains detailed instructions regarding the information required to be presented therein, the disclosure requirements of the other F Forms and Form S-4 are derived by reference to the various SEC rules and regulations, including Regulations S-K, S-X and Form 20-F. Accordingly, if the SEC were to accept IFRS financial statements without reconciliation to U.S. GAAP, then we believe that the various rules and regulations that govern the preparation of such forms would require modification.

In the Release, the SEC has proposed certain conforming changes to Rule 701 and Forms F-4 and S-4. In addition, the SEC has proposed conforming changes to Form 20-F and

Rule 3-01 and Rule 4-01 of Regulation S-X. These conforming changes appear to address the information requirements of Forms F-1 and F-3 to the extent such information is required by reference to Form 20-F and Rule 3-01 and Rule 4-01 of Regulation S-X. However, certain of the information requirements of these and the other forms are determined by reference to Regulation S-K as outlined below:

- Item 301 (selected financial data)

Instruction 6 to Item 301 requires a foreign private issuer that presents selected financial data on the basis of accounting principles used in its primary financial statements to also present the data on the basis of any reconciliation to U.S. GAAP and Regulation S-X made pursuant to Rule 4-01. If the SEC accepts financial statements prepared in accordance with or reconciled to IFRS, then we believe that this instruction would need to be modified.

In Form S-4, an issuer is required to present in comparative columnar form, historical and pro forma per share data of the registrant and historical and pro forma data of the company being acquired, including book value per share as of the date financial data is presented pursuant to Item 301 of Regulation S-K. For issuers using or reconciling to IFRS, this requirement should be on an IFRS basis. Further, we note that under IFRS minority interest is classified as part of equity. Therefore, the SEC may want to clarify whether or not the required computation of “book value per share” includes minority interest.

- Item 303 (OFR)

Instruction 12 to Item 303(a) states that a foreign private issuer should refer to its reconciliation to U.S. GAAP, and discuss any aspects of the differences between its comprehensive body of accounting principles and U.S. GAAP that are not otherwise discussed in the reconciliation, but necessary for an understanding of its financial statements as a whole. If the SEC accepts financial statements prepared in accordance with or reconciled to IFRS, then we believe that this instruction would need to be modified.

- Item 503 (risk factors and ratio of earnings to fixed charges)

Instruction 2(c) to Item 503(d) requires a foreign private issuer to show the ratio based on the figures resulting from the reconciliation to U.S. GAAP, if the ratio is materially different. If the SEC accepts financial statements prepared in accordance with or reconciled to IFRS, then we believe that this instruction would need to be modified.

For issuers using or reconciling to IFRS, the ratio should be presented on an IFRS basis. However, we note that IFRS permits use of the proportionate consolidation method. Therefore, the Commission should address whether amounts relating to proportionately consolidated entities, which would not be controlled by the issuer, should be excluded in the determination of the ratio.

Canadian Issuers

We note that Canada is contemplating the adoption of IFRS (possibly by 2011). If and when Canada adopts IFRS, then we support an amendment to Part F/S of Form 1-A to permit the use by Canadian issuers of financial statements prepared in accordance with IFRS without a reconciliation to U.S. GAAP. We believe that continuing a requirement for a Canadian company to prepare U.S. GAAP financial statements to qualify for a Regulation A financing, regardless of whether or not an audit is required, would be cost prohibitive for most Canadian issuers unless the Canadian issuer is already using U.S. GAAP. We do not believe that the fact that financial statements prepared under current Part F/S of Form 1-A are not required to be audited would support retaining a U.S. GAAP reconciliation requirement under Form 1-A.

Quality Control Issues – Appendix K (Q42)

It is our understanding that the Appendix K procedures were developed so that SEC filings of foreign private issuers including reports of non-U.S. firms would have procedures performed by a person knowledgeable about U.S. GAAP, U.S. GAAS and SEC independence matters. The filing reviewer would discuss with the engagement team the evaluation of significant differences between the requirements in the U.S. with respect to GAAP, GAAS, SEC reporting requirements, and auditor independence and the requirements applied in the home country. We also note that Appendix K predates current requirements that firms auditing foreign private issuers be registered with the PCAOB and subject to its inspection process.

At the time this guidance was developed, non U.S. auditors were allowed to report that the audit was conducted using non U.S. auditing standards that were *substantially similar* to U.S. generally accepted auditing standards (U.S. GAAS). As the audits did not need to be conducted in accordance with U.S. GAAS, the guidance was developed so a person knowledgeable about U.S. GAAS would discuss with the engagement team the evaluation of whether the auditing procedures performed were substantially similar to U.S. GAAS.

Subsequent to the development of the Appendix K procedures, the Commission adopted *International Disclosure Standards* - Securities Act Release No. 7745. This guidance required that the audit be performed using U.S. GAAS - now the standards of the PCAOB - and the report include a specific statement to that effect. As the audit must be performed using the standards of the PCAOB, it is no longer necessary for the Appendix K procedures to require the involvement of the filing reviewer relative to differences in auditing standards.

Likewise, there have been changes with respect to the procedures for gathering and reporting information on scope of services since the adoption of the Appendix K procedures. For example, as a result of amendments made in 2003 to the independence rules contained in Securities Act Release No. 8183, work performed by the auditor is required to be pre-approved by the audit committee. Accordingly, we do not believe it

is necessary for the Appendix K procedures to require the involvement of a filing reviewer relative to differences in U.S. independence requirements.

Accordingly, we believe the Appendix K procedures should be modified to eliminate the requirement for the filing reviewer to discuss audit and independence issues; rather, the procedures should be limited to U.S. GAAP issues. Therefore, if the financial statements are not prepared in accordance with U.S. GAAP or do not include a reconciliation to U.S. GAAP, we do not believe the remaining Appendix K procedures should be applicable. In addition, we do not propose to alter the other aspects of Appendix K relating to inspection procedures and disagreements.

EXHIBIT

Summary of Non-Financial Statement Disclosures and References to U.S. GAAP

SEC RULE OR REGULATION	U.S. GAAP	SPECIFIC REFERENCE
Regulation S-X	APB 30	Rule 10-01(b)(5) – Other instructions as to content
Regulation S-X	FAS 7	Rule 10-01(a)(7) – Condensed statements Industry Guide 7
Regulation S-X	FAS 19	Rule 4-10(b) – Financial accounting and reporting for oil and gas producing activities pursuant to the federal securities laws and the Energy Policy and Conservation Act of 1975 - Successful Efforts Method
Regulation S-X	FAS 57	Rule 1-02 (u) – Definitions of terms used in Regulation S-X – Related parties
Regulation S-X	FAS 80	Instruction 3 to Paragraph 4-08(n)
Regulation S-X	FAS 109	Rule 4-08(h)(3) – General Notes to Financial statements – Income tax expense
Regulation S-X	FAS 119	Instruction 1 to Paragraph 4-08(n) Instruction 2 to Paragraph 4-08(n)
Regulation S-X	FAS 123R	Rule 4-01(a)(3)(i) – Form, order, and terminology Rule 4-01(a)(3)(ii) – Form, order, and terminology
Regulation S-K	APB 15	Item 601 (11) Statement re computation of per share earnings
Regulation S-K	FAS 5	Instruction 3(B) to Paragraph 305(a) Instruction 4(B) to Paragraph 305(a) General Instruction 5(F) to Paragraphs 305(a) and 305(b)
Regulation S-K	FAS 13	303 (a)(5)(ii)(B) - Full fiscal years – Tabular disclosure of contractual arrangements

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SEC RULE OR REGULATION	U.S. GAAP	SPECIFIC REFERENCE
		303 (a)(5)(ii)(C) - Full fiscal years – Tabular disclosure of contractual arrangements
Regulation S-K	FAS 47	303 (a)(5)(ii)(A) - Full fiscal years – Tabular disclosure of contractual arrangements
Regulation S-K	FAS 52	Instruction 1(C) to Paragraph 305(a) Instruction 2(B)(vi) to Paragraph 305(a) Instruction 2(E) to Paragraph 305(a) Instruction 3(E) to Paragraph 305(a) Instruction 4(D) to Paragraph 305(a)
Regulation S-K	FAS 69	302(b) – Information about oil and gas producing activities Industry Guide 2
Regulation S-K	FAS 71	Instruction 1(C) to paragraph 503(d)
Regulation S-K	FAS 80	General Instruction 7 to Paragraphs 305(a) and 305(b)
Regulation S-K	FAS 89	Instruction 9 to Paragraph 303(a)
Regulation S-K	FAS 107	General Instruction 3(B) to Paragraphs 305(a) and 305(b) General Instruction 3(C)(ii) to Paragraphs 305(a) and 305(b)
Regulation S-K	FAS 119	General Instruction 3(A) to Paragraphs 305(a) and 305(b) General Instruction 7 to Paragraphs 305(a) and 305(b)
Regulation S-K	FAS 123	Instruction 1 to Paragraph (d)

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SEC RULE OR REGULATION	U.S. GAAP	SPECIFIC REFERENCE
Regulation S-K ²	FAS 123R	402(a)(6)(iii) – Definitions 402(a)(6)(iv) – Definitions Instructions to Item 402(c)(2)(iii) and (iv)-2(v) Instructions to Item 402(c)(2)(iii) and (iv)-2(vi) 402(c)(2)(ix)(C) – Summary compensation table 402(d)(2)(viii) – Grants of plan-based awards table 402(e)(1)(iii) – Narrative disclosure to summary compensation table and grants of plan-based awards table 402 (k)(2)(iii) – Compensation of directors 402 (k)(2)(iv) – Compensation of directors Instruction to Item 402(k)(2)(iii) and (iv) Instruction to Item 402(k)(2)(iii) and (iv)-(vii)(C)
Regulation S-K	FAS 131	Instruction 2 to Item 101
Regulation S-K	FAS 133	303 (a)(4)(ii)(C) - Full fiscal years – Off-balance sheet arrangements
Regulation S-K	FIN 39	General Instruction 5(C) to Paragraphs 305(a) and 305(b)
Regulation S-K	FIN 45	Item 303(a)(4)(ii)(A) – Full fiscal years – Off-balance sheet arrangements
Regulation S-K	FIN 46	Item 303(a)(4)(ii)(D) – Full fiscal years – Off-balance sheet arrangements

² Currently foreign private issuers are not required to provide such disclosures. However, if the SEC allows U.S issuers the option to use IFRS then such references would be applicable.

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Summary of Non-Financial Statement Disclosures and References to U.S. GAAP

SEC RULE OR REGULATION	U.S. GAAP	SPECIFIC REFERENCE
Regulation S-K	SOP 94-6	Instruction 3(C) to Paragraph 305(a) Instruction 4(C) to Paragraph 305(a) General Instruction 5(E) to Paragraphs 305(a) and 305(b)
Form 20-F	FAS 5	Instruction 3(B) to Item 11(a) Instruction 4(B) to Item 11(a) General Instruction 5(F) to Items 11(a) and 11(b)
Form 20-F	FAS 52	Instruction 1(C) to Item 11(a) Instruction 2(B)(vi) to Item 11(a) Instruction 2(E) to Item 11(a) Instruction 3(E) to Item 11(a) Instruction 4(D) to Item 11(a)
Form 20-F	FAS 80	General Instruction 7 to Items 11(a) and 11(b)
Form 20-F	FAS 107	General Instruction 3(B) to Items 11(a) and 11(b) General Instruction 3(C)(ii) to Items 11(a) and 11(b)
Form 20-F	FAS 119	General Instruction 3(A) to Items 11(a) and 11(b) General Instruction 7 to Items 11(a) and 11(b)
Form 20-F	FAS 131	Instruction 3 to Item 17
Form 20-F	FIN 39	General Instruction 5(C) to Items 11(a) and 11(b)
Form 20-F	FIN 45	Item 5(E)(2)(a) – Off-Balance Sheet Arrangements

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Summary of Non-Financial Statement Disclosures and References to U.S. GAAP

SEC RULE OR REGULATION	U.S. GAAP	SPECIFIC REFERENCE
Form 20-F	FIN 46	Item 5(E)(2)(d) – Off-Balance Sheet Arrangements
Form 20-F	SOP 94-6	Instruction 3(C) to Item 11(a) Instruction 4(C) to Item 11(a) General Instruction 5(E) to Items 11(a) and 11(b)