

COUNCIL OF INSTITUTIONAL INVESTORS

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Via Email

November 9, 2007

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

Re: Concept Release on Allowing U.S. Issuers To Prepare Financial Statements in Accordance With International Financial Reporting Standards (File Number S7-20-07)

Dear Ms. Morris:

I am writing on behalf of the Council of Institutional Investors (“Council”), an association of more than 130 public, corporate and union pension funds with combined assets of over \$3 trillion. As a leading voice for long-term, patient capital, the Council welcomes the opportunity to provide comments on the United States (“US”) Securities and Exchange Commission’s (“SEC” or “Commission”) Concept Release to obtain information about the extent and nature of the public’s interest in allowing US issuers to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) for purposes of complying with the rules and regulations of the Commission.¹

In response to the issuance of (1) the Concept Release, and (2) the SEC’s related July 11, 2007, Proposed Rule to accept from foreign private issuers their financial statements prepared in accordance with IFRS without reconciliation to US generally accepted accounting principles,² the Council has taken a number of steps to assist Council members and other institutional investors in better understanding the issues raised by those due process documents.³ Those steps have included:

- A plenary session at our 2007 fall membership meeting discussing international convergence of accounting standards. That session featured Robert Herz, Chair, Financial Accounting Standards Board (“FASB”), Thomas Jones, Vice Chair, IASB, and Mark Olson, Chair, Public Company Accounting Oversight Board.
- The establishment of an informal Council working group on accounting and auditing.

¹ Concept Release on Allowing U.S. Issuers To Prepare Financial Statements in Accordance With International Financial Reporting Standards (“IFRS”), Securities Act Release No. 8831, Exchange Act Release No. 56,217, Investment Company Act Release No. 27,924, 72 Fed. Reg. 45,600 (Aug. 14, 2007) (“Concept Release”).

² Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With IFRS Without Reconciliation to U.S. GAAP, Securities Act Release No. 8818, Exchange Act Release No. 55,998, International Series Release No. 1302, 72 Fed. Reg. 37,962 (Proposed July 11, 2007) (“Proposed Rule”).

³ Convergence of International Accounting Standards Receives Attention at SEC, on Capitol Hill, Alert 4 (Couns. Institutional Investors, Washington, DC), Oct. 4, 2007 (on file with the Council).

Consistent with the Council's conclusion that high quality accounting standards can best be achieved by an independent private sector standard setting organization, we agree with the Commission that the "sustainability, governance and continued operation of the IASB are important factors for development of a set of high quality, globally accepted accounting standards" ⁸ Moreover, we believe that there are at least three related issues that are critical to the sustainability, governance and independence of the IASB and that those issues should be resolved as soon as possible and certainly *before* the Commission considers allowing US issuers to prepare financial statements in accordance with IFRS. Those issues are: (1) IASB funding; (2) the European Union ("EU") endorsement process; and (3) Investor representation on the IASB.

IASB Funding

Sections 108 and 109 of the Sarbanes-Oxley Act of 2002 ("SOX") currently require that US public companies pay accounting support fees to the US accounting standard setter—the FASB. ⁹ Those sections eliminated the need for the Financial Accounting Foundation, the parent entity of the FASB, "to seek contributions from accounting firms and companies whose financial statements must conform to FASB's rules." ¹⁰

Sections 108 and 109 of SOX were the result, in part, of a decision by the US Senate Committee on Banking, Housing, and Urban Affairs ("Banking Committee") that a source of stable funding was necessary to "strengthen the independence of the FASB" ¹¹ More specifically, the Banking Committee found that

witnesses overwhelmingly agreed that . . . the FASB required guaranteed sources of funding, in order to protect their independence. . . . With respect to the FASB, Michael Sutton, a former SEC Chief Accountant, testified to the Committee that "[t]o restore confidence in our standards setters, we should take immediate steps to secure independent funding for the FASB—funding that does not depend on contributions from constituents that have a stake in the outcome of the process." ¹²

⁸ Concept Release, 72 Fed. Reg. at 45,604.

⁹ Sarbanes-Oxley Act of 2002, H.R. 3763, 107th Cong. §§ 108-109 (2002), *available at* <http://f11.findlaw.com/news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>.

¹⁰ S. Rep. No. 107-205, at 13 (2002).

¹¹ *Id.*

¹² *Id.*

With this recent history in mind, we are concerned that the independence of the IASB may be compromised by the current source of its funding.¹³ We note that the vast majority of the IASB's current funding is the result of voluntary commitments from less than 200 organizations.¹⁴ Most of those organizations are from the same two constituents—companies and accounting firms—that the Banking Committee was most troubled by.¹⁵

Our concerns about the potential impact of the IASB's current funding on its independence are real and shared by many other parties.¹⁶ As one example, in a September 19th presentation before the Economic and Monetary Affairs Committee of the European Parliament, a research fellow for a European think tank devoted to international economics stated:

Given its light framework of governance and funding, maintaining independence from dominant influences . . . is a first-order priority for the international standard setter¹⁷

¹³ As an aside, we note that one commentator has indicated that “[i]t is not clear what would happen to that funding [referring to Sections 108 and 109 of the Sarbanes-Oxley Act of 2002 (“SOX”)] if companies that list in the U.S. could report their financial results using standards set by the IASB instead.” David M. Katz, *IFRS or GAAP: Take Your Pick?*, CFO.com, May 3, 2007, at 1, *available at* <http://www.cfo.com/article.cfm/9133180?f=related>. Similarly, Professor Lawrence A. Cunningham commented that “[i]f IASB began to set the standards [for US-listed companies], affected companies should not be required to contribute to the FASB's budget.” Letter from Lawrence A. Cunningham, George Washington University Law School, to Securities and Exchange Commission (“SEC” or “Commission”) 2 (Aug. 10, 2007), *available at* <http://www.sec.gov/comments/s7-20-07/s72007-1.pdf>. It is surprising that neither the Proposed Rule nor the Concept Release addresses the issue of how the Commission's potential actions permitting greater use of IFRS by U.S.-listed companies will or should impact the funding provisions of Sections 108 and 109 of SOX.

¹⁴ International Accounting Standards Board (“IASB”), *Future Funding 1*, <http://www.iasb.org/About+Us/About+the+Foundation/Future+Funding.htm> (last visited Nov. 7, 2007).

¹⁵ *See id.*

¹⁶ Of note, in 2002 United States Senator Carl Levin (D-Michigan) publicly released an email from David Duncan, the lead auditor of Enron Corp. (“Enron”) at Arthur Andersen. The email described Enron Chief Accountant Rick Causey's inquiries about whether Enron's potential contribution to the IASB would buy access and influence to the standard setting process. Senate Floor Statement of Senator Carl Levin (D-Mich) on the Introduction of Legislation to End the Double Standard for Stock Options [S. 1940] 4-5 (Feb. 13, 2002), *available at* <http://www.senate.gov/~levin/newsroom/release.cfm?id=209088>.

¹⁷ Nicolas Véron, Research Fellow at Bruegel, Presentation to the Economic and Monetary Affairs Committee of the European Parliament 3 (Sept. 19, 2007), *available at* http://veron.typepad.com/main/files/EuroParl_IFRS8_Sep07.pdf.

We welcome the recent reports from the Trustees of the International Accounting Standards Committee Foundation (“IASCF”) that they (1) “have achieved multi-year financing commitments of more than £12 million of a £16 million annual target” for the IASB;¹⁸ and (2) that the combination of national funding schemes, broad-based voluntary programs, and other sources “will bring the sources of funding from less than 200 organizations in 2006 to several thousand by 2008.”¹⁹ We, however, note that the entity that has “daily interactions” with the IASB—the FASB—raised the following serious funding concerns in their November 7th comment letter to the SEC in response to the Concept Release:

We believe the current funding levels and staffing mechanisms of the IASB are not adequate for the tasks it will face if the improved version of the IFRS becomes the single set of global accounting standards. *Moreover, the current funding sources appear unstable, and they give rise to independence concerns.*²⁰

We agree with the FASB and other commentators that a “funding mechanism that provides adequate resources while protecting the independence of the IASB” should be established before “moving U.S. public companies to IFRS”²¹

EU Endorsement Process

Another issue critical to IASB sustainability, governance and independence is the level of involvement of the EU in the development of IFRS standards, largely as a result of the EU endorsement process. The following is a summary description of that process:

First, the European Financial Reporting Advisory Group (EFRAG) technically assesses each new standard and interpretation approved by the IASB and submits the assessment to the EC. EFRAG is an independent private body whose task is to provide the EC ‘advice on the technical soundness of new standards.’ EFRAG’s members are academics, analysts, auditors, industry representatives, and users. To approve or disapprove an accounting standard, two-thirds of the members of EFRAG’s Technical Expert Group must agree.

In July 2006, the EC created the Standards Advice Review Group (SARG) to review EFRAG’s opinions to ensure their objectivity and proper balance. The EC will appoint up to seven members to SARG. Members will be independent accounting experts and high-level representatives from EU national accounting standards setters. SARG will be expected to deliver its advice within three weeks of EFRAG responses.

¹⁸ Press Release, International Accounting Standards Committee Foundation, Trustees Announce Strategy to Enhance Governance, Report on Conclusions at Trustees’ Meeting 3 (Nov. 6, 2007), *available at* <http://www.iasb.org/NR/rdonlyres/D3F8A7DA-B979-462E-BF43-32F2581BEE37/0/PRonTrusteesmeet061107final.pdf>.

¹⁹ *Id.*

²⁰ Letter from Robert E. Denham, Chairman, Financial Accounting Foundation (“FAF”) & Robert H. Herz, Chairman, Financial Accounting Standards Board (“FASB”), to Nancy M. Morris, SEC 8 (Nov. 7, 2007) (emphasis added).

²¹ *Id.*; *see also* Parveen P. Gupta et al., The Road to IFRS?, *Strategic Finance* 29, 33 (Sept. 2007), *available at* http://www.imanet.org/publications_sfm_bi_sep2007.asp (“International standards-setting boards would have to develop a funding stream that not only preserves their independence but meets the requirements of Congress and other international legislative bodies”).

The EC then submits a proposed standard to the European Parliament and the Accounting Regulatory Committee (ARC). The ARC is chaired by the EC and composed of representatives of the EU member states. This represents the political aspect of the endorsement process. If a majority of the member states favors a proposed standard, it is approved by the ARC.

After approval by the ARC and the European Parliament, the EC formally decides on the use of new IASB standards and interpretations within the EU. Therefore, the final—and some would say most important—part of the endorsement process requires the EC to adopt new IFRSs and publish them in the *Official Journal of the EU*.²²

The EU endorsement process has resulted in several incidents that raise serious questions about whether that process impairs the independence of the IASB. For example, in 2004 the process resulted in a carve-out of several paragraphs from International Accounting Standards 39, *Financial Instruments: Recognition and Measurement*.²³

In March 2005, the EFRAG officially recommended that the EU not endorse International Financial Reporting Interpretations Committee 3, *Emission Rights* (“IFRIC 3”).²⁴ Following the EFRAG’s recommendation, the European Commission (“EC”) officially requested that the IASB defer the March 1, 2005, effective date for IFRIC 3.²⁵ In late June 2005, the IASB withdrew IFRIC 3.²⁶

In April 2007, the Economic and Monetary Affairs Committee of the European Parliament proposed a Parliamentary resolution calling on the EC to conduct a thorough impact assessment prior to endorsing IFRS 8, *Operating Segments* (“IFRS 8”).²⁷ In response, the EC has taken action that has to-date delayed the endorsement of that standard.²⁸

Given this expansive governmental role, it is not surprising that many parties, including PricewaterhouseCoopers, have observed that the EU endorsement process greatly influences the IASB’s standard setting process.²⁹ In addition, the FASB has concluded more broadly that “endorsement mechanisms are inconsistent with . . . high-quality international accounting standards, and their continued operation could significantly threaten the benefits of transitioning U.S. companies to IFRS.”³⁰

²² Robert K. Larson & Donna L. Street, *The Roadmap to Global Accounting Convergence—Europe Introduces ‘Speed Bumps’*, CPA J. 5-6 (2006), available at <http://www.nysscpa.org/cpajournal/2006/1006/essentials/p36.htm>.

²³ *Id.* at 6.

²⁴ *Id.* at 7.

²⁵ *Id.*

²⁶ *Id.*

²⁷ European Parliament, Motion for a Resolution 3 (Apr. 18, 2007), available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+MOTION+B6-2007-0157+0+DOC+PDF+V0//EN>.

²⁸ See European Commission, *Endorsement of IFRS 8 Operating Segment—Analysis of potential Impacts (API) 2* (May 30, 2007), available at http://ec.europa.eu/internal_market/accounting/docs/ifrs8-consultation-final.pdf.

²⁹ PricewaterhouseCoopers, *ViewPoint—Convergence of IFRS and US GAAP 4* (Apr. 2007), available at [http://www.pwc.com/extweb/pwcpublishations.nsf/docid/fc800243be0e3882852570500000c756/\\$File/viewpoint_convergence.pdf](http://www.pwc.com/extweb/pwcpublishations.nsf/docid/fc800243be0e3882852570500000c756/$File/viewpoint_convergence.pdf).

³⁰ Letter from Denham & Herz, at 9.

Investor Representation on the IASB

Finally, as indicated above in the Council's policy, we believe that having significant investor representation on the IASB is an important element of the IASB's sustainability, governance and independence. Since financial reports are used primarily for making decisions regarding the allocation of financial capital, investors are the key consumers of the product produced by accounting standard setters.

We note that the 14-member board of the IASB has only one current board member who could be characterized as an investment professional.³⁴ We believe that, at minimum, four members of the IASB should be drawn from the ranks of pension fund investment advisors, equity security financial analysts, equity security portfolio managers, or other users of financial reports.³⁵

The Council agrees with the recent comments of the CFA Institute Centre for Financial Market Integrity that "inadequate investor representation on the IASB . . . handicaps their ability to achieve their objectives for investors."³⁶ We are hopeful that the IASCF will promptly commit to filling future open board seats with qualified³⁷ investors or other users of financial reports so that adequate representation of the key customers of financial accounting and reporting can soon be achieved.

* * * *

We appreciate the opportunity to express our views on this matter. Please feel free to contact me with any questions.

Sincerely,



Jeff Mahoney
General Counsel

Attachment

³⁴ In July 2007, Stephen Cooper, Managing Director and head of valuation and accounting research of UBS Investment Bank in London, was appointed to the IASB as a part-time member. IASB Home Page, <http://www.iasb.org/About+Us/About+IASB/Board+Members.htm>.

³⁵ We note that in 1992, SEC Chairman Richard C. Breeden encouraged FAF Chairman Shaun O'Malley to consider filling two open seats on the seven member FASB with individuals "from the community of users of financial statements" Letter from Richard C. Breeden, Chairman, SEC, to Shaun O'Malley, President, FAF (Oct. 22, 1992) (on file with the Council). In 1993, the FAF named Anthony T. Cope, former Director of Fixed Income Credit Research and a Senior Vice President of Wellington Management Company, to the FASB. See News Release, FASB, Anthony T. Cope and James J. Leisenring to Join IASB (Jan. 25, 2001), available at <http://www.fasb.org/news/nr012501.shtml>.

³⁶ Letter from Kurt N. Schacht, Managing Director & Gerald I. White, Chair, Corporate Disclosure Policy Council, CFA Institute Centre for Financial Market Integrity, to Nancy M. Morris, Secretary, SEC 8 (Oct. 2, 2007).

³⁷ We believe "qualified" IASB investor candidates should, among other required skills, possess outstanding technical accounting expertise.



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**INTERNATIONAL CONVERGENCE
OF ACCOUNTING STANDARDS:
WHAT INVESTORS NEED TO KNOW***

Prepared by
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***This report was prepared by Professor Donna L. Street at the request of the Council of Institutional Investors ("Council"). The views and opinions expressed in this paper are solely those of the author and do not necessarily represent the views or opinions of the Staff, Board of Directors, or General Members of the Council.**

**INTERNATIONAL CONVERGENCE OF ACCOUNTING
STANDARDS:
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INTERNATIONAL CONVERGENCE OF ACCOUNTING STANDARDS: WHAT INVESTORS NEED TO KNOW

1. WHAT IS THE INTERNATIONAL CONVERGENCE OF ACCOUNTING STANDARDS?

While discussion and consideration has been centered around the admirable goal of ‘harmonizing’ accounting standards for decades, the process initially proceeded at a very slow pace and represented a challenging undertaking. More recently, however, the focus has shifted to ‘convergence,’ and in the last decade or so, tremendous progress has been made. Today’s goal is to converge, or minimize the differences between, the two sets of globally recognized accounting standards that co-exist in the world’s capital markets: U.S. GAAP and International Financial Reporting Standards (IFRS).

U.S. GAAP is developed primarily by the Financial Accounting Standards Board (FASB), while IFRS are issued by the London-based International Accounting Standards Board (IASB). The use of IFRS has become increasingly widespread throughout the world with about 100 countries now requiring or allowing the use of these standards. Additional countries are in the process of replacing their national standards with IFRS. For example, from 2005 onward, companies headquartered in the European Union (EU), with securities listed on an EU regulated market, are required to report their consolidated financial statements using ‘EU-endorsed’ IFRS. This requirement affects about 7,000 EU companies. Other countries including Australia and New Zealand (N.Z.), have adopted similar requirements mandating the use of IFRS, while countries including Canada and Israel plan to adopt IFRS as their national standards in the near future. Furthermore, major emerging and transition economies such as Brazil, China, India, and

Russia are adopting or considering IFRS, not U.S. GAAP, in an effort to become integrated in the world's capital markets and to attract the investment needed to finance development.

Recognizing the need to address not only domestic comparability, but also international comparability of financial information, the FASB updated its strategic plan in the 1990s. Working with the then International Accounting Standards Committee (IASC – the predecessor of the IASB) as well as national standard setters from Australia, Canada, N.Z., and the United Kingdom (U.K.), the FASB made notable progress in converging existing standards. For example, the FASB and Canadian Accounting Standards Board issued identical standards on segment reporting and accounting for business combinations, and the FASB and IASC issued similar standards on earnings per share.

Following the formation of the IASB, the IASB and FASB in 2002 issued a Memorandum of Understanding (MOU) formalizing the two accounting standard setting bodies' commitment to converging their standards. Then, in April 2005, the call for a single set of high quality globally accepted accounting standards intensified when the Securities Exchange Commission (SEC) issued its Roadmap for Convergence. The IASB and FASB responded to the Roadmap's challenge to enhance convergence by issuing an updated MOU in February 2006. The new MOU reiterated the Boards' commitment to converging their standards and was accompanied by a revised work program for 2006-2008 aimed at achieving this goal.

2. WHAT IS THE SEC CURRENTLY PROPOSING?

What is currently required for a non-domestic SEC registrant?

Under current SEC rules, foreign companies listed in the U.S. must comply with the information requirements set forth in Form 20-F by the SEC. Accordingly, the financial statements furnished by foreign private issuers disclose essentially equivalent information to statements complying with U.S. GAAP. This information may be presented in two ways. The foreign company may prepare either complete U.S. GAAP statements or statements based on its domestic GAAP or IFRS, but include a reconciliation of reported net income and shareholders' equity to U.S. GAAP.

In their '20-F reconciliation,' companies following the latter option, begin with national GAAP/IFRS net income (shareholders' equity) and then list each material difference with U.S. GAAP and indicate its numerical impact on income (equity). The reconciliation ends with total income (equity) according to U.S. GAAP. A verbal description of each material difference listed in the reconciliation is also provided to concisely explain how the national GAAP/IFRS utilized by the company differs from U.S. GAAP. Furthermore, the SEC requires foreign registrants filing under national GAAP or IFRS to provide certain U.S. GAAP disclosures.

A foreign private issuer must file its annual report, including financial statements reconciled to U.S. GAAP as appropriate, with the SEC six months after its year end. Alternatively, U.S. headquartered companies file with the SEC within 60 to 90 days following their year end.

What would the SEC proposal and concept release change?

The SEC Roadmap for Convergence details the steps that should occur before the elimination of the 20-F net income and shareholders' equity reconciliations for foreign issuers reporting under IFRS. One of the key steps noted is the evidence of sufficient progress in converging IFRS and U.S. GAAP. A SEC^a proposal and request for comment regarding elimination of the reconciliation for foreign registrants reporting under IFRS 'as issued by the IASB' followed in July 2007. Then, in August 2007, the Commission issued a concept release posing questions aimed at determining whether U.S. headquartered registrants should also be provided with the option to report under IFRS.^b

3. WHY IS CONVERGENCE IMPORTANT TO INVESTORS?

Among other things, the SEC Roadmap for Convergence highlights the importance of convergence. Converged standards would:

- enhance comparability and enable investors to compare 'apples to apples' as opposed to 'apples to oranges'
- reduce regulatory compliance costs without undermining investor protection or impairing market information and make it significantly less costly for non-domestic companies to access U.S. markets
- promote global financial market competitiveness while improving the information available to investors.

These and other dimensions of convergence are discussed in the following sections.

4. WHAT ARE THE MAIN REASONS THAT SOME PARTIES HAVE CITED AS TO WHY INVESTORS SHOULD SUPPORT THE ELIMINATION OF THE RECONCILIATION REQUIREMENT?

#1 Eliminating the reconciliation is key to maintaining the premier status of U.S. markets. Doing away with the reconciliation would remove unnecessary costs and remove a barrier for foreign issuers wishing to access U.S. markets.

About 1,150 of the 13,000 SEC registrants are foreign issuers. Combined with the costs associated with complying with the requirements of other regulations, including

Sarbanes-Oxley, some allege the 20-F reconciliation requirement makes a U.S. listing costly for foreigners and is viewed as onerous by them. Thus, the current U.S. regulatory environment has prompted some foreign companies to exit U.S. markets. Moreover, few new foreign listings are materializing as other sources of capital increasingly provide alternatives to the U.S. markets. With IFRS widely accepted throughout the world, the attitude of some has become: Why bother to reconcile IFRS with U.S. GAAP?

In response to this alleged crisis, a study commissioned by political leaders in New York suggests the city (NYC) may lose its status as the world financial center within ten years unless a major shift in regulation and policy occurs. *Sustaining New York's and the US' Global Financial Service Leadership*^c is based on analyses of market conditions in the U.S. and abroad and draws from interviews with more than 50 leaders representing the financial services industry, consumer groups, and other stakeholders. The findings indicate that NYC financial markets are becoming stifled by stringent regulations and high litigation risks. Among the high-priority goals set forth in the report as a 'national agenda' is the recognition of IFRS without reconciliation for foreign SEC registrants and the promotion of global convergence of accounting (and auditing) standards.

At a Roadmap Roundtable hosted by the SEC on March 6, 2007, some observers noted that the companies, investors, rating agencies, accounting firms, and others spoke 'in one voice' encouraging the SEC to eliminate the reconciliation to U.S. GAAP provision as soon as possible.^d Roundtable participants indicated that the main benefit of this elimination would be a significant reduction of costs for some companies. They believe the reconciliation imposes costs in terms of ease, timing, and ability of foreign

private issuers to come to the U.S. markets. During the Roundtable, the CFO of AXA indicated preparing the annual 20-F reconciliation for his company cost approximately \$25 million.

The NYC report reiterates that doing away with the reconciliation without delay would eliminate unnecessary costs and remove a barrier for foreign issuers. This action, it is alleged, would clearly communicate to the global financial services community that the U.S. respects and honors approaches developed outside its borders. Eliminating the reconciliation in conjunction with accelerating convergence of accounting (and auditing) standards would unleash the potential to improve U.S. markets and facilitate access to them by non-domestic companies using IFRS. The NYC report's authors also indicate that following the report's recommendation of eliminating the reconciliation without delay would yield substantial benefits with few discernable offsetting costs.

Furthermore, accelerating the convergence of two sets of high quality accounting standards will make it significantly less costly for non-domestic companies to access U.S. markets, and, in so doing, improve the international competitiveness of the U.S. as a financial center. Finally, the NYC report's authors believe that the ensuing reduction in regulatory compliance costs can be achieved without undermining investor protection or market information.

#2 IFRS are robust, 'principles-based' standards suitable for the U.S. market and are preferred by some investors over U.S. GAAP.

According to the NYC report, interviews conducted with business leaders reveal the need to accelerate convergence as well as the need to remove the unintended consequences of the 'rules-based' approach of U.S. GAAP, which can produce financial

reporting that differs from economic reality. Surveyed business executives believe the need to reconcile to the ‘principles-based’ IFRS, which is accepted by almost every other major country other than the U.S., is unnecessary given the quality of IFRS and its widespread adoption.

Some members of the Roadmap Roundtable investors’ panel indicated they were not really using the reconciliation and to some extent preferred IFRS to U.S. GAAP. Some stated that they had essentially already moved to analytic models that do not incorporate the reconciliation. For many industries and peer groups, IFRS is the most common accounting standard, so to understand that industry or sector, analysts must know IFRS. Indeed, institutional investors sometimes ‘reconcile’ U.S. GAAP to IFRS to facilitate comparisons and make investment decisions. According to Dzinkowski, of the 165 foreign companies rated by Moody's, only 13 have analysts within the U.S while the others are covered by foreign analysts, who neither need nor want reconciliation.^e Many interested parties rely on foreign comparables, information that is not provided by U.S. GAAP.

#3 Removal of the reconciliation should not result in the loss of any investor or market protections afforded by underwriters, securities counsel, or auditors.

Some Roadmap Roundtable participants do not expect removal of the reconciliation to impact investors or change the way securities are priced. As noted above, for due diligence, credit rating and other purposes, most capital market players are comfortable relying on IFRS alone when engaging in transactions with foreign private issuers. Thus, Roundtable participants believe that the removal of the reconciliation should not result in the loss of any investor or market protections afforded to them by

underwriters, securities counsel (and other similarly situated parties) or auditors. While the reconciliation may keep foreign issuers out of U.S. markets, some allege it is not facilitating the offering work done by other participants in the capital raising process.

#4 Reconciliation delays the release of information to U.S. investors.

A Roadmap Roundtable panel representing the investor community indicated that the timeliness of information is critical. Thus, to the extent that the reconciliation slows the availability of information to U.S. investors, it operates counter to their interests. Presently, foreign private issuers are not required to file Form 20-F with the SEC until six months after their fiscal year end. Filing deadlines for U.S. issuers, alternatively, range from 60 to 90 days. Since reconciling can be a time-consuming endeavor, the requirement to provide the reconciliation is frequently held out as one of the justifications for the extra filing time allowed foreign private issuers. In their quest for timely information, some Roundtable participants indicated that large institutional investors and analysts, and perhaps credit rating agencies, turn to foreign private issuer's home markets.

#5 With the reconciliation in place, U.S. investors may be missing out on important investment opportunities.

A critical concern by some at the Roadmap Roundtable was that the reconciliation is keeping foreign private issuers from bringing transactions to the U.S. markets. As a result, U.S. investors are denied possibilities they might otherwise have to invest in foreign capital. Thus, the reconciliation may be detrimental to not only foreign private issuers, who cannot tap the liquidity and depth of the U.S. markets, but also for U.S. investors, as they have fewer options in terms of the investment decisions they might

select. Ultimately, the results of the reconciliation may make the U.S. markets disadvantaged as well.

This arguably holds true not only for institutional investors but also for some retail investors who are highly interested in securities of foreign companies that are not available in the U.S. markets. If these retail investors choose to go overseas to attain more investment opportunities, they do so without the coverage of the U.S. federal securities laws. Thus, the reconciliation may be imposing an indirect cost that appears difficult to justify.

5. WHAT ARE THE MAIN REASONS THAT SOME PARTIES HAVE CITED AS TO WHY INVESTORS SHOULD BE CONCERNED ABOUT THE ELIMINATION OF THE RECONCILIATION REQUIREMENT?

#1 Significant differences between IFRS and U.S. GAAP remain. IFRS and U.S. GAAP are not comparable.

In a recent interview, IASB Chair Tweedie^f predicts that by ‘2011–12, U.S. and international accounting should be pretty much the same - with 150 countries using IFRS and several others using U.S. GAAP. That adds up to about 170 countries accounting in much the same way.’ However, despite Tweedie’s optimism, research indicates the convergence of U.S. GAAP and IFRS is at an early stage.

A few studies have examined the materiality of differences between International Accounting Standards (IAS)/IFRS and U.S. GAAP as reflected in 20-F reconciliation adjustments, but findings from the initial studies should be viewed cautiously as IAS/IFRS numbers have historically not been widely reported in terms of, and thus reconciled to, U.S. GAAP. Street, Nichols, and Gray^g and Blanco and Osma^h examined the net income 20-F reconciliations of a small number of companies using IAS to access

