

# Morgan Stanley

November 12, 2007

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

By e-mail to: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

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

Dear Ms. Morris

Morgan Stanley appreciates the opportunity to provide comments in response to the above-referenced concept release. We support the SEC's proposal to allow U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB. We are a strong supporter of convergence to a single set of high quality accounting standards, and believe that the SEC's concept release is a significant milestone toward achieving this goal.

We consider it critical to the global nature of financial markets that there be a single set of high quality accounting standards. Morgan Stanley believes that the IASB has a robust process in place to develop high quality globally accepted accounting standards. In light of the fact that currently almost 100 countries allow the use of IFRS for preparing financial statements, and many others are in the process of replacing their national standards with IFRS, it is crucial that the SEC continue to support the IASB and the FASB in their convergence efforts and encourage the development of high quality international accounting standards. We believe that providing domestic filers the option to prepare financial statements in accordance with IFRS would result in further incentive for convergence between U.S. GAAP and IFRS over the long-term.

## **Benefits of Convergence**

The trend of investors seeking to invest in companies registered outside their countries highlights the need to have a common set of globally accepted and understood accounting standards. A common set of high quality standards will result in comparable financial statements being published across different countries and will make financial results of companies across the globe more transparent and reliable. It is our firm belief that one set of standards will enhance investor understanding and confidence in companies' financial statements. The result will be greater ease in flow of capital and access to new and wider investor markets.

Although in our view the ultimate goal should be convergence to a single set of high quality IFRS, we note that goal cannot be achieved until the following challenges have been adequately addressed.

### **Challenges to Convergence**

We believe the potential for jurisdictional interpretations of IFRS to be the greatest challenge to convergence to one set of high quality accounting standards. While a large number of countries require the use of IFRS, many of these jurisdictions have endorsed their own local variation of the standards. This practice detracts from the ultimate goal of developing one set of high quality accounting standards. We believe that the option to allow U.S. filers to prepare financial statements in accordance with IFRS as published by the IASB will encourage acceptance of these standards by other countries.

In addition, we strongly encourage the SEC to refrain from unilaterally interpreting IFRS, as this will result in a U.S. specific version of IFRS. Interpretations of IFRS are developed by the International Financial Reporting Interpretations Committee (IFRIC), exposed for public comment, approved by IFRIC and sent to the IASB board for review and approval as final interpretations. We welcome the recent announcement that global regulators, including the SEC, will be coordinating efforts to promote the development of a framework that ultimately results in the consistent application of one set of high quality accounting standards and urge the SEC to continue to work closely with the International Organization of Securities Commissions (IOSCO) or directly with the IASB and IFRIC to address interpretations of IFRS.

Additionally, judgment is needed in applying objectives- or principles-oriented standards. As IFRS continues to move toward a more principles-based approach, this will likely give rise to interpretive differences between entities when interpreting standards. For domestic companies to be confident in adopting IFRS, they will need to be comfortable that they will not be penalized for applying reasoned judgment in the application of the underlying principles in a standard until a consistent industry best practice develops. We believe this will require evolution in the regulatory environment.

We note that other key regulators (banking, insurance, taxation, etc) would need to accept IFRS in order to avoid a multi-GAAP environment that will dilute the benefits of having a single set of accounting standards. We believe the SEC could facilitate this process by communicating with and generating support amongst other key regulators in the U.S. for the use of IFRS.

Although we are encouraged by the IASB's and FASB's commitment to convergence pursuant to the Norwalk Agreement and the Memorandum of Understanding, in our opinion, there remain significant differences between the two sets of standards that must be addressed. Convergence needs to be a high priority for both the IASB and FASB. The two Boards should discontinue issuing new independent guidance, such as the FASB's recent activity in the convertible debt instrument arena and the IASB's decision to delay

the fair value measurement project, which could delay future convergence efforts. Each Board's agenda should be specifically tailored toward projects supporting convergence efforts.

We are encouraged by the recent announcement addressing some of the IASC Foundation funding concerns that have been raised historically. We support the funding approach laid out by the IASC Foundation Trustees for a sustainable broad-based funding system that would enable the IASC Foundation to remain an independent, private sector organization with the necessary resources to conduct its work in a timely fashion.

### **Conclusion**

We support the SEC's concept release to allow domestic issuers to file financial statements in accordance with IFRS as published by the IASB. We believe this is a step in the right direction towards the ultimate goal of convergence to one set of globally accepted high quality accounting standards.

We appreciate the opportunity to express our views on the concept release. If you have questions regarding our comments, please contact me at 212-276-4364.

Sincerely,

A handwritten signature in black ink, appearing to read "mills", written in a cursive style.

Esther Mills, Managing Director  
Global Accounting Standards and Control