

August 29, 2011

The Honorable Mary L. Schapiro, Chairman  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: SEC Staff Paper – *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers - Exploring a Possible Method of Incorporation* (File No. 4-600)**

Dear Chairman Schapiro:

Capital Research and Management Company (CRMC) appreciates the opportunity to comment on the Securities and Exchange Commission (SEC) Staff Paper, *Exploring a Possible Method of Incorporation* (the “Staff Paper”) which was issued in connection with the SEC’s *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers* (the “Work Plan”).

CRMC serves as investment adviser to the American Funds, one of the oldest and largest mutual fund families in the world. Together with our affiliate Capital Group International, we manage over \$1 trillion in assets. Our investment process and philosophy are based on extensive, fundamental global company research; accordingly, we rely heavily on financial statements prepared by public companies worldwide.

Our comments may be summarized in the following two points:

1. We understand and accept that companies necessarily make assumptions in preparing financial statements. In order for us as investors to evaluate and compare companies, we need information regarding assumptions underlying the financial reporting. We believe GAAP is clearer, more effective and more advanced than International Financial Reporting Standards (IFRS) in providing that information.
2. We need to see a more rigorous and independent governance structure for the IASB prior to our support of IFRS. We are concerned that the IASB as it is currently configured will not provide better information underlying assumptions, and therefore will not produce comparable, comprehensive, relevant, representationally faithful financial reports.

We are pleased that the SEC is conducting a thorough review relating to the decision whether the U.S. should adopt IFRS. We applaud the SEC statements in its 2000 Concept Release and again in its 2010 Work Plan Progress Report that a “necessary element for a set of global accounting standards to meet [the agency’s mission] is that they must be high-quality.” We concur with the Commission’s descriptions of high quality standards as ones consisting of a “comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions.” The Commission also has expressed its belief that high quality accounting standards “must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied.”

While we support the idea of a consistent set of high quality accounting standards for companies worldwide, unfortunately we do not believe IASB has been effective in achieving this objective. Moreover, IASB’s ability to achieve this objective has been gravely diminished by political influence.

We are active managers and our ability to do fundamental research is critical for providing superior returns to our investors. It is high quality relevant data that gives us the ability to make informed investment decisions. In our research, we have observed that companies use different depreciable lives, different accounting methodologies for inventory, different assumptions for pension accounting and financial institutions have significant differences in how they have provided for losses on loans among other accounting judgments and estimates. As a result, today under IFRS or U.S. GAAP, our analysts perform fundamental analysis on their own to be able to compare companies on apples-to-apples bases.

Our experience is that it is far more critical to have high quality data in financial statements so analysts may put companies in global industries on comparable bases, than it is to have so-called comparable accounting principles worldwide. We find that the quality of the data provided by companies under IFRS is deficient today (due to the presence of accounting choices, inadequate disclosures and presentation of financial statements) and we recognize its application has a short track record. **It is a misconception to expect greater comparability to result from putting companies on IFRS.**

Importantly, the SEC provided an insightful set of issues in its 2010 Progress Report which we believe need to be addressed from the investor perspective in order for the Commission to make a sound decision on whether and when IFRS is ready for U.S. adoption and IASB is ready to be the standard setter for the U.S. **At a minimum, we urge the SEC to make no decision on whether and when the U.S. may incorporate IFRS before the SEC resolves each of the key issues described in the 2010 Progress Report.** Specifically, we emphasize the following issues raised in the report:

- a. Evaluate whether IFRS is sufficiently developed and applied to be the single set of globally accepted accounting standards for U.S. issuers: the comprehensiveness of IFRS; the auditability and enforceability of IFRS; and the comparability of IFRS financial statements within and across jurisdictions.
- b. Determine whether the IASB is sufficiently independent for IFRS to be the single set of high-quality globally accepted accounting standards for U.S. issuers: Oversight of the IFRS Foundation; Composition of the IFRS Foundation and the IASB; Funding of the IFRS Foundation; and IASB standard-setting process (i.e., (1) consideration of the extent to which the IASB promotes the pre-eminence of investor views, (2) an assessment of the IASB's ability to resolve emerging issues in a timely and effective manner without compromising due process, and (3) an assessment of the adequacy of the IASB's independence and objectivity during recent standard-setting efforts).

We would like to make the following four recommendations to the SEC with regards to accounting standard setting for U.S.-listed companies:

1. The SEC should **retain U.S. GAAP and include in the FASB's standard-setting process the evaluation of accounting standards issued by accounting authorities around the world** so as to adopt the best accounting guidance possible. If all countries do such a post-implementation process, we believe it will result in the reasonable degree of comparability and quality that we may realistically expect can happen around the world over time.
2. The SEC should **stop the current convergence process and require a reconciliation of accounts under IFRS to U.S. GAAP in SEC filings**. Convergence is not working. The process is not achieving its objective and it is consuming and diverting significant valuable resources. Having a reconciliation would enable investors to quantifiably assess differences in accounting standards and their applications.

Some believe that moving to IFRS with regional differences may be more useful than retaining national standards. However, we cannot support this approach without substantially greater evidence and confidence that the IASB can promulgate accounting standards that produce comparable, comprehensive, relevant, representationally faithful financial reports.

3. **We urge the SEC to request significantly more investor seats at the table in accounting-standard setting at all levels.** We strongly encourage that investor users of financial statements comprise at least a majority of FASB and IASB members, one third of Financial Accounting Foundation (FAF) and IFRS Foundation members, and one third of the EITF and IFRIC members. The IASB, and at times the FASB, has failed to put out a high-quality product for their customer: investors. We believe this failing is directly the result of investors having a weak voice in the voting process.

4. **Optionality in accounting should be minimized if not eliminated.** Accounting choices, whether in terms of how to apply an accounting standard or which body of accounting standards to be applied, are not investor friendly as they impair comparability.

*Prior to making any assessment of whether, when and how U.S.-listed companies may report under IFRS, there are a number of problems that must be fixed:*

1. We expect the SEC to provide investors with **ongoing status updates on achieving criteria of the SEC's 2010 Work Plan Progress Report**, and to disclose whether and how key issues were resolved before any adoption decision is made. Investors deserve transparency regarding the Commission's resolution of important issues it might encounter before considering a decision of such magnitude.
2. **The SEC should not consider adopting IFRS until the SEC is assured of IASB's independence including its funding.** Until an independent funding source for the IASB is established that ensures the IASB is free from pressures to adopt standards that provide lower quality financial information and undermine investor interests, the SEC should not permit any further adoption of IFRS by companies listing on U.S. exchanges and trading in the U.S. The SEC should monitor going forward whether and how the IFRS Foundation shields the IASB from political pressure in order to ensure the board's independence. To this end, we asked a number of governance questions in our letter to IASB dated July 2, 2008, which we believe remain relevant questions to consider.
3. The SEC should not switch to IFRS until IASB's due process includes more **deliberation and debate that explicitly elicits the perspectives of each member who states his or her support or opposition for staff positions and why.** This improvement to IASB's due process would bring transparency to quality improvements or shortfalls in each standard issued.

*If the SEC decides it is appropriate for the US to allow IFRS, then going forward the SEC should:*

1. **Clarify that it will not acquiesce to foreign regulators when it comes to protecting investors and ensuring the standards are properly followed.** The SEC must be proactive on behalf of investors when it comes to ensuring proper interpretation and implementation of GAAP when IFRS is permitted.
2. **Review each IASB standard issued in order to determine whether it has met investor needs** or requires changes or enhancements, within a reasonable period of time of a standard's issuance, and issue a report to investors on its reviews.
3. **Monitor whether the IFRS Foundation sufficiently oversees the IASB's outreach** and that IFRS Foundation, when appropriate, conducts its own outreach



to investor users of financial statements to evaluate the quality and effectiveness of accounting standards within five years of the issuance of each new standard.

We would like to make a few comments about the *condorsement approach* under consideration by the SEC:

1. **We do not support the condorsement approach.** History has shown us that condorsement weakens the IASB and results in lower quality standards. Condorsement is the approach that the European Union has taken; the EU set up their European Financial Reporting Advisory Group (EFRAG) committee which has resulted in carve-outs from IFRS, a great deal of political meddling in setting accounting standards, and confusion for investors using the financial statements.
2. Under the condorsement approach, **we fear that the FASB would suffer and deteriorate over time to the detriment of investors. FASB would lose the prominence that it currently has and it would be difficult for it to recruit high-caliber people.** FASB would lack the power to ensure that the accounting standards are of the highest quality in the U.S. and are highly relevant so as to address current issues on a timely basis. Today, the FASB has the final say over our accounting standards and is held accountable by the SEC.
3. **The proposed condorsement approach relies on IASB, however U.S. representatives and investors are in the minority on IASB and the board lacks direct accountability to the SEC.** These deficiencies greatly weaken the ability of the U.S. to protect investors and ensure they receive the information they need to make sound investment decisions. It is crucial for the U.S. to have this accountability given that it has the largest capital markets and their influence on the domestic economy is even more consequential than in many other countries.

Please feel free to contact me or Elizabeth Mooney at (415) 646-7620 if you would like to discuss with us this important issue or any accounting policy issues.

We appreciate your consideration of our views.

Sincerely,



Paul G. Haaga Jr.

cc: Leslie F. Seidman, Chairman, Financial Accounting Standards Board  
Hans Hoogervorst, Chairman, International Accounting Standards Board  
Ian Mackintosh, Vice Chairman, International Accounting Standards Board