



The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
chairmanoffice@sec.gov

July 25, 2007

Dear Chairman Cox,

As co-Chairmen of the Transatlantic Business Dialogue (TABD) and on behalf of its members, we would like to congratulate you and your fellow Commissioners on your proposal to eliminate the requirement that foreign private issuers presenting financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB), reconcile them to US generally accepted accounting principles (US GAAP). This has long been a TABD priority and is a key step along the path of the roadmap agreed by FASB and the IASB set for the convergence of US standards and IFRS.

Stimulating open and competitive financial markets is one of the TABD's central concerns, and we strongly support the creation of a seamless transatlantic capital market. While there is still much to do to achieve this, initiating steps such as the proposal to eliminate foreign private issuer reconciliation will create momentum to tackle other items on the roadmap to convergence of US standards and IFRS. We believe this early agreement by the SEC will benefit transatlantic companies, the investing public and the competitiveness of both US and EU markets.

We enclose chapter IV "*Moving Towards a Transatlantic Financial Market*" from the TABD 2007 recommendations to the US- EU summit for reference.

Yours sincerely,

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CEO Global Banking, Citigroup
On behalf of
Charles Prince
TABD US co-Chairman
Chairman and CEO, Citigroup

Martin Broughton
TABD EU co-Chairman
Chairman, British Airways

Extract from *Establishing the Barrier-Free Transatlantic Market: Recommendations to the 2007 US -EU Summit Leaders*, TABD, March 2007

IV. Moving Towards a Transatlantic Financial Market

Following the EU Presidency's initiative for a New Transatlantic Economic Partnership, economic integration between the U.S. and the EU has gained important political momentum. TABD strongly welcomes this initiative and underscores that open and competitive financial markets remain a priority for the TransAtlantic Business Dialogue in 2007. TABD supports the creation of a transatlantic capital market, and is pleased by the increasing support that further integration of the transatlantic capital markets has gained from the Summit Leaders as well as the progress that has been made in practice. Both the U.S. and EU recognize the importance of increasing the integration and efficiency of their respective capital markets and making the transatlantic financial markets operate seamlessly.

TABD is pleased with the closer regulatory cooperation between the U.S. and the EU as a result of the Financial Markets Regulatory Dialogue (FMRD). The FMRD has been an efficient and effective way of addressing transatlantic capital market issues. Equally, the pursuit of the roadmap for convergence of IFRS and U.S. GAAP rules and the recently announced agreement on auditing standards have been exemplary approaches which may be considered as a blueprint for the resolution of other regulatory issues. TABD supports the continuing work of the FMRD. However, the TABD feels that further progress could be enhanced if priority areas of concern are addressed by both governments. In this chapter, the TABD identifies broad principals and highlights a number of key policy areas to assist the FMRD in creating a truly transatlantic capital marketplace.

A. Principles of Transatlantic Financial Market Regulation

In the past, convergence of U.S. and EU financial market regulation has mostly been established on a case-by-case, issue-by-issue, and ad hoc basis. In order to lay the foundations for an increasingly integrated transatlantic capital market, regulatory activity in the U.S. and the EU should in future be guided by clear principles. These principles should include:

1. **Convergence Agenda:** An agenda, much like the accounting roadmap that has been highly successful in pushing the convergence of U.S. GAAP and IFRS, should be created between the U.S. and the EU to identify and to facilitate transatlantic securities regulatory convergence in both the short-term and the long-term. This agenda should identify priorities and establish milestones in order to assure that the limited resources on both sides of the Atlantic are optimally allocated and that goals are achieved in a timely manner. TABD is available to offer its resources to assist in the creation of this convergence agenda.
2. **Regulatory Equivalence:** Focus should be on acknowledging regulatory equivalence in relevant areas of regulation as opposed to full harmonization. Although a closer

alignment of laws and regulations should be considered an improvement and a useful step to recognizing the equivalence of regulation, harmonized rules alone are still duplicative and differences inevitably arise in interpretation, application and enforcement, which create unnecessary barriers to the transatlantic marketplace.

3. **Global Standards:** The U.S. and the EU should aim at establishing global standards in areas where regulation is not equivalent in order to avoid differing standards being imposed on global market participants. In addition, efforts should be made to harmonize similar concepts and terms that exist in both jurisdictions, where no discernable benefits result from the differences.
4. **Free Market Access:** Free access is essential for promoting efficient markets. Free market access and the free movement of capital and investments should be a guiding principle for all regulatory initiatives.
5. **Extraterritorial Effects:** Regulations with extraterritorial effects hamper the efficiency of financial markets and should therefore be avoided.
6. **Excessive Regulation:** Efforts should be made to avoid unnecessary regulation on both sides of the Atlantic and careful consideration should be given to the cost-benefit trade-off implicit in all regulation.
7. **Transatlantic Regulatory Dialogue and Industry Consultation:** The U.S. and EU should maintain and intensify the Financial Markets Regulatory Dialogue at all levels of policy making, based on continued close consultation with market participants.

B. Raising Confidence in Financial Reporting

IFRS provides common standards for over 90 countries, including the 27 EU Member States, but it is not the standard in the United States or Japan. The U.S. FASB and the IASB are working towards convergence of U.S. standards with IFRS by the agreement of a roadmap in early 2005. Convergence will bring significant benefits in terms of transparency and confidence in capital markets as well as lower financial reporting and auditing costs, which are important steps towards the eventual goal of a barrier-free transatlantic market.

TABD welcomes the shared objective and the U.S. SEC's commitment to remove the U.S. GAAP reconciliation requirement for EU issuers in the U.S. as early as 2008, but no later than 2009. We also welcome the Commission's renewed efforts to consider U.S. GAAP as an equivalent standard until 2009. Convergence must be a two - way street and not undermine stabilizing the European IFRS platform. We recommend the following:

1. **Adoption by 2007 of Key Accounting Standards:** The U.S. and EU should promote adoption and transposition into national law of key accounting standards by 2007 upon which there is widespread agreement and where convergence can be easily achieved between the IASB and FASB¹ and identify as soon as possible the areas of international accounting where differences between the US and international standards

¹ These should not only concentrate on convergence arrangements but also address the backlog of existing standards and develop new standards, building on the current IASB/FASB collective approach to business combinations, revenue recognition and comprehensive income.

cannot be narrowed in the short-term. The TABD urges that the roadmap work program follow a clear timetable to resolve outstanding issues and allow IFRS to fully bed-down.

2. **Establish a Transition Period:** During the transition period, the U.S. and EU must move towards convergence in accordance with the roadmap and address the need for equivalence, including appropriate arrangements to eliminate any requirements for reconciliation on foreign registrants who file on the basis of IFRS in the U.S., or U.S. GAAP in the EU by 2008 and definitely no later than 2009.
3. **Establish Appropriate Collaborative Arrangements:** The U.S. and EU should consider the establishment of appropriate collaborative arrangements between national auditor oversight bodies. This should be done within the framework of the International Forum of Independent Audit Regulators (IFIAR) and as a development of the emerging parallel work between the U.S. via the SEC and PCAOB, and the EU via the EGAOB, around the principle of home country registration and oversight as part of the U.S. - EU roadmap for regulatory cooperation and the Financial Markets Regulatory Dialogue. We welcome the March 6, 2007 announcement by the U.S. and EU to launch roadmap discussions in this area.

TABD also welcomes the joint work plan on financial reporting published by CESR and the SEC in August 2006, guiding the CESR-SEC Dialogue and focusing on the application by internationally active companies of U.S. GAAP and IFRS in the U.S. and EU. With high quality accounting standards, consistent application of IFRS globally, full consideration of international counterparts' positions regarding application and enforcement and avoidance of conflicting regulatory decisions on the application of IFRS and U.S. GAAP, CESR and the SEC pursue important principles. The announced closer dialogue on the modernization of financial reporting, disclosure, information technology and regulatory platforms for risk management may prove an important instrument in keeping the reporting framework up-to-date with market developments.

C. Resolving Frictions Between the U.S. and EU Financial Markets

The size of the U.S. and EU capital markets as well as the volume of capital flows between the two sides is unparalleled. However, there remain issues where further progress is still required to allow the full potential of an integrated transatlantic capital market to unfold:

1. **Competition Policy:** One of TABD's primary concerns is the potential threat of protectionist policies in both the U.S. and EU. We urge continued vigilance against any policies that promote national champions or use the cloak of patriotism or national security to prevent overseas investment. TABD urges both U.S and EU authorities to remove any artificial national or state constraints on mergers or acquisitions while retaining robust competition policy to guard against the abuse of dominant market positions. The governments should also work together with business to remove barriers to cross-border banking mergers and acquisitions both within the EU and across the Atlantic.

2. **Securities Offering:** Efficient access to the capital markets on each side of the Atlantic requires that securities offering and listing rules in the U.S. and the EU be treated as equivalent. This would go a long way towards enabling issuers to exploit the benefits stemming from access to the two most liquid capital markets. The EU has made significant steps in the creation of a pan-European capital market. The U.S. and the EU should now work together to recognize the sufficiency of home country regulation in this area and open their respective markets to offerings from issuers across the Atlantic.
3. **Deregistration Rules:** Companies on both sides should have the option of an efficient market exit that safeguards investors' interests while avoiding unnecessary costs and burdens to issuers. TABD welcomes the new SEC rules announced in December 2006, following discussions with the European Commission and business. With its departure from deregistration thresholds based primarily on the number of U.S. holders of securities issued, and its commitment to thresholds based solely on trading volumes, represent an important improvement. TABD urges implementation of these new rules in 2007.
4. **Securities Trading:** The U.S. and EU should take significant steps to improve access of their investors to each other's markets by addressing the inefficiencies in regulation of securities intermediaries. The SEC has not revisited the standards in more than 17 years and much has changed in the capital markets during that time. The cumbersome requirements of Rule 15a-6 are duplicative and costly, and unnecessarily delay timely execution. The CFTC's "Part 30 Rules," which exempt a non-U.S. intermediary from certain CFTC requirements including registration when a comparable regulatory system exists in the intermediary's home country and certain safeguards are in place to protect U.S. investors, should be used as a model.

Similarly, U.S. and EU securities should be traded freely on exchanges across the Atlantic. Currently, purchases of EU shares by U.S. investors must be transacted via multiple intermediaries as a result of regulatory hurdles to the cross-border operation of trading platforms. This lowers efficiency of the market and the allocation of capital and raising costs to both investors and issuers. Investors and issuers on both sides of the Atlantic could benefit greatly if trading platforms were granted mutual access. To that end, U.S. and EU exchanges should be allowed to expand direct access to their electronic trading platforms to these market participants on both sides of the Atlantic. The U.S. and the EU should allow financial institutions, in their appropriate jurisdiction, direct access to securities markets that are regulated by authorities in the other without imposing a registration requirement on such markets. Recent indications by the SEC to consider granting full direct access to EU trading platforms are an important signal to that end.

5. **Stock Exchanges:** The recent initiatives for consolidation of stock exchanges across the Atlantic, between NASDAQ and the LSE and between NYSE and Euronext, underline the difficulties associated with the divergence of listing and reporting rules in the U.S. and the EU. In both cases, and despite commitments on the U.S. side to maintain EU regulatory standards, the question as to the applicability of listing and reporting rules in a combined U.S. - EU stock exchange remains unresolved. The announcement by the British government to introduce legislation aimed at preserving the responsibility of national regulatory rules and supervisory authorities for the LSE have underlined the

urgency of the issue. The current situation requires clarification of the existing rules on both sides of the Atlantic, and underlines the necessity to strive for recognition of regulatory equivalence of existing rules and greater convergence in future regulatory activities.

6. **Banking Regulation:** The situation in the U.S. poses substantial questions as to the future implementation of Basel II as a global standard. Without doubt, the extraterritorial effects of potential delays in implementation in the U.S, or an outright failure to adopt the accord as initially envisaged, would be substantial. Implementation of Basel II should minimize differing standards so as not to create additional regulatory burdens eliminating the benefits of a global harmonized standard. TABD strongly recommends that the responsible parties take all necessary steps to ensure that a global regime is installed and competitive distortions be avoided.
7. **Hedge Funds:** Hedge funds, which have largely been excluded from the scope of legislative action in the EU White Paper on the future of financial services, have attracted increasing public interest. In the U.S as well, authorities have stepped up scrutiny of hedge funds, e.g. by examining the links between such funds and broker-dealers. Given the international nature of the business, hedge fund regulation, if considered necessary at all, should continue to be discussed at the international level, based on a dialogue between governments to ensure enhanced transparency and a common and balanced approach where any regulation is proportionate and not used for national protectionism.
8. **Insurance and Reinsurance Market:** Insurance and reinsurance should be open on both sides of the Atlantic to ensure a dynamic market. In order to ensure a level playing field, TABD supports proper examination of the appropriateness of a system for international reinsurance markets based on mutual recognition and recommends stepping up efforts in regulatory dialogue between the European Commission/CEIOPS and NAIC/NCOIL/US Treasury to find a solution to the collateral issue based on mutual understanding and co-operation. The U.S. and EU should collaborate closely in on-going discussions regarding solvency standards in a number of different international fora including the International Association of Insurance Supervisors (IAIS).
9. **Cross-Border Enforcement Actions:** As the capital markets on both sides of the Atlantic continue to become linked and market participants operate on a global basis, enforcement actions increasingly involve activities that implicate multiple jurisdictions. In cross-border enforcement actions, it is important that there be more cooperation and coordination among regulators of various jurisdictions. Multiple uncoordinated investigations into the same underlying activities are duplicative and expensive, and also increase the likelihood of regulators reaching different results based on different levels of information. TABD strongly urges the U.S. and EU to work together to create a mechanism that would provide for the establishment of a lead regulator in cross-border enforcement actions. The lead regulator approach would have one regulator, with the largest vested interest or strongest jurisdictional links, take the lead in the investigating

the activity in question and in determining the facts. As a first step, the EU should develop a mechanism for coordinating enforcement actions within its member states.

- 10. Combating Money-Laundering and Fraud:** The anti-money laundering provisions set forth in the USA PATRIOT Act and those contained in the Third EU Anti-Money Laundering Directive share common goals. TABD recommends that regulatory and law enforcement officials harmonize their anti-money laundering and counter-terrorist financing initiatives to the greatest extent possible, carefully crafted so not to unnecessarily impede the development of economically efficient financial products and services. These efforts should be consistent with the international standard on anti-money laundering and counter-terrorist financing set by the Financial Action Task Force. Measures should not act as an obstacle to legitimate Transatlantic financial flows, which especially impact small companies. Harmonization and focus would improve the clarity of necessary regulations, provide a common approach to interpretation, reduce compliance burdens and improve the prospect of needed regulations achieving their security objectives. Extraterritorial and unilateral measures however, should be phased out.

D. Promoting Good Governance

TABD strongly supports the highest standards of corporate governance to maintain and promote confidence in our capital markets and in the long-term sustainability of companies. TABD supports a common global approach to corporate governance that appreciates the costs of uneven or divergent policies. This approach should be based on core principles of accountability, ethics, transparency and management of conflicts of interest, rather than one based on over-prescription and inflexible rules that can lead to a narrow compliant mentality. Collaboration between the U.S. and EU on this issue could set the tone and should take into account the recent comments by U.S. Treasury Secretary Paulson, the Interim Report on the Committee on Capital Markets Regulation, the EU Winter report and the revised OECD and IOSCO corporate governance principles. We therefore call for more transatlantic dialogue between relevant U.S. and EU bodies with involvement from the corporate investment community in order to identify best practices on both sides of the Atlantic. These discussions should also address ways to strengthen shareholder rights and improve the shareholder voting process. We reiterate and refer to the TABD's recommendations on Promoting Good Governance made in 2005 and 2006 for detailed input into these discussions.