



## U.S. Securities and Exchange Commission

### Statement by SEC Staff: A Securities Regulator Looks at Convergence

by

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#### I. Introduction

For many years there has been a dedicated group of practitioners, standard setters, business leaders and others from around the world who have worked to establish a single set of globally accepted accounting standards for the benefit of the capital markets. These people clearly had their hearts in the right place but, absent a binding mandate to apply the standards, it seemed largely a labor of love. Now I expect those pioneering initiatives and the many years of effort to pay off because in 2005 a large number of companies are joining what up to now has been a limited cadre who prepare their financial statements using International Financial Reporting Standards (IFRSs).<sup>1</sup> It is fortuitous that this comes at a time when the focus of capital market participants globally and domestically is on the need for high quality and consistently applied financial reporting. Thus, this expanded use of IFRSs provides a unique opportunity to provide investors and creditors around the world with the quality and consistency of financial reporting that they need, and should rightly expect.

The primary driver behind the significantly expanded use of IFRSs is a decision made by the European Parliament and the Council of the European Union that all listed European Union companies (including banks and insurance companies) must prepare their consolidated financial statements in accordance with IFRSs, generally from 2005 onward.<sup>2</sup> That was a bold and

critically important decision. The amount of work involved to make this happen has been daunting. I strongly commend the European Union and the International Accounting Standards Board (IASB)<sup>3</sup>, as well as the many others involved, for making possible this significant transition toward a single set of globally accepted accounting standards.

In the U.S. capital markets many, like me, are anxious to capitalize on the benefits of having a widely used set of accounting standards accepted and in place. I am excited about this opportunity, but I also want to make sure we get it right. IFRSs will be with us for a long time, making it all the more important that we start out on the right foot. Convergence of IFRSs and U.S. Generally Accepted Accounting Principles (U.S. GAAP) is an enabler that will allow the United States and other capital markets to capitalize on the benefits of a single set of globally accepted accounting standards because convergence bilaterally reduces differences between IFRSs and U.S. GAAP, while at the same time taking both to the highest quality level. I look forward to 2006 when a critical mass of non-U.S. companies who file with the SEC (foreign private issuers) will begin filing financial statements prepared using IFRSs with the U.S. Securities and Exchange Commission (SEC or the Commission) and I can actually start to see convergence in action.

In the pages that follow I explain why I believe the movement towards use of a single set of globally accepted accounting standards is good for the global capital markets, and for investors and creditors (collectively, investors). I also discuss what I believe this movement means for the U.S. capital markets and, in response to a question I am frequently asked, I attempt to set out a possible roadmap to elimination of the SEC's requirement that foreign private issuers reconcile financial statements prepared under IFRSs to U.S. GAAP. Further, I describe factors that I believe can contribute to successful implementation and to increasingly widespread acceptance and use of IFRSs, or which, if not addressed, could impede progress. Lastly, I express my view that to maximize the benefits from a common set of accounting standards—IFRSs—the many involved parties need to work together on interpretive matters that arise in applying it.

Before getting into the details, I believe it only fair to express my personal beliefs regarding a single set of globally accepted accounting standards. My views should become fairly obvious in the pages which follow but, to be absolutely clear, let me state that I firmly believe the widespread use of a single set of high quality accounting standards, applied globally and consistently, will greatly benefit investors. I therefore staunchly support the efforts of those who contribute to the expanding development and use of these standards. Now, let me discuss the specifics.

## **II. The Case for a Single Set of Globally Accepted Accounting Standards**

The generations of accountants who worked to develop a set of accounting standards that could be globally accepted not only had their hearts in the right place, but their minds as well. There is an intuitive logic that supports the notion that capital markets benefit from using common accounting

standards.

Key forces favoring a single set of globally accepted accounting standards are the continued strong expansion of the capital markets across national borders and the desire by countries to achieve strong, stable and liquid capital markets to fuel economic growth. A thriving capital market requires a high degree of investor understanding and confidence. Converging with or embracing a common set of high quality accounting standards contributes immensely to this investor understanding and confidence.

If a company's financial statements are prepared using accounting standards which are not viewed as being of high quality or with which the investor is unfamiliar, then investors may not be able to fully understand a company's prospects and thus may insist on a risk premium for an investment in that company. The relative cost of obtaining capital will thereby increase for those companies. And, at the extreme, if as a result of companies using weak or incomplete accounting standards it becomes excessively time-consuming or difficult for investors to distinguish good investment opportunities from bad, investors may choose instead to invest in what they consider to be safer opportunities rather than in particular securities which may actually offer greater reward.

Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared under differing sets of national accounting standards. Without common standards, global investors must incur the time and effort to understand and convert the financial statements so that they can confidently compare opportunities. This process is timeconsuming and can be difficult, sometimes causing investors to resort to educated guesses as to content and comparability. Additionally, if investors are presented with financial information that varies substantially depending on which accounting standards are employed, that can cause investors to have doubt about the actual financial results of a company, resulting in a correspondingly adverse effect on investor confidence.

Investor confidence in financial reporting is also likely to be stronger if the accounting standards used have been subject to appropriate due process and have gained wide acceptance in practice. Further, in situations in which differing accounting standards are used—for example, as is the case in the United States where financial reporting under U.S. GAAP is the norm but the SEC also accepts financial reports from foreign private issuers using either IFRSs or national accounting standards accompanied by a reconciliation to U. S. GAAP<sup>4</sup>—investor confidence is likely greater if the differences between the standards are readily understandable and few in number.

Embracing a common set of accounting standards can also lower costs for issuers. When companies access capital markets beyond their home jurisdiction, they incur additional costs of preparing financial statements using different sets of accounting standards. These include the costs for company personnel and auditors to learn, keep current with and comply with

the requirements of multiple jurisdictions. Similarly, use of resources dedicated to standards writing could potentially be optimized if fewer separate accounting models are pursued.

I believe that market forces will provide the incentive for the body of IFRSs to succeed. This is not to say that there will not be implementation complexities along the way, or some level of natural resistance to change. Change is often difficult. For example, some will be reluctant to leave the known commodity of financial statements prepared under their existing national standards. Others may worry that financial information will be different under IFRSs. Still others will think of applying IFRSs as an added chore, not as an important new way to communicate financial results across geography. But the potential benefits of the use of a common set of accounting standards are immense. And for that reason, over time, I believe the obstacles will be overcome. Most things that are worthwhile are not easy, so I am hopeful that the combination of human motivation and ingenuity coupled with an appropriate level of national and international cooperation will prevail in expanding the use of IFRSs.

The case for a single set of globally accepted accounting standards has resonated in many places. The strong global interest in IFRSs has prompted many countries to pursue increased convergence of national standards with IFRSs. I believe these actions strengthen the case for a single set of globally accepted accounting standards and I welcome them. With regard to specific tactics, what is emerging is that there are different routes individual jurisdictions might pursue towards convergence between their national accounting standards with those of IFRSs and, implicitly, other nations. Some nations have chosen to adopt IFRSs as the officially mandated financial reporting standards for at least public companies. Among other jurisdictions, Australia<sup>5</sup> and the member countries of the European Union<sup>6</sup> are using this kind of approach. The actual adoption of the evolving body of IFRSs may, however, be subject to a clearance process to bring new standards into law or approve them for adoption. Under this kind of approach, policy makers may also choose to retain their national standard setter to establish standards for their local private capital markets, to contribute to the IFRSs standard-setting work, or both.

Other countries have chosen to continue to have their own national standard setter establish accounting standards applicable to that nation's enterprises. If they choose to do so, the national standard setter may also monitor and consider standard setting work of the IASB and, as deemed appropriate, adapt national standards so as to conform to some portions of or all of IFRSs. For example, the U.S. accounting standard setter and the IASB have adopted a "best efforts" convergence approach,<sup>7</sup> while Japan's accounting standard setter and the IASB have announced ". . . an agreement to launch a joint project to reduce differences between International Financial Reporting Standards (IFRSs) and Japanese accounting standards. . . ."<sup>8</sup>

As noted above, there are a variety of possible approaches to increased convergence of accounting standards—and there are no doubt more than I

have described here—but what’s important is that so many securities regulators and so many standard setters recognize the value of convergence. This level of involvement by so many different countries all pursuing high quality standards offers the potential for better standards, more transparent financial statements and greater global acceptance. I believe the long-term measure of success of IFRSs will be increasing investor acceptance and support.

In theory, any of these approaches to converge can lead to capital markets in various jurisdictions reaching the same destination; that is, comparable high quality financial statements for investors. That is because jurisdictions which adopt IFRSs or which closely align their national standards with IFRSs are essentially asking companies to prepare their financial statements in the same manner. These are but different roads to the same destination. An obvious drawback, however, of different jurisdictions traveling different roads is that of unintended detours or of substantially different arrival times. But, in my view this is acceptable, providing that progress toward convergence is being made. My sincere hope is that market demands for comparable and transparent information will continue to push preparers, auditors, regulators and standard setters to seek common ground wherever possible, as rapidly as is feasible.

### **III. The Effect of IFRSs on the U.S. Capital Markets**

#### **A. The Situation in the U.S. Capital Markets**

The SEC’s mission is to provide investor protection; to maintain fair, orderly, and efficient markets; and to facilitate capital formation.<sup>9</sup> To carry out these objectives the SEC recently adopted as two of its four goals to “sustain an effective and flexible regulatory environment” and to “encourage and promote informed investment decisionmaking.”<sup>10</sup> Sustaining an effective and flexible regulatory environment means, among other things, that “investors are protected by regulations that strengthen corporate and fund governance and adhere to high quality financial reporting standards worldwide” and “regulations are clearly written, flexible, and relevant, and do not impose unnecessary financial or reporting burdens.”<sup>11</sup> Encouraging and promoting informed investment decisions requires that, among other things, “investors have accurate, adequate, and timely public access to disclosure materials that are useful, and can be easily understood and analyzed across companies, industries or funds.”<sup>12</sup>

Consistent with these goals, it is important to the U.S. capital markets that we have comparable reporting so that when an investor compares the financial statements of one company with those of another, the investor can make an informed capital allocation decision between the two. Thus, for financial statements prepared under IFRSs and U.S. GAAP to coexist in the U.S. capital markets, I believe IFRSs and U.S. GAAP requirements and disclosures should be closely aligned. Otherwise, if the financial position and operating results reported under IFRSs and U.S. GAAP are difficult to

compare, investors may find analysis and decision making difficult. Assuming both sets of accounting standards are considered to be of high quality, but they report substantially different results, investors could lose trust and confidence in financial reporting. The ability to compare information is important for an investor making a capital allocation decision regardless of whether a company applies U.S. GAAP or IFRSs. Comparability is especially useful among companies operating within the same industry.

Investments abroad by U.S. investors are significant. The U.S. capital markets include thousands of U.S. firms which invest in non-U.S. companies either through acquisition or direct investment. Further, millions of individuals and trust funds invest in non-U.S. companies either directly or indirectly through investments in mutual funds. Additionally, today there are approximately 1,200 foreign private issuers which file with the SEC; 500 of these are from one country, Canada, which is not moving to IFRSs in 2005.<sup>13</sup> Of the other 700 foreign private issuers, approximately 40 currently prepare the financial statements they file with the Commission using IFRSs.<sup>14</sup> I expect the number of foreign private issuers who use IFRSs to increase to approximately 300 for 2005 and to nearer 400 by 2007<sup>15</sup> — the end of the phase-in period for certain companies' transition to reporting under IFRSs. Thus, a critical mass of SEC filings soon will contain financial statements prepared under IFRSs. As this occurs and we see a large number of SEC registrants using IFRSs, the SEC staff will consider possible changes to our current financial statement filing requirements in order to ensure that the U.S. capital markets reap the full benefits of the much anticipated widespread use of IFRSs.

## **B. Our Current Financial Statement Filing Requirements**

Our current approach with respect to the filing of financial statements is that domestic companies prepare their financial statements under U.S. GAAP while foreign private issuers reconcile to U.S. GAAP the financial statements they file with the SEC if those financial statements are prepared pursuant to another basis of accounting, whether that is IFRSs or national accounting standards.<sup>16</sup> Foreign private issuers, of course, also have the option to prepare their financial statements under U.S. GAAP<sup>17</sup> and some do in fact report on this basis.

In 1982, in conjunction with the Commission's adoption of a separate set of registration statement forms for foreign private issuers and concurrent with a decision to make other changes so as to more closely align disclosures between domestic and foreign private issuers, the Commission's actions created what are the SEC's current U.S. GAAP reconciliation requirements. Specifically, what we know as "Item 17 reconciliations"<sup>18</sup> (a quantitative reconciliation sans certain U.S. GAAP disclosures) and "Item 18 reconciliations"<sup>19</sup> (a quantitative reconciliation with all U.S. GAAP disclosures). Under the SEC rules, foreign private issuers may present Item 17 reconciliations in their periodic reports and in certain offering documents (those for offerings of nonconvertible securities that are investment grade,

securities related to certain rights offerings, and so forth).<sup>20</sup> The Commission requires Item 18 reconciliations in other offering documents (those for equity securities, convertible securities, and so forth)<sup>21</sup> and allows this reconciliation in any other foreign private issuer filing. Prior to 1982, the Commission required foreign private issuers to disclose in their periodic reports merely narrative information about differences between foreign accounting principles and U.S. GAAP, with those differences quantified if practicable.<sup>22</sup> In offering documents, however, the Commission had required a full reconciliation.<sup>23</sup>

Understanding the reasons for the SEC requirements for foreign private issuers to reconcile financial statements to U.S. GAAP requires a brief review of the legislative history of two sections of the Securities Act of 1933,<sup>24</sup> as was described in the following comment from the 1981 SEC release which proposed the use of different registration statement forms by foreign private issuers:

The legislative history of the Securities Act indicates an intent to treat foreign private issuers (as distinct from foreign governments) the same as domestic issuers. Therefore, the Commission has generally perceived its function as neither discriminating against nor encouraging foreign investment in the United States or investments in foreign securities. The Commission's rulemaking authority in this area is conditioned upon findings that the relevant rule or form is necessary for the protection of investors and in the public interest.<sup>25</sup>

The Commission framed its consideration of the foreign private issuer U.S. GAAP reconciliation requirement as follows:

In considering these findings in the context of the position of neutrality explained [in the quote] above, the Commission must evaluate two competing policies. One is the recognition that the investing public in the United States needs the same type of basic information disclosed for an investment decision regardless of whether the issuer is foreign or domestic. This view suggests that foreign registrants be subject to exactly the same requirements as domestic ones. The other is that the interests of the public are served by an opportunity to invest in a variety of securities, including foreign securities. An implication of this policy is that the imposition on foreign issuers of the same disclosure standards applicable to domestic issuers could discourage offerings of foreign securities in the United States, thereby depriving United States investors of the opportunity to invest in foreign securities. According to this reasoning, the public interest would be best served by encouraging foreign issuers to register their securities with the Commission. The Commission has never formally adopted or endorsed either of these approaches. Instead, the Commission regularly has sought to balance the competing policy interests underlying each interpretation using a principle of voluntarism. According to that principle, the more voluntary steps a foreign company has taken to enter the United States capital markets, the degree of regulation and amount of disclosure more closely

approaches the degree of regulation of domestic registrants.<sup>26</sup>

Further:

The few areas in which differences in the disclosure requirements exist are those in which the domestic disclosure requirements could be a significant impediment to foreign issuers registering their securities. The Commission is aware that United States investors, if they are so inclined, can invest in foreign securities directly in foreign markets. Therefore, discouraging registration may not be in the public interest because the disclosure in the foreign market may be less than that required in filings with the Commission even with the proposed accommodations.<sup>27</sup>

Lastly:

The Commission desires to administer the Federal Securities laws in a manner that does not unfairly discriminate against or favor foreign issuers. Thus, the Commission is attempting to design a system that parallels the system for domestic issuers but also takes into account the different circumstances of foreign registrants. In proposing this [filing] system the Commission has attempted to balance certain competing policies.<sup>28</sup>

A fundamental question confronting the SEC staff as a result of the anticipated greatly expanded use of IFRSs in filings with the SEC is to decide how to sustain the principles described in the Commission's previous considerations, yet also recognize the effects and benefits of the greater use of IFRSs and of the increasing convergence of IFRSs and U.S. GAAP. This leads directly to consideration of whether acceptance of financial statements prepared under IFRSs from foreign private issuers without reconciliation to U.S. GAAP can be expected to achieve these ideals while remaining consistent with the SEC's objective of maintaining a parallel system for domestic and foreign issuers which provides essentially comparable disclosures to investors.

### **C. Eliminating the Reconciliation Requirement and Convergence Are Interrelated**

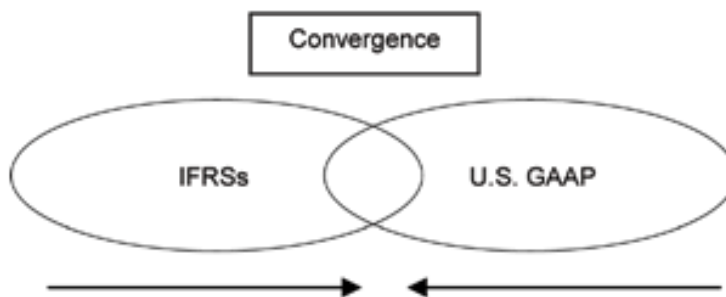
Let me begin by observing that the SEC has determined that the Financial Accounting Standards Board's (FASB) financial accounting and reporting standards are recognized as "generally accepted" for purposes of the U.S. federal securities laws.<sup>29</sup> And, I personally consider financial statements prepared in accordance with U.S. GAAP to be of high quality. The FASB, the body which writes U.S. accounting standards,<sup>30</sup> is an independent, objective, experienced and highly skilled standard setter. FASB standards are used by all publicly traded entities in the United States as well as by private industry and not-for-profit organizations.<sup>31</sup> For purposes of this article I have assumed that the FASB will continue as our country's GAAP standard setter, although I recognize that over time it is possible to imagine that various



other scenarios could develop.

Nonetheless, given the number of times that I have been asked if, and when, the SEC staff will recommend to the Commission that it eliminate the requirement for foreign private issuers to reconcile financial statements prepared under IFRSs to U.S. GAAP, it should be no surprise that my staff—working in cooperation with staff in other divisions and offices of the SEC—has been considering what we believe would be necessary in order for us to be in a position to make that recommendation to the Commission. In the paragraphs that follow, I express my personal views on the way forward and I attempt to do so without obscuring the answer with recitation of the various technical changes and procedural steps that are necessary to implement such change. I do so because I believe the technical aspects are just that . . . they are not unique to this issue and I believe they can be accomplished.

Before I specifically address the reconciliation question, I believe it is appropriate to first comment on the subject of convergence. I believe that both the U.S. GAAP and IFRSs models have their place in the U.S. capital markets, and that convergence is the enabler that will allow them to coexist. What is essential is that each set of standards be complete, that each produce financial statements of high quality, that each set of standards enjoy wide acceptance and use, that the standards be reasonably comparable to each other and that investors are capable of and comfortable in understanding the nature of differences between the two sets of standards. The inclusion in SEC filings of financial statements prepared under IFRSs should significantly benefit U.S. investors and others who rely on such financial information. That is because it is reasonable to expect that our investors will be better able to understand financial statements prepared using a single set of globally accepted accounting standards than is possible for them to understand financial statements prepared using dozens of differing national standards.



#### **D. The Enabler: Convergence of IFRSs and U.S. GAAP**

As depicted, convergence involves the provisions of IFRSs and U.S. GAAP coming together. To make that happen, the IASB and FASB have adopted a “best efforts” convergence approach which is documented more fully in a Memorandum of Understanding known as the “Norwalk Agreement” that was struck between the FASB and the IASB in September 2002. That agreement

states that the respective Boards agree to use best efforts to:

- (a) Make their existing financial reporting standards fully compatible as soon as is practicable, and
- (b) Coordinate their future work programs to ensure that once achieved, compatibility is maintained.<sup>32</sup>

The then SEC Chairman Harvey Pitt applauded the Norwalk Agreement as “. . . a positive step for investors in the United States and around the world.”<sup>33</sup> The European Commission indicated that it welcomed the joint announcement as a “. . . major step towards a global system of accounting standards . . . .”<sup>34</sup>

As a result of the IASB’s and FASB’s joint standard setting efforts, the differences between IFRSs and U.S. GAAP are being reduced. That is occurring in part by choosing the better standard where differences exist and in part by joint cooperation in new standard setting initiatives. I believe convergence requires movement by both the IASB and the FASB. It should not be viewed as a unilateral undertaking.

Convergence projects can be improvement projects as well as attempts to minimize differences. Convergence to a lesser accounting model — what is often referred to as “lowest-common denominator convergence” or a “rush to the bottom” — is not in anyone’s best interest and thankfully is not occurring. I believe that the IASB and FASB, while seeking convergence, have been able to do so while maintaining high quality accounting standards. That is critically important and both Boards are to be commended for their efforts.

When I speak of IFRSs/U.S. GAAP convergence, I do not expect the two sets of standards will necessarily produce totally identical financial statements. But I do consider it necessary that convergence result in close alignment of the accounting for the same or essentially the same transactions, generally comparable results in trends and a continued cooperative will to reduce differences over time, as well as the transparent understanding of any significant differences.

The IASB and FASB continue to identify opportunities for further convergence, which raises the question of how to prioritize those efforts. In my view, the independent standard setters are best positioned to establish their own priorities based on an assessment of the expected benefits (level of importance of the information to investors in their decision making) to expected costs (the amount of standard setting—and implementation— effort that will be involved). As progress continues, varying approaches to recognition and measurement that currently cause the most significant differences in net income and equity are matters that I believe will continue to receive priority in convergence work. This is because investors often base decisions on ratios and trends that involve those amounts.

I also recognize that, over the years, the SEC staff has issued guidance that

registrants are expected to apply in addition to or to supplement the standards issued by the FASB.<sup>35</sup> The continued applicability of this guidance to foreign private issuers who prepare their financial statements under IFRSs also needs to be reassessed. Our staff at the SEC will of course do that.

### **E. A Possible Roadmap to Elimination of the IFRSs to U.S. GAAP Reconciliation Requirement**

At the end of this article I set out a possible “roadmap” of the steps along the way as the SEC staff considers whether to recommend elimination of the IFRSs to U.S. GAAP reconciliation requirement.<sup>36</sup> While readers will note that the roadmap does not end with a date certain, it is my personal belief that if developments surrounding IFRSs—the standards, their application, and convergence—continue in the right way, then within this decade the SEC staff should be in a position to recommend that the Commission eliminate the requirement for foreign private issuers to reconcile financial statements prepared under IFRSs to U.S. GAAP. The precise speed with which we are able to make that recommendation is dependent on a number of variables. But, in particular, I am hopeful that the results of our review of foreign private issuer filings for the year 2005 will give us sufficient information to enable us to recommend an accelerated path to elimination of this reconciliation requirement. These filings, which we expect to receive from foreign private issuers in 2006, will, for the first time, provide us with a substantially broad array of reports from which to evaluate the effectiveness, consistency and transparency of IFRSs. And it is the result of that work and the experience and confidence we gain as to the consistent application of IFRSs that will be critical to determining the speed of our journey.

In developing a possible roadmap for eliminating the reconciliation requirement, I did so with enthusiasm. Because the U.S. capital markets already have high quality and widely used accounting standards in place in the form of U.S. GAAP for domestic companies, our markets will not be wholesale “adopters” of IFRSs. However, since we also have many foreign private issuers listed on our exchanges that use or will use IFRSs and because investors in our country invest in those companies either directly through our exchanges or otherwise, I and many others in the United States strongly support IFRSs as well.

My approach in taking the next steps to acceptance and understanding of IFRSs is intentionally pragmatic. What I mean by that is that I support the broad use of IFRSs but also want to evaluate results of application of IFRSs before concluding that the reconciliation from IFRSs to U.S. GAAP will no longer be necessary. I strongly encourage SEC foreign private issuers who will adopt IFRSs in 2005—and their audit firms—to be particularly diligent in their initial application of IFRSs. This will assist investors, standard setters, the SEC staff, other securities regulators and others to gain insight as to whether the implementation of IFRSs is consistent when viewed cross-border. Having companies that are headquartered in different countries but that operate in the same industry all reporting under IFRSs and all reconciling to U.S. GAAP should be especially helpful in assessing the

consistent application of IFRSs and in identifying the remaining IFRSs/U.S. GAAP differences. As we evaluate the results of the 2005 use of IFRSs, the staff of the SEC is also planning to track areas of accounting not converged and to encourage standard setters to continue their efforts to reduce such differences.

We plan to begin our review of 2005 annual filings using IFRSs in earnest in the second half of 2006 as soon as calendar year-end foreign private issuers have filed their 2005 financial statements with the SEC. The perspective from which the staff of the SEC intends to conduct such review will be focused primarily on investor protection, particularly those matters most likely to affect investor capital allocation decisions. Application of IFRSs in a manner that is faithful to the standards and consistent across companies will help expedite the SEC staff's decision to recommend to the Commission the elimination of the required reconciliation from IFRSs to U.S. GAAP.

I recognize that the SEC staff will be able to undertake our planned actions effectively and efficiently only if we have sufficient dedicated and skilled personnel ready to perform this work. To that end I recently added a third Deputy Chief Accountant, Julie Erhardt, to my staff. Julie is committed full-time to our international work and has the support of a strong team of experienced professionals already in place. Her efforts will be all the better for the work that the Commission staff has for some time been doing in evaluating the IASB standard setting efforts and the interpretive guidance of its International Financial Reporting Interpretations Committee (IFRIC). We track developments in these areas similar to the manner in which the Commission staff follows the work of the FASB and its Emerging Issues Task Force.

The comments contained in the following sections are intended to convey the nature of our considerations along the way as to factors which strengthen my optimism regarding the use of IFRSs. These are also factors that potentially may accelerate—or alternatively potentially impede—the objective of having IFRSs widely used, consistently and faithfully applied, and our investors reasonably knowledgeable about investment opportunities based upon financial statements prepared under IFRSs without an on-going need for reconciliation to U.S. GAAP. Some of these factors are interrelated; many are generic and the purpose of including a description of these factors in this article is not to introduce obstacles to elimination of our IFRSs to U.S. GAAP reconciliation requirement, but rather to point out the importance of high quality standards and faithful and consistent application of IFRSs.

#### **IV. The Base Underlying and Supporting Wide-Spread Acceptance of IFRSs**

Moving to a financial reporting environment in which investors are provided with financial statements prepared pursuant to common global accounting standards is not simply a matter of flipping a switch. Investors need to understand the new standards. Additionally, we all know that there are many things that form the infrastructure that underpins national accounting

standards to keep them viable and functioning effectively. In our individual national environments, we probably take most of these underpinnings for granted because we are so accustomed to their existence. As in our national environments, these underpinnings are also necessary to keep IFRSs viable and functioning effectively. I am confident that widespread acceptance of IFRSs will occur but not without the expenditure of extraordinary effort by many parties across national borders and amongst a large number of authoritative and securities regulatory bodies. Let me discuss these matters in the paragraphs that follow.

### **A. The International Standard Setter**

For reasons of appearance and acceptability of the standards, I believe it is critical to maintain an independent professional accounting standard setter for IFRSs. If the standard setter is not viewed as being independent, the quality and acceptability of its output may more easily be undermined or called into question. In order to independently produce high quality standards the IASB has to be free to conduct projects needed to improve its accounting model and to enhance investor understanding. In doing so, it is desirable for the Board to obtain relevant views from all but to conclude on the final standards through its own deliberations, without undue external pressures for —or against—certain answers. It is also important that the standard setter be able to do this without undue funding pressures. The IASB should have an assured source of funding so that necessary but unpopular projects do not undermine its viability. In that regard, I support the importance of having the International Accounting Standards Committee Foundation complete its announced work on consideration of alternative funding mechanisms for the IASB.<sup>37</sup>

It is my opinion that global standards are likely to have greater acceptance because the IASB solicits information and views from a wide variety of interested parties and stakeholders and at the conclusion of its work uses its best judgment to consider these inputs and to arrive at a final accounting standard. The investing public's interest is served best when accounting standards are developed in an independent manner with the objective of providing high quality and transparent information. The development of high quality global accounting standards requires the efforts of talented people possessing a broad range of individual skills and a mix of perspectives. The ability to do this work and the credibility of the IASB is enhanced by engaging Board members who possess the necessary experience, knowledge, temperament and communication skills to both listen to others and to explain clearly the reasons why standards are being developed. I also believe the acceptance of the IASB output is enhanced by geographic diversity which brings to the process the needs and perspectives of major stakeholders in the world's capital markets. Geographic diversity is desirable, and this hopefully will continue to be accomplished by the exercise of reasonable judgment without quotas or a need for fixed allocations of membership.

There will always be forces that put pressure on independent standard setting — undue pressure from special interests, fear of change, lack of

understanding as to why a new approach is an improvement, lack of recognition of how quality financial information improves investor decisions and thus facilitates economic growth — the list is long. For that reason, it is important that Board members not only be independent in their decision making, but also be resilient. And global regulators can be a strong source of support for the IASB in deflecting excessive and unreasonable pressure. This is not to imply that the standard setters are not accountable to anyone; quite the opposite. I believe they are accountable to all in understanding the issues and concerns after considering all the input. They ultimately are accountable to produce high quality accounting standards that convey information in a transparent and unbiased manner.

## **B. High Quality Accounting Standards**

In its 2000 Concept Release on International Accounting Standards, the SEC expressed a view that it is important that accounting standards “. . . constitute a comprehensive, generally accepted basis of accounting; [be] of high quality; and can be rigorously interpreted and applied.”<sup>38</sup> I believe these considerations are important on both a standard-by-standard basis as well as for the body of IFRSs or U.S. GAAP. For a standard to be capable of being applied consistently, it is important that the standard not be unduly complex or laden with options. Good standards facilitate financial understanding and fit within a logical and understandable framework with key objectives underlying each standard clearly stated and the permitted departures few in number and complexity.

Pursuant to a requirement of a provision of the Sarbanes-Oxley Act of 2002,<sup>39</sup> in 2003 the SEC staff conducted a study addressing a principlesbased approach to accounting standards.<sup>40</sup> Much of what was learned in this study essentially reconfirmed the thinking in the 2000 Concept Release regarding accounting standards. In the report on the 2003 study the SEC staff encouraged use of “objectives-oriented” standards. Such standards strike an appropriate balance between the extremes of purely principlesbased and purely rules-based approaches. Some of the attributes cited in the study of an objectives-oriented standard are:

- A clearly defined scope;
- Minimal scope exceptions;
- Few bright-line tests; and
- Sufficient implementation guidance.

While the SEC staff is on record as to what we consider to be high quality accounting standards, I am sometimes asked what I expect. On one point I want to be clear . . . I do not mean perfection. In a way, the search for perfection is often the enemy of the good. This is because perfection itself is elusive; the search causes delays and the cost of achieving the final few improvements may well exceed the benefit. In my view, good accounting

standards will withstand the test of time, and to do that the objective of the standard has to be clear and readily embraced by those who prepare, audit and use the financial statements. Good standards result in transparency of information for all participants in the capital markets. Since the business world is not static, accounting standards likewise cannot be established and then forgotten. The IASB must be capable of reacting to emerging business developments and changing markets.

Standards should be reevaluated as developments warrant. As experience has demonstrated, significant events such as the major losses and abuses of the late 1990s and early 2000s can create changes in public expectations regarding how financial information should be reported and used. Good standard setting should be timely and should always be aimed at improving transparency.

### **C. Support of the IASB is Required by Many**

In commenting on accounting proposals, it is important that input be provided on the objectives or the purpose of the standard and how well the proposal might be expected to achieve those objectives. It is also appropriate that companies weigh in on IASB proposals and especially so if they do not understand what the proposals would require and why or if they have feasibility concerns about applying them. Similarly, auditors should provide objective input during the standard setting process as to any auditing difficulties they might anticipate that potentially could affect the operability or auditability of a proposed standard. Users of financial statements should likewise clearly state their needs and participate in the standard setting process by commenting clearly on those needs. In carrying out the SEC's mission, my primary responsibility is to serve as an advocate for investors. And, while I do my best to speak for investors in monitoring accounting standard setting, I believe investors are far more effective when they speak for themselves directly to the standard setter.

Accounting standard setting is often controversial. Improvement in financial information involves change, and constituents frequently have differing views on the need for, and benefits of, suggested changes. The best standard setting decisions come from careful, objective, thoughtful, independent professional consideration of the relevant views and information affecting a given issue. In the end not all parties will be satisfied with the result. That is in my view acceptable because it is rarely possible to accommodate everyone's views. But it is possible for everyone to respect the standard setting process and correctly apply the accounting standards once they have been produced.

It is my belief that the IASB has demonstrated an ability to set high quality standards that provide needed and useful information to investors. To continue to be effective, a well-informed issuer, auditor and investor community is necessary to implement and support the standards and to provide specific and useful input for the standard setting Board's consideration as to continued applicability of the standards as business

transactions evolve. This participation not only aids in the acceptance of standards but it also enables the standard setting Board to consider changes where necessary.

#### **D. Education**

The widespread implementation of IFRSs in 2005 and beyond provides a unique need for effective training and education within a tight time period. Successful implementation of IFRSs will occur only if issuers and auditors have been thoroughly trained in IFRSs and investors' education and knowledge is broad. There is only one chance for first-time implementation and it is important that participants get it right. Making changes later will be difficult and potentially costly.

Companies, auditors, regulators and investor organizations should be expected to develop and provide comprehensive training on IFRSs for their employees and others. Professional associations and industry groups will undoubtedly integrate IFRSs into their training materials, publications, testing and certification programs. Colleges and universities will likely contribute by including IFRSs in their curricula. Investor education is particularly necessary, so that users of financial statements understand what they are receiving under IFRSs and how it differs from earlier reporting and, in our case in the United States, from U.S. GAAP. In addition to investors and analysts, other financial statement "users" include employees, customers and vendors. The various groups creating, delivering and attending training and education programs can contribute to the effectiveness of the training by identifying areas for improvement. Further down the road in the United States it will be fair to ask other questions, such as "At what point will IFRSs become part of the CPA licensing exams in the United States?"

#### **E. Application**

Companies have the most critical role to play when it comes to applying standards correctly because poor application (due to, for example, a lack of knowledge about the standards or inconsistent application approaches) will quickly undo the benefit of having a single set of high quality globally accepted accounting standards. During the compressed time frame in 2005 during which many companies will undergo their "first time through" work to apply IFRSs, I expect that both companies and audit firms alike will be working through a substantial number of implementation issues within a relatively short period of time. Without diminishing the point that companies are indeed responsible for preparing their own financial statements, I believe there is a need for and I encourage constructive dialogue between preparers and their audit firm representatives especially about implementation issues they encounter so that everyone can expeditiously learn from each other's experiences.

The transition to IFRSs is a daunting task; IFRSs have not been broadly used in the past so the transition represents significant change, and it will take sound execution of a multitude of interrelated steps to implement IFRSs



successfully. Additionally, it is important that internal controls surrounding these processes be effective. Having breakdowns in companies' fundamental controls or processes, albeit unintentional ones, would potentially undo or delay the benefits of IFRSs that so many are working so hard to achieve. While the importance of effective controls cannot be overemphasized, the SEC recognizes that the migration to IFRSs is such a significant undertaking in and of itself that for foreign private issuers the Commission extended for an additional year the internal controls testing and reporting compliance dates under the Sarbanes-Oxley Act Section 404, "Management Assessment of Internal Controls."<sup>41</sup> The Commission's hope is that this deferral will assist with efforts to successfully convert to IFRSs, and that when Section 404 efforts are undertaken they too will receive the appropriate level of attention and focus. I encourage foreign private issuers to continue efforts to strengthen their internal controls over financial reporting and to use the extended reporting period to finalize, document and test effectiveness.

Multinational companies should also have in place the policy, structure, and consultation protocols necessary to ensure that their staff members know when to raise IFRSs application questions, that there is a process for resolving those questions, and that there are reasonable controls in place to ensure that the conclusions drawn are implemented. Ideally, companies will update their corporate accounting policies so that where they have choices to make under IFRSs, the various business units will make those choices consistently.

I am concerned that companies that utilize a multiple reconciliation approach — for example, keeping their books and records in accordance with national accounting standards; reconciling those books and records to IFRSs to prepare financial statements under IFRSs; and then reconciling the IFRSs information to U.S. GAAP to prepare the U.S. GAAP reconciliation — inherently run a greater risk of unintentional error than those companies that are able to embed IFRSs directly into their daily accounting processes. That is because the simpler the process and the fewer the conversion stages involved, the less the potential there is for error.

## **F. Auditing**

The assurance provided by competent, independent auditors has high value to investors. Auditors, like company personnel, will be expected to exercise sound judgment knowing that standards cannot answer every question. In audits of financial statements prepared under IFRSs, the auditors will need to make judgments regarding the acceptability of a particular practice after considering the spirit and intent, as well as the letter, of the standards. The goal should be to use good judgment, consult with others and get it right the first time.

While audit quality is perhaps most affected by those conducting and participating in the audit; that is, by the independence, qualifications, authority, focus and energy of the auditors themselves, other factors also matter. First, as is the case with accounting standards, I believe that audit

standards of high quality are enhanced if they are established by an independent standard setter. Following passage of the Sarbanes-Oxley Act,<sup>42</sup> in the United States we now look to audit standards issued or endorsed by the Public Company Accounting Oversight Board (PCAOB),<sup>43</sup> an independent organization, to provide such standards for audits of companies with securities trading here. The PCAOB's mission involves oversight of the audit profession including registration, inspection, standard setting and enforcement.<sup>44</sup> I am especially appreciative that strong efforts are being made in many countries to improve audit quality, and that work is continuing to improve International Standards on Auditing as well as ethics and independence requirements.<sup>45</sup> My staff—along with the staffs of other national regulators—actively monitors developments in these standards and supports efforts to improve audit quality.

Yet another element of audit quality involves the quality of a firm's audit procedures, which may be affected by the audit firm's structure, policies and internal controls. Importantly, the audit firm inspections by the PCAOB and other national regulators and auditor oversight bodies are intended to shed additional light on a timely basis as to the effectiveness of audits. That oversight can be particularly effective in understanding the degree of success of transition to IFRSs.

## **V. Maximizing the Benefits of a Common Set of Accounting Standards**

A premise for a single set of globally accepted accounting standards is that investors benefit as more and more companies prepare their financial statements applying a common set of accounting standards because investors can then more easily compare information, putting them in a better position to allocate their capital in accordance with its highest and best use. But these advantages inure only if financial reporting is, in fact, consistent. In situations in which there are actual differences in transactions occurring at a national or industry level the resulting accounting under IFRSs may indeed be different and this would be fully appropriate. But, what is not desired is differing interpretations of the accounting standards for identical or substantially similar transactions. If that were to be the case, investors could become confused if the financial statements are all labeled "in accordance with IFRSs" even though different approaches underlie the numbers. With the same standards being used by so many different companies in so many different jurisdictions, it is more than remotely possible that differing views could evolve as to the correct application of a particular standard. Key to avoiding or minimizing this phenomenon will be the processes for how potential differences in interpretations of IFRSs are resolved.

### **A. Companies**

There can only be one first time adoption of IFRSs. Thus, for those companies doing so in 2005 I believe it is particularly important that interpretations of IFRSs be thoroughly considered and that differing interpretations be minimized. In the absence of timely guidance from the

IASB or IFRIC, differing interpretations can potentially evolve and investors may be subjected to multiple conflicting applications, some of which may not provide transparent information. Consistent interpretation practices that are faithful to the standard and that are fostered by open and forthright dialogue among practitioners, auditors, securities regulators and others will help as will communications and consultations among reporting companies. And, where in the interim differing interpretations cannot be avoided, I believe transparency in the financial statements as to the practice followed is essential.

Additionally, as companies foster consistency of interpretation, they will likely have to communicate both internally and externally on the application and use of IFRSs: internally to employees throughout an organization's offices and divisions and affiliates and externally with investors, auditors and regulators as well as with other companies and industry groups. A natural place to engage in the external dialogue about the application of IFRSs is among practitioners in the same industry. Company personnel likely would have ready access to a peer group. The fact that industry group members may be located in multiple jurisdictions would also be helpful in promoting consistency of interpretation of IFRSs across national borders.

## **B. Auditors**

The largest global firms are responsible for the audits of a very large proportion of the foreign private issuers who file with the SEC, making it particularly important that those firms do their part in fostering the consistent application of IFRSs across national borders. Because these firms conduct so much of their work cross-border they are uniquely positioned to identify implementation issues with IFRSs early and to develop consistent guidance for their auditors. In evaluating the consistent application of IFRSs, multinational audit firms will be more effective— similar to their multinational clients—if they have the policies, structure and consultation protocols in place to ensure that their staff members know when to raise application questions, that there is a process for resolving those questions, and that there are controls in place to ensure that the conclusions drawn are appropriately implemented.

## **C. Securities Regulators**

Ideally securities regulators would, wherever practical, leave interpretation of the standards to the standard setter; for example, to the IASB or IFRIC in the case of IFRSs. However, since standard setters cannot move as quickly as capital market developments, there will always be accounting issues that standard setters have not yet addressed. Since the IASB has a policy of keeping its standards at a "principles based" level there may be less detail than is the case in applying, for example, U.S. GAAP. And, because history has made it clear that not everyone always does the right thing, securities regulators, including the SEC, need to ensure that compliance is enforced. The SEC, like other national securities regulators, may find it necessary from time-to-time to weigh-in on particular accounting interpretations. This is not

new, as securities regulators have long been involved in resolving issues related to national accounting standards. For example, in the United States, the Commission, generally executed through my office, is the ultimate arbiter of matters regarding application of U.S. GAAP by public companies.

Within the European Union, I understand the concern for consistency in application and enforcement of IFRSs is indeed a focus of the Committee of European Securities Regulators (CESR). CESR Standard No. 2 on Financial Information, "Coordination of Enforcement Activities," specifically addresses the issue of consistent application and enforcement among the countries of the European Union.<sup>46</sup> The International Organization of Securities Commissions (IOSCO), through its Technical Committee and its Standing Committee on Multinational Accounting and Disclosure, is also promoting consistent regulatory interpretation of IFRSs across jurisdictions by exploring how to facilitate communication among securities regulators about application issues with IFRSs that each encounters.

To achieve consistent application of IFRSs, national securities regulators will find it necessary to cooperate with their peer authorities across jurisdictions. I know that I can learn from my non-U.S. counterparts and this is one of the important reasons why my staff and others at the SEC participate in activities of IOSCO. IOSCO members regulate more than 90% of the world's securities markets, making IOSCO the world's most significant international cooperative forum for securities regulators.<sup>47</sup> I am hopeful that securities regulators will continue to work closely in minimizing the degree of variance between interpretations of IFRSs and to that end I am committed to make my staff available as appropriate to help contribute to the development of sound and consistent interpretive practices.

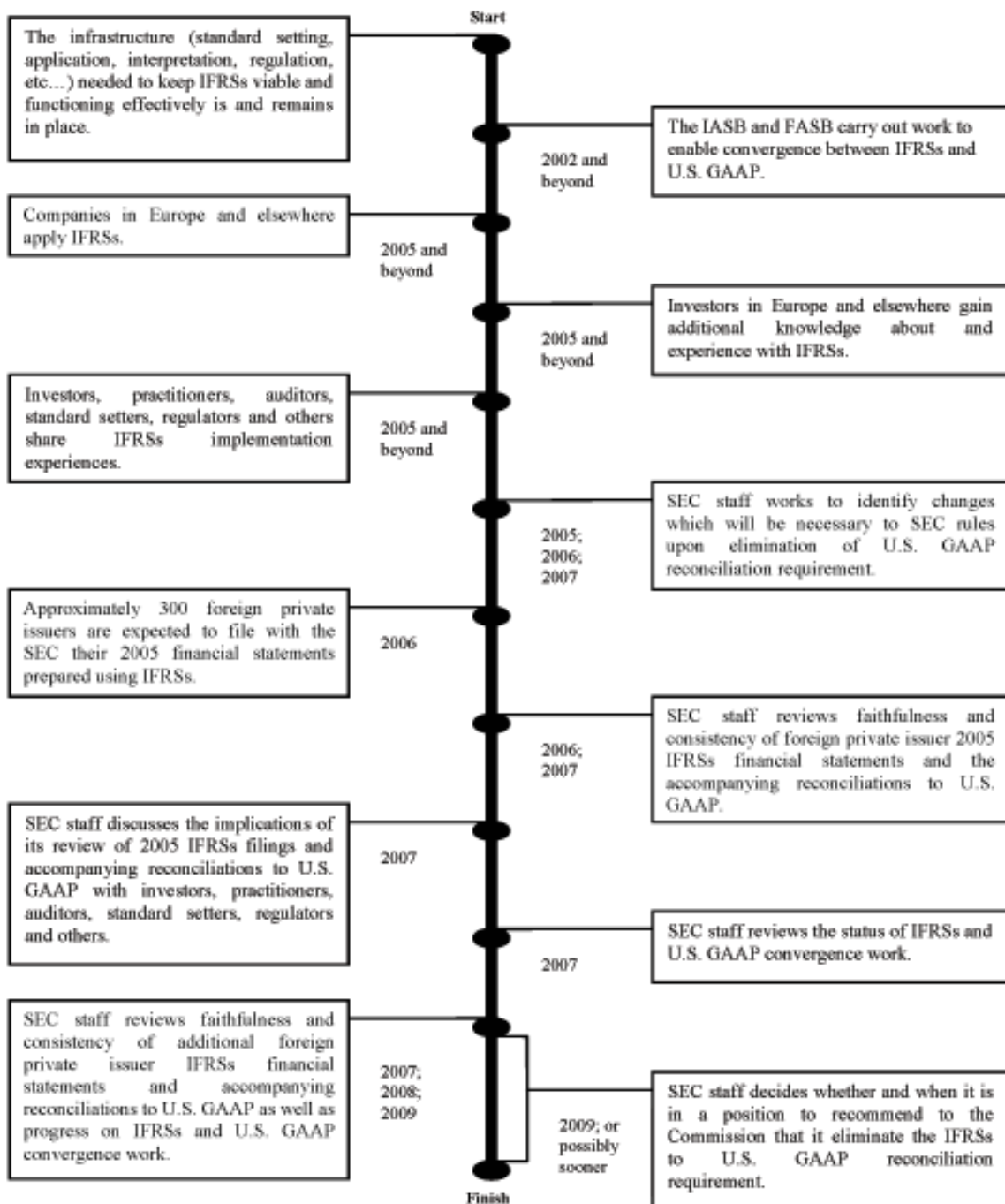
## VI. Closing

As my comments have implied, there is a lot of work to do for everyone—companies, auditors, investors, educators, standard setters and regulators—if we are to put into practice a financial reporting environment that is consistent with a single set of globally accepted accounting standards. But the harder and smarter we work—and the more we cooperate—the greater will be the speed and satisfaction of our journey and the benefits to the global capital markets. In the case of the U.S. capital markets, I look forward to one result which is having the basis to conclude that the needs of our investors are adequately fulfilled using IFRSs without a continuing requirement to reconcile from IFRSs to U.S. GAAP.

Let me close by observing that the streams of activity associated with the standard setting work to converge accounting standards, the development of an integrated financial services market in the European Union and with it the need for a common set of high quality accounting standards, and the global interest of IOSCO in encouraging the use of IFRSs for cross border securities market activity around the world,<sup>48</sup> are not unrelated. These separate streams of activity have at their heart a belief that giving investors high quality financial information prepared using a single set of globally accepted

accounting standards will, in the long run, enhance investor understanding and confidence and capital market liquidity and growth, improve decision making and resource allocation, and contribute to economic betterment for us all.

## APPENDIX I: A Possible Roadmap to an SEC Staff Recommendation to Eliminate the SEC Requirement for Foreign Private Issuers to Reconcile Financial Statements Prepared Under IFRSs to U.S. GAAP



<sup>1</sup> For further information about IFRSs, refer to the IASB website at <http://www.iasb.org/standards>.

<sup>2</sup> Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, art. 4, 2002 O.J. (L243), 1.

<sup>3</sup> For further information about the IASB, refer to the IASB website at <http://www.iasb.org>.

<sup>4</sup> SEC Regulation S-X, art. 4, 17 C.F.R. § 210.4-01(a)(2); SEC Form 20-F, Item 17, [2004-2005 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 29723; SEC Form 20-F, Item 18 [2004-2005 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 29723.

<sup>5</sup> Australia Financial Reporting Council, Bulletin 2002/4 (July 3, 2002); Australia Financial Reporting Council, Bulletin 2004/3 (Apr. 2004).

<sup>6</sup> Regulation (EC) No. 1606/2002, *supra* note 2.

<sup>7</sup> Financial Accounting Standards Board and International Accounting Standards Board, Memorandum of Understanding, "The Norwalk Agreement," available at [http://www.fasb.org/intl/convergence\\_iasb.shtml](http://www.fasb.org/intl/convergence_iasb.shtml) (Sept. 18, 2002) [hereinafter The Norwalk Agreement].

<sup>8</sup> Press Release, International Accounting Standards Board, IASB and Accounting Standards Board of Japan Agree to Next Steps in Launching Joint Project for Convergence (Jan. 21, 2005), at <http://www.iasb.org/news>.

<sup>9</sup> Securities Act of 1933 § 2(b), 15 U.S.C. § 77b(b) (2005).

<sup>10</sup> SEC, 2004-2009 STRATEGIC PLAN, at 5 (2004).

<sup>11</sup> *Id.*, Outcomes 2.1 & 2.3, at 37-38, 39-40.

<sup>12</sup> *Id.*, Outcome 3.1, at 44-45.

<sup>13</sup> Estimates are per the SEC staff.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> SEC Regulation S-X, art. 4, 17 C.F.R. § 210.4-01(a)(1)&(2); SEC Form 20-F, Item 17, *supra* note 4; SEC Form 20-F, Item 18, *supra* note 4.

<sup>17</sup> SEC Regulation S-X, art. 4, *supra* note 4; SEC Form 20-F, Item 17, *supra* note 4; SEC Form 20-F, Item 18, *supra* note 4.

<sup>18</sup> SEC Form 20-F, Item 17, *supra* note 4.

<sup>19</sup> SEC Form 20-F, Item 18, *supra* note 4.

<sup>20</sup> See, e.g., SEC Form F-2, 17 C.F.R. § 239.32(d)&(e).

<sup>21</sup> See, e.g., SEC Form F-1, [2004-2005 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 6951, at ¶ 6953, Item 4.

<sup>22</sup> Integrated Disclosure System for Foreign Private Issuers, SEC Release Nos. 33-6360, 34-18274, 39-677, 46 Fed. Reg. 58511, 58515 (Dec. 2, 1981) (codified at 17 C.F.R. pts. 210, 229, 230, 239, 240, 249, & 260).

<sup>23</sup> General Revision of Regulation S-X, SEC Release Nos. 33-6233, 34-17116, 35-21699, IC-11325, AS-280, 45 Fed. Reg. 63660, 63667 (Sept. 25, 1980) (codified at 17 C.F.R. pts. 210, 229, 240, & 249).

<sup>24</sup> Securities Act of 1933 §§ 7, 10, 15 U.S.C. §§ 77g, 77j (2005).

<sup>25</sup> Integrated Disclosure System for Foreign Private Issuers, *supra* note 22, at 58513.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at 58519.

<sup>28</sup> *Id.* at 58513.

<sup>29</sup> Commission Statement of Policy Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, Exchange Act Release Nos. 33-8221, 34-47743, IC-26028, FR-70, 68 Fed. Reg. 23333 (May 1, 2003).

<sup>30</sup> For further information about the FASB, refer to its website at <http://www.fasb.org>.

<sup>31</sup> American Institute of Certified Public Accountants, AICPA Code of Professional Conduct, ET Section 203 ¶¶ .01-.03, at [http://www.aicpa.org/about/code/et\\_203.html](http://www.aicpa.org/about/code/et_203.html) (last visited Apr. 5, 2005).

<sup>32</sup> The Norwalk Agreement, *supra* note 7.

<sup>33</sup> Press Release, Securities and Exchange Commission, Actions by FASB, IASB Praised (Oct. 29, 2002) (Press Release No. 2002-154, available at <http://www.sec.gov/news/press/pressarchive/2002press.shtml>).

<sup>34</sup> Press Release, European Commission, Financial Reporting: Commission Welcomes IASB/FASB Convergence Agreement (Oct. 29, 2002) (Press Release Reference IP/02/1576 available at <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/02/1576&format=HTML>).

<sup>35</sup> The SEC staff has given guidance in the form of SEC Staff Accounting Bulletins; Staff No Action, Interpretive and Exemptive Letters; Staff Frequently Asked Questions Publications; and so forth.

<sup>36</sup> See Roadmap, *infra*, Appendix I.

<sup>37</sup> INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION, REVIEW OF THE CONSTITUTION: PROPOSALS FOR CHANGE, ¶ 70 (2004).

<sup>38</sup> International Accounting Standards, Exchange Act Release Nos. 33-7801, 34-42430, International Series No. 1215; 65 Fed. Reg. 8896 (Feb. 23, 2000) (codified at 17 C.F.R. pts. 230 & 240).

<sup>39</sup> Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act, Pub. L. No. 107-204, 116 Stat. 745 (2002) [hereinafter Sarbanes-Oxley].

<sup>40</sup> Office of the Chief Accountant and Office of Economic Analysis, U.S. Securities and Exchange Commission, Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System (2003).

<sup>41</sup> Management's Report on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports of Non-Accelerated Filers and Foreign Private Issuers, Exchange Act Release Nos. 33-8545, 34-51293, 70 Fed. Reg. 11528 (Mar. 8, 2005) (codified at 17 C.F.R. pts. 210, 228, 229, 240 & 249).

<sup>42</sup> Sarbanes-Oxley, *supra* note 39.

<sup>43</sup> For further information about the PCAOB, refer to its website at <http://www.pcaobus.org>.

<sup>44</sup> *Id.*

<sup>45</sup> For further information about International Standards on Auditing, refer to



the website of the International Federation of Accountants at <http://www.ifac.org>.

<sup>46</sup> COORDINATION OF ENFORCEMENT ACTIVITIES, Standard No. 2 on Financial Information (Committee of European Securities Regulators 2004).

<sup>47</sup> For further information about IOSCO, refer to its website at <http://www.iosco.org>.

<sup>48</sup> International Organization of Securities Commissions Technical Committee, Statement on the Development and Use of International Financial Reporting Standards in 2005 (Feb. 2005), available at <http://www.iosco.org/pubdocs/pdf/IOSCOPD182.pdf>.

*<http://www.sec.gov/news/speech/spchxxx.htm>*

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