

May 22, 2000

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

File Reference No. S7-04-00
Invitation to Comment
SEC Concept Release: *International Accounting Standards*

Dear Mr. Katz:

Deloitte Touche Tohmatsu and its Member Firms are pleased to comment on the Concept Release: *International Accounting Standards*, (the "Concept Release") issued by the Securities and Exchange Commission (the "Commission").

We believe that the increased use of IAS by foreign registrants in the United States will promote its use globally and, accordingly, increase generally the quality of accounting standards in the rest of the world. It also will provide an impetus to reduce differences in accounting standards between US GAAP and IAS and lead to greater harmonization of accounting standards throughout the world. As discussed more fully in Appendix A, we encourage the Commission to support the increased use of IAS by foreign registrants in the United States as a means of simultaneously pursuing the always critical need for high quality accounting standards with the longer-term objective of harmonizing accounting standards and practices throughout the world.

Our responses to the specific questions raised in the Concept Release are contained in the Appendix B to this document.

Deloitte Touche Tohmatsu and its Member Firms appreciate the opportunity to submit its comments and would be pleased to discuss them with you at your convenience. If you have any questions concerning our comments, please contact Mr. John T. Smith at (203) 761-3199.

Very truly yours,

APPENDIX A

We believe that the increased use of IAS by foreign registrants in the United States will promote its use globally and, accordingly, increase generally the quality of accounting standards in the rest of the world. It also will provide an impetus to reduce differences in accounting standards between US GAAP and IAS, and lead to greater harmonization of accounting standards throughout the world. We encourage the Commission to support the increased use of IAS in the United States as a means of simultaneously pursuing the always-critical need for high quality accounting standards with the longer-term objective of harmonizing accounting standards and practices throughout the world. By harmonization, we mean the process of national and international accounting standards and practices coming together to result in a single set of global standards.

High Quality, Transparency, and Harmonization

We strongly believe there is a need for a single set of high quality global accounting standards. High quality standards promote confidence in capital markets, decrease cost of capital, and promote efficiency of the markets. A single set of global standards would increase comparability and provide a more level playing field where no country is advantaged or disadvantaged by accounting standards. Worldwide use of a single set of high quality standards would increase user comprehension and reduce costs to financial statement users and others.

We understand that until such single set of global accounting standards exists, a judgment will have to be made about the extent to which reconciliation to US GAAP will be required for entities that list in the United States and report their financial results using IAS. However, we believe that an important consideration in making that judgment is the extent to which the increased use of IAS will lead to global harmonization of accounting standards. We believe that the need for high quality should be pursued equally with the need for harmonization of accounting standards and practices throughout the world.

There is considerable debate about how best to achieve harmonization and high quality and whether there must be some trade-off between the two. Some believe harmonization cannot be achieved without some sacrifice of quality in order to get acceptance of uniform accounting standards throughout the world in the near term. Others believe that convergence should be the primary goal because often, it is not possible to obtain complete agreement about what constitutes high quality. Still others believe quality should never be compromised for the sake of harmonization. They believe that compromising quality inevitably leads to mediocre standards, producing skepticism in the capital markets and decreasing confidence in the system of financial reporting.

In its report, *“International Accounting Standard Setting: A Vision for the Future,”* the FASB considered whether convergence or high quality should be pursued as the singular

goal for its international activities, and concluded that both goals should be pursued simultaneously. We agree; both goals should be pursued simultaneously. High quality promotes confidence in capital markets, while harmonization eliminates the most fundamental global concerns - the lack of a level playing field and user comprehension.

Evaluating the Core Standards

Many of the questions in the Concept Release relate to the three key elements that the Commission identified as necessary for acceptance of IAS in cross-border filings, namely, the extent to which IAS: constitute a comprehensive, generally accepted basis of accounting; are of high quality so as to result in comparability and transparency; and can be rigorously interpreted and applied. We believe the answers to those questions will form the basis for determining the extent to which reconciliation to US GAAP will be required.

In responding to those questions, we observe that differences between IAS and US GAAP can be identified objectively. However, the consequences of those differences are subject to considerable debate. We agree that IAS are not as comprehensive as US GAAP, but there is debate about whether IAS are sufficiently comprehensive to be used currently for cross-border filings. We agree that the requirements of certain IAS differ from US GAAP, but there is debate about which of the standards that differ provide the better solution. We agree that IAS permit certain alternative accounting treatments and that accounting alternatives generally should be eliminated, but there is debate about the extent to which the allowed alternatives actually impede comparability when their existence is disclosed. We also agree that IAS do not contain as much detailed guidance as US GAAP, but there is debate about the extent to which the standards are being interpreted and applied inconsistently in practice.

We observe that many of the questions being asked in the Concept Release cannot be answered without considerable judgment about what information is essential to a full understanding of financial statements, what constitutes high quality, what information is critical to making meaningful comparisons, and how much detailed guidance is needed to ensure that the standards are being applied and interpreted uniformly in practice. We also recognize that judgments about these factors depend heavily on knowledge about both US GAAP and IAS, including familiarization with the process of developing both sets of standards, the conceptual frameworks that respectively underlie both sets of standards, and the application of both sets of standards in practice.

Providing Guidance through Underlying Concepts

We recognize that many of the differences between IAS and US GAAP will be reduced or eliminated in the future when additional standards are issued and revised by the IASC and the FASB. However, there appears to be a fundamental philosophical difference that may be difficult to resolve relating to the extent to which detailed guidance is needed.

IAS have been criticized for being too general and lacking sufficient detailed guidance, thereby permitting freedom to select alternative accounting treatments. Many supporters of IAS, however, contend that this criticism is not valid because greater consistency is achieved by making accounting decisions by reference to well articulated concepts rather than on detailed rules. They contend that US GAAP contains so much detailed guidance that the concepts underlying the standards can be circumvented by structuring transactions to achieve desired accounting results, thereby permitting freedom to select alternative accounting treatments.

While theoretical soundness is essential as a basis for accounting standards, the underlying concepts must be the overriding driver in their creation and application. Developing detailed guidance at a national level can be a challenging process, but it is more challenging at the international level. There are additional issues that must be considered at the international level because IAS are applied by numerous diverse constituents who are subject to different laws and business practices and operate in different social and economic environments. For these reasons, it may be much more difficult to make detailed guidance operational at the international level.

We understand that there may be considerable reluctance to accept a set of standards that use broad concepts and high-level guidance in place of detailed rules, unless it could be demonstrated that they would be interpreted and applied uniformly in practice. However, we believe there are advantages and disadvantages to both approaches and both sets of standards could be improved. We believe that both IAS and US GAAP do not sufficiently reference the underlying conceptual framework as a basis for conclusions and guidance.

We believe that explicit referencing to underlying concepts that are clearly articulated as a basis for conclusions and guidance would provide a basis for consistent interpretations of the standards when they are applied in practice and may limit the extent to which conclusions can be based on analogy to any rule that exists. We also believe that fundamental to global harmonization is a common conceptual framework and that all standards and guidance relating to the standards should be anchored into that common conceptual framework to ensure that they are applied uniformly in practice.

Reconciliation of IASC Standards to U.S. Standards

The requirement for foreign companies applying their national GAAP and filing with the Commission to reconcile fully to US GAAP provides U.S. investors with a basis for assessing financial results of the foreign entity on a basis more comparable with U.S. companies. The requirement also eliminates the burden that otherwise would be placed on the U.S. investor to understand the various national accounting requirements of foreign filers. We believe the reconciliation to U.S. GAAP is useful to investors in the U.S., and we understand that certain academic research validates the significance of the information provided by the reconciliation. The reconciliation requirement increases the level of transparency and comparability between foreign and U.S. enterprises.

A goal of the IASC in developing the core standards is to obtain acceptance of such standards in the United States for foreign filers applying IAS without a requirement to reconcile to US GAAP. However, the elimination of the reconciliation requirement would put a burden on the U.S. investor to understand IAS as well as US GAAP and hinder their ability to make appropriate comparisons between foreign filers applying IAS and U.S. registrants. These difficulties would be mitigated to some extent, if acceptance of IAS would lead to their use in place of various national standards that are considered to be below the quality of IAS. We recognize that IAS has received considerable attention in the United States in recent years. It is generally better understood globally than any other set of national standards, perhaps with the exception of US GAAP, and its importance is expected to increase, particularly with the restructuring of the IASC. However, IAS have not been applied widely in public markets of the major countries outside the United States. There is limited experience with certain IAS because they are relatively new or have been recently revised as part of the initiative to complete the core standards for recognition in the United States. The lack of widespread use and understanding of IAS in public markets throughout the world and the lack of experience in applying many of the new standards suggests that it may be difficult to understand results of operations and make appropriate comparisons to U.S. registrants. It also is not clear to many users of financial statements how those standards are being interpreted and applied and how they differ from US GAAP.

However, we believe that a partial exception to the reconciliation requirement could be made for IAS if, and only if, a sufficient level of transparency and comparability can be maintained. The primary motive for providing such exception is the desirability of promoting global harmonization of accounting practices and standards. IAS already provides a basis outside of the United States for harmonization of accounting practices and standards because many national standard setters have adopted various IAS and in some countries they have replaced local standards. Its use throughout the world has increased significantly in the last few years, particularly with the completion of the core standards, and increased acceptance in the United States would further enhance its use and promote greater harmonization. Providing a partial exception to the reconciliation requirement also would recognize the considerable progress that has been made in the development of the IAS core standards, the elimination of many accounting alternatives by the IASC, the participation or oversight of many standard setters and regulators throughout the world in the process, and the progress that has been made and that is expected to continue with the restructuring of the IASC.

As more fully discussed below, our support for a partial exception to the reconciliation requirement is based on our concern that either polar option – no reconciliation or full reconciliation – will be counterproductive to the simultaneous pursuit of both high quality and harmonization. Specifically, we believe that acceptance of IAS in the United States without reconciliation or disclosure of differences in accounting requirements would unquestionably establish IAS as the global standard because it would lead to the increased use of IAS in many countries in which enterprises are seeking access to the U.S. capital markets. However, acceptance of IAS in the United States without some form of reconciliation and disclosure requirements would not lead to harmonization

between US GAAP and IAS because there would be little incentive to eliminate differences in standards. It also would decrease user comprehension because of their inability to understand differences, and would disadvantage U.S. companies unless they had the freedom to choose to report their financial results under US GAAP or IAS. Conversely, full reconciliation to US GAAP would not promote harmonization throughout the world because it would discourage entities seeking access to the U.S. capital markets from using IAS, since they would have to understand fully both sets of standards in order to complete the reconciliation. It also would not recognize the considerable effort that the IASC made to complete the core standards and reduce alternatives and the progress they have made in restructuring for the future.

Our Recommendations for Balancing Different Objectives

We believe the immediate requirement for high quality and transparency can be substantially achieved without hindering the long-term objective of harmonization by providing:

- narrative disclosure of significant areas of difference,
- partial reconciliation by quantifying the impact of specified important areas of differences, and
- an emphasis paragraph in the auditors' report.

A judgment will have to be made about the specified important areas of difference that should be quantified, and it should be based primarily on the potential magnitude of the differences as well as the quality of the standards and the transparency otherwise provided by narrative disclosure of differences. The determination as to what should be eliminated from the current reconciliation requirements will have to be made on a standard-by-standard basis and such determination will require study. The reconciling items should be specifically defined and guidance also should be prepared in the near future to facilitate computations by preparers so that they will not have to learn all of the nuances of US GAAP.

Since IAS would be the only set of standards exempt from full reconciliation, a fourth paragraph in the auditors' report will emphasize areas of differences between IAS and US GAAP and the fact that a complete reconciliation is not required.

We suggest that the following language be included as an additional paragraph in the auditor's report:

As described more fully in Note X to the financial statements, International Accounting Standards differ in some respects from accounting principles generally accepted in the United States of America. The impact on net income and equity is disclosed in Note X for specified areas of differences. A complete reconciliation to US GAAP is not presented. These differences may affect comparisons of these financial statements prepared in accordance with International Accounting Standards and financial statements prepared in

accordance with accounting principles generally accepted in the United States of America.

We believe this approach will ease the use of IAS in the United States for foreign filers because it does not force preparers of financial statements using IAS to understand US GAAP fully to access the U.S. capital markets. We also believe this approach will promote greater acceptance of IAS outside of the United States and will provide an incentive to all parties to pursue a course that will lead to the more timely convergence of IAS and US GAAP.

We believe this approach will maintain high quality, provide transparency, and enhance comparability. It will describe the areas that differ from US GAAP through narrative disclosures in a footnote to the financial statements. It will disclose the magnitude of specified important areas of difference between IAS and US GAAP. It will put readers of the financial statements on notice that differences between IAS and US GAAP are not fully reconciled through the emphasis in the auditors' report and the reference in such report to the disclosures in the footnote to the financial statements.

We recognize that this approach will not satisfy the expectations of all interested constituencies, but we believe it will facilitate the harmonization process in the long term without significantly sacrificing high quality and transparency. We believe that the emphasis of differences in the auditors' report and disclosures in the footnotes will serve as reminders to encourage the FASB and the IASC to work together to seek opportunities to eliminate differences between their respective standards, particularly those identified for quantification in the footnote. Over time, there will be no need for reconciliation and disclosure because there will be no major differences between the standards.

APPENDIX B

Q.1. Do the core standards provide a sufficiently comprehensive accounting framework to provide a basis to address the fundamental accounting issues that are encountered in a broad range of industries and a variety of transactions without the need to look to other accounting regimes? Why or why not?

We believe the core standards provide a sufficient comprehensive framework to provide a basis to address mainstream fundamental accounting issues. We recognize that the core standards are generally broad and tend to be less detailed than US GAAP, however, there is uncertainty as to the extent to which the core standards are being interpreted and applied inconsistently in practice. In general, however, IAS do address accounting for most business transactions that are not unique to individual industries.

Q.2. Should we require use of U.S. GAAP for specialized industry issues in the primary financial statements or permit use of home country standards with reconciliation to U.S. GAAP? Which approach would produce the most meaningful primary financial statements? Is the approach of having the host country specify treatment for topics not addressed by the core standards a workable approach? Is there a better approach?

We note that the IASC is currently making progress in developing guidance for industry-specific issues. If IAS have guidance for specialized industry issues, they should be used. If there is no guidance in IAS, home country standards or US GAAP may be used. If US GAAP is not used, the enterprise should provide a narrative disclosure of significant areas of difference between local and US GAAP and disclosure of the amount of significant differences.

Application of US GAAP to entities in specialized industries where IAS do not provide guidance would have the most relevance and meaning to U.S. investors, as the financial statements would be more comparable to U.S. enterprises. However, provided application of the home country standard is transparent to the financial statement user through narrative disclosure of significant areas of differences with US GAAP and of the quantification of significant differences between local and US GAAP, the use of the home country standard also would be meaningful to users of the primary financial statements.

Having the host country specify treatment for topics not addressed by the core standards is a workable approach and would provide users in the host country with financial statements that are meaningful and useful. However, it may add inefficiency in the preparation of financial statements, as an enterprise may also be

required to apply the accounting treatment prescribed by the host country of another country in which it is “registered.”

Q.3. Are there any additional topics that need to be addressed in order to provide a comprehensive set of standards?

See discussions above.

Q.4. Are the IASC standards of sufficiently high quality to be used without reconciliation to U.S. GAAP in cross-border filings in the United States? Why or why not? Please provide us with your experience in using, auditing or analyzing the application of such standards. In addressing this issue, please analyze the quality of the standard(s) in terms of the criteria we established in the 1996 press release. If you considered additional criteria, please identify them.

We note that there is considerable debate about what constitutes high quality accounting standards. Some believe that detailed standards ensure that the requirements of the standards will be applied and interpreted consistently. Others believe that detailed standards are less clear to understand and, as a consequence, difficult to learn and interpret consistently. They believe that high quality standards are those that focus on concepts and that are written with sufficient clarity so that concepts can be applied and guidance in the standards interpreted consistently with the concepts.

The two views mentioned above are difficult to reconcile. We note that IAS and US GAAP differ in certain areas, but we also note that there can be endless debates about which standards provide the best solution. We believe any evaluation of the quality of IAS will be subject to considerable debate and for that reason, we believe it is more important to focus on disclosing important areas of difference between IAS and US GAAP. What we consider more important and urgent are actions that will promote worldwide convergence of accounting standards without diminishing the quality of financial reporting. Many countries around the world look to IAS as a benchmark to harmonize their accounting standards. This trend has already resulted in significant progress in the quality of financial information around the world. However, further convergence of accounting standards is needed. We strongly believe that removing the requirement for IAS foreign issuers for a full reconciliation with US GAAP will promote the use of IAS and accelerate the trend toward worldwide harmonization of accounting standards.

We believe the reconciliation to US GAAP is useful to investors in the U.S., especially to investors who currently have limited experience with IASC standards. Accepting IAS foreign issuers in the U.S. without reconciliation or disclosure of differences in accounting requirements with US GAAP would decrease user comprehension because of their inability to understand differences. However, we also believe that a full reconciliation to US GAAP is not necessary if differences can be made to be transparent through narrative disclosure. Furthermore, in time, U.S. investors will have an opportunity to become familiar with IAS and obtain an understanding of how they differ from US GAAP. We support retaining a partial

reconciliation requirement for IAS foreign issuers to ensure a sufficient level of transparency and comparability with U.S. enterprises. Our proposal is to require:

- (1) narrative disclosure of significant areas of difference;
- (2) partial reconciliation by quantifying the impact of specified areas of differences; and
- (3) an emphasis paragraph in the auditors' report.

A judgement will have to be made about the specified important areas of difference that should be quantified, and it should be based primarily on the potential magnitude of the differences, as well as the quality of the standards and the transparency otherwise provided by the narrative disclosure of differences. The determination as to what should be eliminated from the current reconciliation requirements will have to be made on a standard-by-standard basis and such determination will require study. The reconciling items should be specifically defined and guidance also should be prepared to facilitate computations by preparers so that they will not have to learn all the nuances of US GAAP.

Since IAS would be the only set of standards exempt from full reconciliation, a fourth paragraph in the auditors' report will emphasize areas of differences between IAS and US GAAP and the fact that a complete reconciliation is not required.

We suggest that the following language be included as an additional paragraph in the auditor's report:

As described more fully in Note X to the financial statements, International Accounting Standards differ in some respects from accounting principles generally accepted in the United States of America. The impact on net income and equity is disclosed in Note X for specified areas of differences. A complete reconciliation to US GAAP is not presented. These differences may affect comparisons of these financial statements prepared in accordance with International Accounting Standards and financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

We believe this approach will ease the use of IAS in the United States for foreign filers because it does not force preparers of financial statements using IAS to understand US GAAP fully to access the U.S. capital markets. We also believe this approach will promote greater acceptance of IAS outside of the United States and will provide an incentive to all parties to pursue a course that will lead to the more timely convergence of IAS and US GAAP.

Q.5. What are the important differences between U.S. GAAP and the IASC standards? We are particularly interested in investors' and analysts' experience with the IASC standards. Will any of these differences affect the usefulness of a foreign issuer's financial information reporting package? If so, which ones?

Several studies regarding the differences between US GAAP and the IAS have recently been completed or are underway. We believe the most significant of these differences between IAS and US GAAP issuers:

- Business Combinations – This is the area where there exists the most significant difference between the two sets of accounting standards; i.e., the ability to use the pooling treatment which is currently more frequent under US GAAP. Other identified key differences exist relating to the accounting for in-process R&D and goodwill and intangible assets amortization periods.
- Capitalize versus Expense (Development Costs) – Internally generated intangible assets arising from development costs are capitalized once certain criteria are met under IAS. No capitalization of development costs is typically permitted under US GAAP.
- Accounting for Stock Compensation – US GAAP includes significant guidance regarding the issuance of stock to employees in exchange for services. Limited guidance relating only to disclosure issues exists under IAS.
- Lack of Specific Industry Guidance – US GAAP includes significant guidance regarding accounting for specific industries. Limited interpretive guidance currently exists under IAS although many projects are under way.

Differences that limit comparability will also limit the usefulness of financial information. However, comparability and usefulness of financial information is retained if sufficient disclosure of the differences is made in the financial statements.

Q.6. Would acceptance of some or all of the IASC standards without a requirement to reconcile to U.S. GAAP put U.S. companies required to apply U.S. GAAP at a competitive disadvantage to foreign companies with respect to recognition, measurement or disclosure requirements?

The impact of accepting in the U.S. some or all of the IAS foreign issuers without reconciliation to US GAAP is difficult to determine. Markets typically react unfavorably to the unknown and, if a company were to file in the U.S. under IAS, the market may adjust accordingly for the “risk factor” associated with the financial statements. This may inhibit enterprises from filing IAS financial statements in the U.S. in the long term. It is also not clear, however, whether a U.S. company might be penalized in the market place if its financial results are perceived to be less favorable than its foreign competitor solely as a result of accounting differences.

Further, if foreign enterprises were permitted to file with the SEC and elect either IAS without reconciliation or US GAAP, U.S. enterprises would be disadvantaged if they did not have the same flexibility. If the SEC ultimately accepts IAS for foreign registrants without reconciliation, it is not clear how to permit the choice of accounting standards in the U.S., without sacrificing comparability.

Q.7. Based on your experience, are there specific aspects of any IASC standards that you believe result in better or poorer financial reporting (recognition, measurement or disclosure) than financial reporting prepared using U.S. GAAP? If so, what are the specific aspects and reason(s) for your conclusion?

It is not difficult to identify those areas where alternatives exist, areas where guidance is lacking and areas where the standards are different from US GAAP. However, the consequences of these differences are subject to considerable debate.

We agree that alternatives within an accounting framework reduce the quality of the resulting financial information. Although IAS permit certain alternative accounting treatments and those accounting alternatives should be generally eliminated, there is debate about the extent to which the allowed alternatives actually impede the comparability when their existence is disclosed.

Although the IASC has recently completed their set of core standards, there are a number of areas for which there is no guidance or limited guidance and other areas for which interpretive guidance is needed. However, there is debate about the extent to which IAS are being interpreted and applied inconsistently in practice.

Although there are a number of IAS that differ from US GAAP, there is debate about which of the standards that differ provide a better solution. In these cases, a cooperative effort between the IASC and FASB to reduce these differences should be encouraged.

Q.8. Is the level of guidance provided in IASC standards sufficient to result in a rigorous and consistent application? Do the IASC standards provide sufficient guidance to ensure consistent, comparable and transparent reporting of similar transactions by different enterprises? Why or why not?

In order for accounting standards to result in rigorous application, the standards must provide concepts and guidance that are clear and understandable so they will be interpreted uniformly. We believe that presently, IAS are generally broad and provide less detailed guidance when compared to US GAAP. However, there is debate about the extent to which IAS are being interpreted and applied inconsistently in practice. It is difficult to assess whether more guidance would really be necessary to ensure consistent, comparable and transparent reporting or whether a clearer reference back to the underlying concepts would produce more rigorous application. We also note from our experience that where IAS are most difficult to implement, it is often because specific local business conditions exist or because a standard deals with already complex issues.

We consider that the review of the standards by IOSCO will provide an assessment of the quality of the standards and will assist in identifying and addressing quality issues. Assuming the restructuring process occurs, the IAS development process for future standards would meet the SEC's approval. Once future standards are issued by the restructured IASC, it would appear reasonable for IOSCO and the SEC to accept or reject standards upon issuance, and would not wait for an assessment period to determine acceptability.

Q.9. Are there mechanisms or structures in place that will promote consistent interpretations of the IASC standards where those standards do not provide explicit implementation guidance? Please provide specific examples.

We consider that the SIC is the most appropriate mechanism to promote consistent interpretation of IAS. We also believe that the SIC should continue to be the only recognized authoritative source of interpretation of IAS. We encourage the SEC to provide input to the SIC and the IASC to ensure that issues encountered will be dealt with appropriately.

In addition to the SIC, other mechanisms to promote consistent interpretation of IAS have developed, including networks of IAS specialists within international auditing firms, working groups in certain countries involving the regulator, auditors, enterprises and other interested parties, to discuss implementation issues of IAS so that interpretation issues can be forwarded to the SIC through the local national standard setter, publications on implementation of IAS and training initiatives.

Within our firm, a procedure has been established to promote consistent responses to accounting questions raised by our various member firms. Various "Centers of Excellence" exist in key geographical locations that serve as IAS technical accounting centers. Questions are raised to the Center of Excellence by the practice offices in their respective geographic region. The Center of Excellence considers the question and provides a response to the practice office. For complex issues, the Center of Excellence may consult with the other Centers of Excellence or the DTT International Accounting Standards and Policies Committee, which meets on a quarterly basis to discuss technical international accounting issues and establish accounting policies for our global member firms. A member from each of the Centers of Excellence is a member of that committee.

Q.10. In your experience with current IASC standards, what application and interpretation practice issues have you identified? Are these issues that have been addressed by new or revised standards issued in the core standards project?

Based on our experience, many of the issues that were previously used to be encountered have been dealt with by new and revised standards. However, additional issues not yet dealt with may arise as these recent standards are applied.

We have observed that application or interpretation issues usually arise when very specific local circumstances have to be dealt with and have not been considered when

the standard was developed. We believe that the difficulty of addressing these issues would also exist to a certain extent whenever any national standard is applied internationally.

Q.11. Is there significant variation in the way enterprises apply the current IASC standards? If so, in what areas does this occur?

Some examples of variation of application of IAS in the past have been made public. Many reasons exist but it is not clear whether the primary reason is a lack of guidance in IAS. Variations also exist when there are detailed rules and transactions that are structured to be on one side of a rule or the other side. One of the reasons for variation is that oversight mechanisms outside the U.S. do not exist or are not strong enough. However, we expect that increase acceptance of IAS foreign issuers in the U.S. under the supervision of the SEC will help strengthening the oversight role of other regulators.

Q.12. After considering the issues discussed in (i) through (iv) below, what do you believe are the essential elements of an effective financial reporting infrastructure? Do you believe that an effective infrastructure exists to ensure consistent application of the IASC standards? If so, why? If not, what key elements of that infrastructure are missing? Who should be responsible for development of those elements? What is your estimate of how long it may take to develop each element?

The essential elements of an effective financial reporting infrastructure should include:

- Independent technical accounting standard setters operating in the public interest. We support the standards development structure envisioned in the restructured IASC. We believe that if it operates as intended, it will provide this essential element.
- Public oversight over the accounting standards development process. The involvement of the public in the standards development process is an essential component of gaining broad acceptance of the standards and ensuring that all views are considered in the process.
- An interpretive function – Timely and effective development of accounting interpretations that are consistent with the general framework is an essential element.
- Independent Auditors – Independent auditors are an essential element in an effective financial reporting structure. Independent auditors apply the audit standards to determine whether financial statements are in accordance with accounting standards. Auditors utilize all the other pieces of the financial reporting infrastructure.

- Strong Audit, Independence and Ethical Standards – Auditors are only as effective as the standards in which they are required to uphold. Uniform sufficient rigorously interpreted auditing standards are essential.
- Sound corporate governance practices by enterprises – For high quality financial reporting, it is essential that enterprises themselves have practices to encourage issuance of high quality information.
- Active oversight by regulators – Regulators should require application of accounting standards on a consistent basis. A strong global regulatory body is essential to ensure consistency and high quality accounting positions that serve global concerns. We recognize the difficulties in the rapid international convergence of securities laws due to the different legal environment that exists in each country, however efforts should continue in this area.
- Education – An education system which promotes technical competence in each required element above.

We believe the current proposal for restructuring the IASC provides a good foundation for an effective financial reporting infrastructure. We support the restructuring efforts of the IASC. We believe that assuming the restructured IASC operates in the manner in which it is intended, it will prove to be an important part of an effective infrastructure for the standards development process.

Ideally, we would expect to see all the other aspects of the infrastructure implemented worldwide for all types of financial reporting. While we believe that these elements are important to improve the quality of financial reporting worldwide, we do not believe that the absence of one of these components alone necessarily should impede the acceptance by the SEC of IAS foreign issuers in the U.S. under the conditions described at Question 4.

Indeed, there is already an infrastructure in place for the audit of financial statements of foreign issuers that are listed in the U.S. This infrastructure should also be applicable to IAS foreign issuers listed in the U.S. In addition, we believe that there will be sufficient knowledge of IAS by foreign issuers that want to list in the U.S., as well as their auditors. As explained above, many countries have fully or partially used IAS as a benchmark to develop their own standards. In addition, the incentive will be such that we can expect that enterprises and auditors will ensure that appropriate knowledge of IAS exists before listing in the U.S.

We also acknowledge the active role of the SEC as a regulator to provide oversight in the development of standards and to provide enforcement. We would recommend that the SEC and the other worldwide regulators cooperate actively in developing a mechanism that would strengthen global regulation. This action could be done on an informal basis initially; however, subsequent actions will require formalization of the process.

Q.13. What has your experience been with the effectiveness of the SIC in reducing inconsistent interpretations and applications of IASC standards? Has the SIC been effective at identifying areas where interpretive guidance is necessary? Has the SIC provided useful interpretations in a timely fashion? Are there any additional steps the IASC should take in this respect? If so, what are they?

The SIC is the appropriate body within the financial reporting infrastructure to provide interpretations of IAS. The SIC has been effective with the interpretations it has issued to date. However, with increasing use of IAS, the volume of the issues undertaken by the SIC should be increased. The agenda should be expanded through additional meetings added to their schedule and their activities should be fully supported by the IASC staff. Additional interpretive and implementation guidance also should be prepared by the full time IASC staff. We also believe that the revised IASC structure will facilitate identification of potential interpretation areas by the SIC. We recommend that the position chairman of the SIC be a full time position, the chairman should report to the IASC, and the technical activities of the SIC be fully supportive by the staff of the IASC.

Q.14. Do you believe that we should condition acceptance of the IASC standards on the ability of the IASC to restructure itself successfully based on the above characteristics? Why or why not?

The future development of high quality accounting standards is an essential component of any set of accounting standards. If the proposed restructuring of the IASC is approved there will be an appropriate mechanism to develop high quality standards in the future. We consider that, since the SEC is largely involved in the implementation of the new structure, any period to condition acceptance of IAS on the ability of the IASC to restructure itself successfully should be limited to successful completion of the designation of IASC Board members and assurance that the new organization will have sufficient funding to operate in the short and medium term.

Q.15. What are the specific practice guidelines and quality control standards accounting firms use to ensure full compliance with non-U.S. accounting standards? Will those practice guidelines and quality control standards ensure application of the IASC standards in a consistent fashion worldwide? Do they include (a) internal working paper inspection programs and (b) external peer reviews for audit work? If not, are there other ways we can ensure the rigorous implementation of IASC standards for cross-border filings in the United States? If so, what are they?

Practice offices outside of the U.S generally perform audits of financial statements of enterprises using non-U.S. accounting standards. These non-U.S. practice offices must follow our international audit approach that is generally based on ISA (International Standards on Auditing of the IFAC). Procedures include mandatory

review by an independent professional of procedures performed, including review of certain internal working papers, to ensure that our opinion is appropriate before any report is issued. There also exist specific quality control procedures for any attest engagement that are SEC registrants to ensure, among other things, that audit procedures meeting the expectations of the U.S. environment have been performed. These procedures would apply to any IAS foreign issuer to be listed in the U.S. Our policies eventually will also require a review by an IAS specialist of all IAS financial statements to be listed by a foreign issuer in the U.S.

In addition, the member firms are subject to an accounting and auditing practice review that is conducted on a regular basis worldwide to ensure that, among other things, there is reasonable assurance about compliance with DTT policies and procedures and with local laws. If member firms have attest clients who are SEC registrants, the practice review team should also include an SEC engagement reviewer.

Finally, external peer reviews of audit work performed outside of the U.S. exist in some of the countries of our member firms.

As discussed earlier, the firm has an internal process for promoting consistent accounting interpretations of IAS. It should be noted that accounting consultation is not mandatory. Our process relies on professional judgement of the engagement partner.

Q.16. Should acceptance of financial statements prepared using the IASC standards be conditioned on certification by the auditors that they are subject to quality control requirements comparable to those imposed on U.S. auditors by the AICPA SEC Practice Section, such as peer review and mandatory rotation of audit partners? Why or why not? If not, should there be disclosure that the audit firm is not subject to such standards?

We support a certification process for auditors that opine on financial statements prepared using IAS. We support moving toward the implementation of worldwide quality control standards.

Q.17. Is there, at this time, enough expertise globally with IASC standards to support rigorous interpretation and application of those standards? What training have audit firms conducted with respect to the IASC standards on a worldwide basis? What training with respect to the IASC standards is required of, or available to, preparers of financial statements or auditors certifying financial statements using those standards?

We believe that there is enough expertise globally with IAS to support appropriate interpretation and application of those standards by IAS foreign issuers in the U.S. Many countries have undertaken convergence and harmonisation programmes with IAS. In addition, the need for a high quality financial reporting based either on IAS or US GAAP was identified a long time ago by multinational enterprises. As a result, some training initiatives on IAS have been implemented globally for accountants,

enterprises, regulators and local users of financial statements particularly dealing with multinationals either through the education system or private initiatives. In some countries, CPA exams also include questions on IAS.

As a firm, we have developed comprehensive training in each IASC standard. This training is available to all our member firms and is generally utilized by practitioners serving clients using IAS. The delivery of this training to the practitioners is provided regionally on an annual basis and locally in the individual offices determined at the local office level.

We believe training requirements with respect to preparers using IAS is difficult to determine as the level of competence differs among entities, and the similarity of national standards with IAS affects the level of training required. However, we also provide training in specific areas of IAS for clients that use or are interested in IAS.

Q.18. Is there significant variation in the interpretation and application of IASC standards permitted or required by different regulators? How can the risk of any conflicting practices and interpretations in the application of the IASC standards and the resulting need for preparers and users to adjust for those differences be mitigated without affecting the rigorous implementation of the standards?

Regulators or national standards setters could specify interpretations of IAS that have not been approved by the SIC and the application specified may be subject to debate. Consequently, we consider that any local interpretation of IAS should ultimately be addressed by the SIC. As a result, we support effective communication between national standard setters and regulators and the SIC. In addition, we suggest that the financial statements should disclose the use of any interpretation by national standard setters or regulators not yet addressed by the SIC.

Q.19. Would further recognition of the IASC standards impair or enhance our ability to take effective enforcement action against financial reporting violations and fraud involving foreign companies and their auditors? If so, how?

We are not in a position to respond to this question.

Q.20. We request comment with respect to ways to assure access to foreign working papers and testimony of auditors who are located outside the United States. For example, should we amend Regulation S-X to require a representation by the auditor that, to the extent it relied on auditors, working papers, or information from outside the United States, the auditor will make the working papers and testimony available through an agent appointed for service of process? If not, should we require that the lack of access to auditors' workpapers be disclosed to investors? Is there another mechanism for enhancing our access to audit working papers and witnesses outside the United States?

Based on the different legal environments that exist in the different jurisdictions, we believe it would be difficult to proceed with a legal solution to this problem.

However, we would not oppose a requirement to disclose whether access to foreign workpapers and testimony of auditors who are located outside of the United States is restricted in any way. If such a disclosure is made, the market may adjust the valuation to account for the risk associated with this restriction. If the market did adjust for such a risk, registrants may be receptive to requiring their auditors to make working papers available to the SEC.

In the long term, the role of the International Organization of Securities Commissions should be strengthened to provide for reciprocating rights between the different regulators.

Q.21. What has been your experience with the quality and usefulness of the information included in U.S. GAAP reconciliations? Please explain, from your viewpoint as a preparer, user, or auditor of non-U.S. GAAP financial statements, whether the reconciliation process has enhanced the usefulness or reliability of the financial information and how you have used the information provided by the reconciliation. Please identify any consequences, including quantification of any decrease or increase in costs or benefits, which could result from reducing or eliminating the reconciliation requirement.

While the lack of expertise in US GAAP in other countries creates potential issues regarding the appropriate application of US GAAP in the reconciliation, our internal quality control process mitigates those risks. The usefulness of the information included in the US GAAP reconciliation is dependent on the users understanding of US GAAP and local GAAP. The requirement for foreign companies applying their national GAAP and filing with the SEC to reconcile fully to US GAAP provides U.S. investors with a basis for assessing financial results of the foreign entity on a basis more comparable with U.S. companies. The requirement also eliminates the burden that otherwise would be placed on the U.S. investor to understand the various national accounting requirements of foreign filers.

A goal of the IASC in developing the core standards is to obtain acceptance of such standards in the U.S. for foreign filers applying IAS without a requirement to reconcile to US GAAP. However, the elimination of the reconciliation requirement would put a burden on the U.S. investor to understand IAS as well as US GAAP and hinder their ability to make appropriate comparisons between foreign filers applying IAS and U.S. registrants. These difficulties would be mitigated to some extent, if acceptance of IAS would lead to their use in place of various national standards that are considered below the quality of IAS. We recognize that IAS have already received considerable attention in the U.S. in recent years. We believe that IAS will generally be better understood than any other set of foreign national standards. However, IAS have not been applied widely in public markets of the major countries outside the U.S. There is limited experience with certain IAS because they are relatively new or have been recently revised as part of the initiative to complete the core standards for recognition in the U.S. It also is not clear to many users of financial statements how those standards are being interpreted and applied and how they differ from US GAAP. The elimination of the reconciliation requirement would

reduce the level of comparability between foreign and U.S. enterprises and, therefore, we do not believe that, at this point, the elimination of the requirement would be in the best interests of the capital market participants.

However, as expressed at Question 4, we believe that a partial exception to the reconciliation requirement could be made for IAS if a sufficient level of transparency and comparability can be maintained. We believe that the increased use of IAS by foreign registrants in the United States will promote its use globally and, accordingly, increase generally the quality of accounting standards in the rest of the world. It also will provide an impetus to reduce differences in accounting standards between US GAAP and IAS, and lead to greater harmonization of accounting standards throughout the world. IAS already provides a basis outside the U.S. for harmonization of accounting practices and standards because many national standard setters have adopted various IAS and in some countries they have replace local standards. However, acceptance of IAS in the U.S. without some form of reconciliation and disclosure requirements would not lead to harmonization between US GAAP and IAS because there would be little incentive to eliminate differences in standards. It also would decrease user comprehension because of their inability to understand differences. Conversely, full reconciliation to US GAAP would not promote harmonization throughout the world because it would discourage entities seeking access to the U.S. capital markets from using IAS, since they would have to understand fully both sets of standards in order to complete the reconciliation.

We believe that our proposed approach will maintain high quality information, provide transparency and enhance comparability. It will describe the areas that differ from US GAAP through narrative disclosures in a footnote to the financial statements. It will disclose the magnitude of specified important areas of differences between IAS and US GAAP. It will put readers of the financial statements on notice that differences between IAS and US GAAP are not fully reconciled through emphasis in the auditors' report and the reference in such report to the disclosures in the footnote to the financial statements.

We recognize that this approach will not satisfy the expectations of all interested constituencies, but we believe it will facilitate the harmonization process in the long term without significantly sacrificing high quality, transparency and comparability.

Q.22. Should any requirements for reconciliation differ based on the type of transaction (e.g., listing, debt or equity financing, rights offering, or acquisition) or the type of security (e.g., ordinary shares, convertible securities, investment grade or high yield debt)? Are there any other appropriate bases for distinction?

We do not see how the needs of the users of the financial statements should differ based on either the type of transaction, or the type of security.

Q.23. If the current reconciliation requirements are reduced further, do you believe that reconciliation of a "bottom line" figure would still be relevant (e.g., presenting net income and total equity in accordance with U.S. GAAP)?

As explained above, we believe that a partial exception to the reconciliation requirement could be made for IAS if, and only if, a sufficient level of transparency and comparability can be maintained. The foreign enterprise filing in the U.S. should: (1) provide a narrative disclosure of significant differences from US GAAP; (2) quantify and disclose the impact in the financial statements of specified important areas a difference; and (3) include a emphasis paragraph in the auditors' report. A bottom line figure is not necessary. A determination as to what should be eliminated from the current reconciliation requirements will require study.

Q.24. Should any continuing need for reconciliation be assessed periodically, based on an assessment of the quality of the IASC standards?

The continuing need for a reconciliation should not only be based on the quality of the IAS, but on differences between US GAAP and IAS. The reason for the reconciliation is to provide to a certain extent comparability of the foreign registrant's financial statements to the financial statements filed by others in the U.S. Once the restructured IASC is in place, we would encourage the FASB and other national standards setters to continue to work toward standard revisions that will reduce differences between IAS, US GAAP and other local GAAP. We believe that our proposal for an emphasis of differences in the auditors' report and disclosures in the footnotes will serve as reminders to encourage the FASB and the IASC to work together to seek opportunities to eliminate differences between their respective standards, particularly those identified for quantification in the footnote. Over time, there will be no need for reconciliation and disclosure because there will be no major differences between the standards.

Q.25. The IASC standards finalized as part of the core standards project include prospective adoption dates. Most standards are not required to be applied until fiscal years beginning on or after January 1, 1998, at the earliest. Should we retain existing reconciliation requirements with respect to the reporting of any fiscal year results that were not prepared in accordance with the revised standards or simply require retroactive application of all revised standards regardless of their effective dates? If not, why not?

By requiring retroactive application of all revised standards to any reporting period in which the standards were not applied, the SEC would be effectively changing the effective date provisions of the IAS. If the SEC were to require the application of standards prior to their effective date under IAS, it would appear that statements filed with the staff would not be in accordance with IAS. If the SEC prefers retroactive application of standards, it should communicate this preference as part of the IAS development process.

Q.26. Does the existence of a reconciliation requirement change the way in which auditors approach financial statements of foreign private issuers? Also, will other procedures develop to ensure that auditors fully versed in U.S. auditing requirements, as well as the IASC standards, are provided an opportunity to review the financial reporting practices for consistency with those standards? If so, please describe these procedures. Alternatively, will the

quality of the audit and the consistency of the application of the IASC standards depend on the skill and expertise of the local office of the affiliate of the accounting firm that conducts the audit?

The existence of a reconciliation requirement necessitates the participation in the audit engagement of an auditor that is well versed in US GAAP and the requirement to establish a process to ensure that differences between US GAAP and local GAAP are identified and understood.

We agree that the quality of the audit and the consistency of the application of the IAS depend on the skill and the expertise of the member firm that conducts the audit. While a significant portion of the audit of a foreign registrant is dependent on the local office, the involvement of appropriate specialists in the review of the financial statements provides an additional quality control check to ensure compliance with requirements applicable in the U.S. environment.