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Mr. John M. Morrissey
Deputy Chief Accountant
United States Securities and Exchange Commission
Washington, DC 20549

Dear Mr. Morrissey:

Your speech to the 28th Annual National Conference on Current SEC Developments has been brought to my attention, and I wish to respond to a number of your comments in my capacities as President of the International Federation of Accountants (IFAC) and Chairman of the International Forum on Accountancy Development (IFAD).

In summary I read your criticisms to be that IFAC has not been sufficiently vigorous in its efforts to improve auditing, ethical and quality assurance standards; that IFAD's progress in raising the quality of financial reporting and auditing worldwide has been impeded by excessive emphasis on country action plans; and that the large international firms have not assumed responsibility for adhering to high quality auditing standards on a worldwide basis.

While IFAC and IFAD, and I am sure the large firms, always welcome constructive dialogue concerning implementation of the IFAD vision of improved quality, your public criticisms seriously misrepresent the content of the vision itself, the actions that have been taken to begin implementation, and the actions that are underway.

The IFAD vision has always rested on three pillars -- each of which is an integral and important part of the plan, if we are to achieve success:

- A significant strengthening of IFAC as the global self-regulatory body for the profession, including improvements in standards and compliance;
- Actions by the large international firms with respect to assuring the quality of the opinions they give; and
- A worldwide effort, on a country-by-country basis, to improve the financial reporting and auditing infrastructure.

The vision also presumed cooperation between those involved in the development and improvement of financial reporting and the active participation of all concerned.

With respect to the improvement of IFAC standards and compliance, three initiatives have been launched and are making significant progress.

- First, in the area of auditing standards, the International Auditing Practices Committee (IAPC) has agreed to a program for swifter conclusion of outstanding projects and the large firms have seconded managers to IFAC on a full-time basis to remove the backlog. IFAC will shortly initiate a review of the IAPC's membership, organization and processes to enhance the development of standards in the future. The task force set up for this purpose will make its initial report to the IFAC Board in April 2001 and it is expected that the final plan will be ready mid-2001.
- Second, in the area of professional ethics, the IFAC Ethics Committee is nearing completion of its review and reform of the independence section of its Code of Ethics. This will include significant changes and strengthening.
- Third, IFAC has launched a new Compliance Committee, which met for the first time in September. The Committee is charged with developing and implementing methods to ensure that the IFAC member bodies in 113 countries are complying with their obligations as members of IFAC and that they have appropriate disciplinary procedures and processes in place, to ensure that their own members comply with their own national standards or, where they are used, the international standards (including those of IASC).

With respect to international auditing firms' quality assurance, the large firms have committed themselves to working with IFAC in creating an entirely new section of the Federation – the IFAC Forum of Firms (FOF) and the Transnational Auditors Committee (TAC) – devoted exclusively to this purpose. This is explicitly addressed in the IFAD vision statement. Membership in the FOF is open to firms of all sizes that have transnational audit appointments or are interested in accepting such appointments, agree to conform to the FOF Quality Standard, and agree to subject their assurance work to periodic external quality assurance reviews. The FOF Quality Standard includes:

- Having audit policies and a methodology for conducting transnational audits in accordance with International Standards of Auditing;
- Complying with the IFAC Code of Ethics;
- Maintaining relevant training programs to keep partners and staff aware of international developments; and
- Maintaining appropriate quality control standards and conducting regular quality assurance reviews to monitor compliance with the firm's policies and methodology.

Invitations have been sent to prospective members and an initial meeting has been set for January 18, 2001. The seven largest international firms have confirmed their intent to participate in the discussions, and informal contacts suggest that a number of other firms

will join the effort as well. Detailed operating procedures are being completed and we hope to formally launch the FOF and TAC by April 1.

I understand that the five largest international firms have implemented a program of explicitly identifying, in their audit reports, the nationality of accounting and auditing standards used in the preparation of financial and audit reports and including certain cautions in reports of companies in some countries to more fully inform potential cross-border users. In addition, the firms will be publishing a report in January – “GAAP 2000” – which summarizes the main differences between national accounting standards and International Accounting Standards for 53 countries. This is an important public service contribution to users of financial statements.

The efforts to strengthen IFAC and to develop a rigorous and organized program of quality assurance for international firms have proceeded in parallel with efforts to improve the infrastructure for financial reporting and auditing through country action plans. Given the enormous financial and personnel resources that are being applied to the initiatives described above, it is laudable that there is also work being done at the country level. Substantial work also has been completed on the key benchmarking methodologies that will be used in country assessments. Additional resources are being committed to this effort by IFAC’s member bodies and the large international firms.

Two other matters also deserve attention. I took note of your comments concerning public oversight of the profession and the establishment of an international Public Oversight Board (POB). I reiterate what I said to you at the September 20 ISC meeting in Basel: IFAC is fully committed to the establishment of a truly independent, credible and respected POB as a critical part of its transformation into the global self-regulatory body for the accounting and auditing professions. The IFAC Board, at its meeting in November, reconfirmed this commitment. I also must reiterate, however, the fundamental principles that are guiding us in establishing the POB:

- It must be truly independent – of the profession, the regulators and other interested parties – if it is to provide a credible public interest perspective;
- Its role must be oversight, not execution or management; and
- Its charter must necessarily reflect a global perspective that takes into account a variety of national professional, regulatory and legal environments.

In approaching this task, we have considered both the O’Malley Panel report and the United Kingdom’s new framework, among other models recommended to us.

Finally, I must admit to a degree of puzzlement, if not disappointment, at your remarks of December 5th, as IFAD has made extraordinary efforts to keep the US Securities and Exchange Commission (SEC) informed of progress in implementing all aspects of the vision and you have had a member of staff present at the meetings of both IFAD and the ISC. In response to the Chief Accountant’s letter of February 23rd, my predecessor, to whom it was addressed, spoke directly with Mr. Lynn Turner and Ms. Mary Tokar within

days of its receipt to address the concerns expressed. In addition, I am aware that representatives of the large firms, who are direct participants in IFAD, subsequently briefed

the US SEC staff, including the Chief Accountant on June 12th and you, in Mr. Turner's absence, on September 8th, concerning all aspects of the vision and the status of implementation.

We are in the process of enormous change in the global profession that requires the cooperative efforts of a vast number of players and the coming together of highly varied practices and approaches laden with disparate cultural, legal, professional and regulatory traditions. It goes without saying that accomplishing change of the scope described is a complicated task and requires time if it is to be completed in a professional and credible manner. As I mentioned at the outset of this letter, we welcome constructive dialogue on the content of the vision and on ways to speed the pace of implementation, but public statements that do not reflect what has been accomplished and the efforts underway do a disservice to our common objective.

The profession and the other member organizations of IFAD very much need the active support and participation of regulators around the world, if they are to achieve their public interest goals of enhanced standards of financial reporting and auditing and of stronger financial architecture around the world. I look forward to working with you towards achievement of these goals.

Sincerely,



Tsuguoki Fujinuma
President
International Federation of Accountants, and
Chairman
International Forum on Accountancy Development

Copies to:

Arthur Levitt
Chairman, IASC
IFAC Board Members
IFAD and ISC Participants