FINANCIAL EXECUTIVES INSTITUTE

June 16, 2000

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

Subject: Concept Release on International Accounting Standards
(File Reference No. S7-04-00)

Dear Mr. Katz,

The Committee on Corporate Reporting appreciates the opportunity to comment on the Commission's Concept Release (the "Release") on behalf of the Financial Executives Institute (FEI). The Release poses a number of very difficult questions for which there are no obvious right answers. In addition, solutions that appear to provide greater investor protection in the short term may actually slow the pace of progress in raising the quality of global financial reporting over the long term. FEI's views on the key issues and the basis for our conclusions are discussed below. Responses to the specific questions posed in the Release are included in Attachment 1.

The Level Playing Field Debate

The central issue in the Release is whether International Accounting Standards (IAS) should be accepted in U.S. capital markets without reconciliation. Much of the debate on the core standards project has centered on the issue of whether acceptance of IAS would create an "unlevel playing field" between U.S. companies and their foreign counterparts. Certainly, views on this issue will depend on what commentators believe the playing field is. For those who hold the view that it is the U.S. capital markets, the most equitable solution would be to require all registrants to prepare financial statements in full compliance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) – in contrast to reconciling – and ensure that such information is filed quarterly. Obviously, such a solution is not even on the table for discussion and we do not propose it because we believe it is inappropriate to make the simplifying assumption that U.S. investors and capital markets represent a closed system. As we discuss further below, protection of U.S. investors cannot be accomplished solely by focusing on regulation of U.S. capital markets. If the Commission chooses to impose such a restricted scope, by virtue of the limitations of its jurisdiction, we would observe that the present requirement to reconcile to U.S. GAAP is not the panacea for the underlying issues associated with financial reporting by foreign registrants that some believe it is, and that reality significantly complicates the ability to identify an effective regulatory solution – even from the perspective of U.S. markets.

FEI believes that the playing field is more appropriately defined in terms of the global capital markets, which trade on information prepared in accordance with various national GAAPs (and to a limited extent, IAS), and are subject to varying degrees of audit, securities regulation and oversight. Trading of equities in foreign capital markets by U.S. institutional investors on a massive scale has been a reality for much of the last decade and continues to grow at a rapid pace. More recently, the national capital markets themselves have begun to consolidate and become more integrated as the emergence of the Internet and electronic trading networks have removed many of the traditional barriers to cross-border trading activity. Consider the recently announced merger of the London Stock Exchange and Deutsche Bourse and their intention to link the new entity, iX, with NASDAQ. Then there are the recent discussions by the New York Stock Exchange regarding links with Euronext (the merger of the Paris, Amsterdam, and Brussels Bourses) as well as potential links with the Toronto Stock Exchange and exchanges in Latin America. While these new endeavors will inevitably have their share of difficulties, and perhaps failures, the irresistible forces underlying their formation should not be underestimated or ignored. Trading on foreign exchanges by U.S. institutional investors will continue to grow in importance as American portfolio managers look to emerging markets for higher investment returns.

The linkages described above serve to make cross-border trading activities easier to undertake and more cost effective to transact, which is likely to attract a large number of individual U.S. investors who are less aware of the caveats associated with using non-U.S. GAAP financial information for investment decisions. The Wall Street Journal recently published a special section on global investing that provided an executive summary of key information deemed necessary for those choosing to invest directly in major capital markets around the world.[1] One would have expected that major differences in home country accounting standards compared to U.S. GAAP would factor heavily in an investor's decision on whether and how to invest in securities in each of these markets but such differences were never discussed in any of the country by country analyses. Should individual investors in foreign equities be cognizant of the fact that the tax-oriented accounting model in Germany could produce radically different financial results than would be reported under investor-oriented accounting models like those underlying U.S. GAAP or IAS? Should those investors understand that accounting standards for business enterprises in the People's Republic of China amount to fewer than 100 pages of guidance – before they invest in Chinese companies? While it would appear to be a reasonable expectation that such questions would be asked and precautions would be taken, we don't expect that the vast majority of today's E*Trade generation will think to look past the financial data on their computer screens. It would therefore appear to be in our best interests to help foster an environment in markets outside the U.S. that favors accounting standards that rely on an investor-oriented framework like IAS. Such an approach would ensure that investor decisions on allocation of capital between U.S. and foreign companies will be based on financial information that is at least <u>reasonably</u> comparable and we believe that IAS presents a better alternative than bodies of accounting standards of most other nations.

Regulation of U.S. Capital Markets in the Future

As it becomes easier for U.S. investors to trade foreign stocks, one must ask whether it is time to explicitly consider the issue of whether an exclusive, nationalized approach to accounting standards and securities regulation will continue to be effective and in the best interests of those investors.

[1] Global Investing, Section R, Wall Street Journal, May 8, 2000

We believe that the Release presents the opportunity to engage in that debate and to fashion a solution that works most effectively in the integrated global capital market system that will define the future.

It also seems an appropriate time to reevaluate the overall framework for regulating foreign registrants under existing U.S. securities laws, rather than limiting the focus to those changes necessary to facilitate acceptance of IAS. One high priority area for reconsideration is the large number of national GAAPs that the SEC accepts for use in the primary financial statements filed by foreign registrants. In its response to the Release, PricewaterhouseCoopers estimated that the Commission currently accepts the national accounting standards of roughly 40 different countries in addition to IAS standards. Although foreign registrants are ultimately required to reconcile earnings and equity in the primary financial statements to U.S. GAAP, it is difficult for us to accept that the Commission can effectively review filings prepared in accordance with so many disparate accounting regimes. We are openly skeptical as to whether the Commission has the same degree of insights into potential issues and emerging trends within each of those bodies of accounting standards as it has with U.S. GAAP. To the extent that it does not, reviews of the 1,200 foreign registrants that do not follow U.S. GAAP will fall short of the high standards applied to U.S. companies.

We also note that foreign registrants are granted a number of important concessions under existing securities laws.[2] The most significant concessions relate to interim reporting, where foreign registrants are not required to file interim financial reports with the Commission unless they make such information available in their home countries, which frequently translates into semi-annual reporting for many European companies. Moreover, unlike annual filings on Form 20-F, those interim reports are not required to be reconciled to U.S. GAAP or supplemented with U.S. GAAP disclosures. In robust, liquid capital markets where prices react to financial information as soon as it is released, such lapses in reporting are difficult to justify. As we discuss later in this response, to the extent that the body of GAAP in question is not based on an investor-oriented model like U.S. GAAP, it is difficult to believe that the primary financial statements are all that helpful to U.S. investors in making decisions about how to allocate capital vis-a-vis U.S. companies.

FEI believes that the multitude of national GAAPs accepted by the Commission and the concessions provided to foreign registrants under existing securities laws provide an unfair advantage to foreign registrants relative to U.S. companies today. We further believe that it is essential that these issues are addressed as part of any future reforms the Commission undertakes in the next phase of this process.

FEI's Position on Acceptance of IAS

FEI believes that the IASC has made a good faith effort to deliver high quality standards in accordance with the terms of the core standards work program. As with any body of accounting standards (including U.S. GAAP) IAS is not free of problems. However, we observe that those problems are potentially solvable in the short term through the specific terms of the SEC's acceptance of IAS and in the long term through revisions to the standards in question by the restructured IASC Board. In their present form, IAS represent a reasonably comprehensive set of

[2] "Report on Promoting Global Preeminence of American Securities Markets", U.S. Securities and Exchange Commission, October 1997, pg 28.

standards that can serve as a global "passport" for companies to register and trade on markets outside their home market. However, the question of whether IAS will ever be widely used in that capacity depends at least in part on the actions of the SEC. The world at large will closely watch the way in which the SEC discharges its consideration of these standards and may follow its lead. It is clear to us that the legitimacy of the newly restructured IASC Board and the prospects for adequate funding also will be strongly influenced by the SEC's decisions. If the conclusion of that process is that full reconciliation to U.S. GAAP is still required, things might go very badly for the new IASC.

FEI believes that U.S. capital markets are better served by having foreign registrants use an investor-oriented accounting model like IAS in the primary financial statements rather than providing bits and pieces of financial data that reconcile to U.S. GAAP supplementally. We also believe that the expanded use of IAS in world markets, which is much more likely to occur with SEC acceptance in the U.S., will further improve the comparability of financial results between U.S. and foreign companies. We would therefore support the Commission's acceptance of IAS for use in U.S. capital markets, provided that the following additional steps are taken:

- Limit the choices of GAAP available to foreign registrants to two: U.S. GAAP or IAS.
- Require that foreign registrants comply fully with the same regulations that apply to U.S. public companies, including reporting U.S. or IAS GAAP financial statements for <u>all</u> interim periods.
- Actively support processes that will accelerate the development of a single set of global accounting standards that will be used in all securities markets.
- Ensure that U.S. and foreign registrants are treated equally in all respects under federal securities laws, including the right of all registrants to follow IAS standards.
- Require that these changes be effected over a time frame of no greater than five years and do not "grandfather" existing foreign registrants.

FEI strongly believes that once IAS is accepted in U.S. capital markets, the Commission must treat U.S. companies on an equal basis. If foreign companies have a choice to follow U.S. GAAP or IAS, U.S. companies should have that same option. With the globalization of manufacturing and sales activities of most multi-national corporations, the categorization of registrants as foreign or domestic is a distinction without a difference.

<u>Issues with Continued Reconciliation</u>

Many in the investment community have questioned the usefulness of the required reconciliation to U.S. GAAP, stating that it is impossible to forecast items contained in the reconciliation for purposes of predicting a company's future results. Those users maintain that they develop forecasts and related valuations based on a foreign registrant's local GAAP financial statements with full knowledge of the significant caveats associated with this practice. In circumstances in which the national standards followed by the registrant are radically different from U.S. GAAP (e.g., German GAAP) the primary financial statements are practically useless for this purpose. We therefore believe that the Commission should implement our first recommendation regardless of whether it chooses to continue to require reconciliation from IAS to U.S. GAAP. By limiting the choices of acceptable GAAP available to foreign registrants to International Accounting Standards and U.S. GAAP, the number of differences will be substantially reduced and should continue to shrink over time as further advances are made to IAS and U.S. GAAP.

We also believe that the investor protection benefits that result from the reconciliation to U.S. GAAP are sometimes overstated by those who advocate their continuance. Recent revelations about issues with one "blue chip" foreign registrant provide a case in point. The registrant in question has been an NYSE listed company since 1996 and, in accordance with existing requirements, it annually filed financial statements on Form 20-F that reconciled its results from German GAAP to U.S. GAAP. A recent article suggested that the value of that registrant's real estate holdings may be overvalued by as much as $6 billion and that this circumstance dates back to a period before the company's initial listing on the NYSE.[3] While it is difficult to make a judgment based on such reports, if the allegations are subsequently proved to be accurate, it would appear that a significant impairment write-off should have been reflected back in 1996 in the Form 20-F reconciliation and continued to be reported in filings in subsequent years. However, it was not reported back then and the matter did not surface in subsequent reviews, if any, by the Commission. One can only speculate as to whether preparation of the primary financial statements in accordance with IAS or U.S. GAAP would have produced a different outcome. We believe that it would have made a difference because foreign registrants would be more likely to focus on such recognition and measurement issues in preparing complete financial statements in accordance with U.S. or IAS GAAP rather than simply reconciling to a U.S. GAAP net income figure.

The Commission is likely to receive letters from other respondents that support continued reconciliation in full, or partial acceptance of IAS coupled with reconciliation for standards that are not accepted. FEI observes that acceptance of some but not all of IAS will be problematic to implement. Such an approach creates a situation in which the bottom line of the reconciliation will never again equal U.S. GAAP net income. If the SEC decides to require a partial reconciliation, it is unclear what the new objective of that requirement will be. Alternatively, while accepting none of the IAS standards preserves the meaning of the reconciliation, it also calls into question the basis for the SEC's affirmative vote in IOSCO's approval of the core standards on May 17 of this year. We do not believe that acceptance of portions of IAS coupled with continued reconciliation for other parts can be justified conceptually and it is likely to be received very poorly by those who have waited patiently for this process to be completed. We also note that if the SEC simply updates its reconciliation requirements to accept only those standards that are substantially the same as U.S. GAAP, supporters of the core standards program will be justified in questioning the purpose of the original agreement.

FEI believes that the SEC should endorse the IASC standard-setting process rather than approving each IAS individually, much like it handles its relationship with the FASB. To do otherwise puts the Commission in the role of a de-facto standard setter for IAS, at least as far as the U.S. markets are concerned. That said, FEI also understands that accepting an entire body of standards like IAS is a special circumstance. Accordingly, we could understand and accept that some degree of supplemental disclosures may be necessary in particular areas and that some allowed alternatives currently permitted under IAS may need to be prohibited. We believe that such actions should be limited to areas that the Commission believes are critical to investor protection and that the new

[3] "Big Questions for Deutsche Telekom", Barron's Online, May 30, 2000.

IASC Board should undertake projects to address those areas in due course. We also believe that the SEC should be prepared to accept the results of those further efforts.

<u>Global Financial Reporting Infrastructure</u>
Issues relating to the quality of global audits, the rigor of auditing standards and regulatory oversight in jurisdictions outside the United States are matters that warrant immediate attention regardless of whether IAS are accepted in our capital markets without reconciliation. We are concerned that the intense focus on problems with application of IAS diverts attention from similar problems with application of other national GAAPs, which are equally, if not more suspect. As members of the SEC staff frequently observe, foreign registrants often attempt to remedy departures from the requirements of their own national GAAP by "fixing" them in the reconciliation to US standards. Clearly, this problem is an indication that the lack of an appropriate financial reporting infrastructure is a problem today, irrespective of reconciliation requirements, and that the local GAAP financial statements of foreign registrants bear the consequences.

In contrast to the supposition in the Release, we believe that acceptance of IAS as the only permissible alternative to U.S. GAAP would likely improve the present state of affairs by permitting the SEC to standardize on two bodies of accounting standards, rather than on the 40 or so that are permitted today. As discussed previously, users often rely solely on the primary financial statements rather than adjusting for items included in the reconciliation. Accordingly, the quality of the underlying reporting is of paramount importance. If the Commission accepts our recommendation, we believe measurable improvements in this area are possible.

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We will be pleased to answer any questions that you may have regarding our response.

Sincerely,

Philip D. Ameen

Philip D. Ameen
Chair, Committee on Corporate Reporting

Attachment 1
Responses to Questions in the Concept Release

Criteria for Assessment of the IASC Standards

Are the Core Standards Sufficiently Comprehensive?

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 agree with the scope of the core standards project as originally agreed to by IOSCO and the IASC. As discussed in our response to question 2, we would recommend that U.S. GAAP be used to supplement IAS in specialized areas that are not presently addressed.

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?

As discussed in our cover letter, we believe that reconciliation to US GAAP does little to satisfy user needs since it is difficult to apply items included in the reconciliation back to the financial statements. We believe that US GAAP should be required to be applied in the primary financial statements in circumstances where IAS does not provide specialized industry guidance. We would prefer to avoid a situation in which foreign registrants default to home country GAAP for specialized accounting guidance which are likely to be in very different stages of development.

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

With the exception of specialized industry guidance discussed above, we are not aware of any specific topics that need to be addressed.

Are the IASC Standards of Sufficiently High Quality? Why or Why Not?

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.*

FEI believes that the IASC has made a good faith effort to deliver high quality standards in accordance with the terms of the core standards work program. We generally believe the revised set of IAS standards to be better in most areas than home country GAAP used by foreign registrants today. For example, IAS 39 provides more thorough guidance on accounting for financial instruments than most home country standards in use today. We therefore believe it would be preferable for foreign registrants to apply IAS rather than their national GAAP. However, the question of how, if at all, the Commission should apply the reconciliation requirement to IAS represents a difficult problem. As discussed in our cover letter, continuing the requirement to reconcile to U.S. GAAP presents a number of difficulties:

- If the SEC accepts some of IAS, but not all, the bottom line of the reconciliation will never again equal U.S. GAAP. Accordingly, the objective of the reconciliation would be suspect, at best.

- Accepting <u>none</u> of the IAS standards in order to preserve the meaning of the reconciliation casts serious doubt on the SEC's support of the core standards project.

FEI believes that a more promising approach would be to supplement disclosures in particular areas where the Commission has concerns about the overall quality of the standard. While we are not in favor of public sector standard setting, we understand that it also may be necessary for the Commission to prohibit certain alternatives currently permitted under IAS. However, we also believe that such amendments should be addressed by the new IASC Board in due course and that the SEC should be prepared to accept the results of the Board's process.

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?

As this question is directed more towards financial statement users, we will not comment on this area.

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?

As discussed in our cover letter, there are several dimensions to this issue that influence our response. Clearly, there is an effect on reporting that results from use of accounting standards that are different from U.S. GAAP. The extent of difference will vary by reporting entity and over time (as differences reverse). FEI believes that the similarities in conceptual frameworks helps to ensure that there will likely be fewer and smaller differences between IAS and U.S. GAAP compared with most other national standards. We also note that the reconciliation to U.S. GAAP is complex and difficult to work with and it is only partially helpful to investors in sorting out the differences.

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?

We find this a difficult question to answer. Clearly there are some standards, like IAS 36, which requires certain intangible assets (including development costs) to be capitalized, which we disagree with. On the other hand we could easily identify standards under U.S. GAAP that we have similar concerns about. Ultimately, these issues will be resolved through the process of harmonizing IAS and national accounting standards. In the meantime, the disclosure approach we suggest in our response to question 4 should provide much of the information investors need to understand the differences.

Can the IASC Standards be Rigorously Interpreted and Applied?

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?

Clearly, IAS are less detailed than U.S. GAAP. However, diversity in economic and tax regimes across countries makes it difficult, if not impossible, to develop detailed standards at the international level. As a result, preparers that follow IAS must look to other sources of GAAP and rely on professional judgement, which may result in inconsistent application in an international environment because of differences in experience, background, and knowledge of preparers.

However, the lack of an adequate infrastructure to interpret, apply and enforce IAS contributes more to the potential inconsistent application of IAS than insufficient guidance in the IAS themselves. As more countries adopt or harmonize with IAS, coupled with more guidance from the IASC, we believe that the range of interpretation will narrow and a body of international GAAP will develop.

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.

A major source of implementation guidance will be the Standing Interpretations Committee (SIC) of the IASC. However, that body meets only four times per year. As the use of IAS becomes more prevalent, we would expect that meetings of the SIC would need to be held more frequently and issues resolved more quickly. At a minimum, we would expect that body to meet as frequently as its U.S. counterpart, the Emerging Issues Task Force. We would also expect that the large professional accounting firms would be an important source of guidance.

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?

We have no direct experience regarding this issue.

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

We have no direct experience regarding this issue.

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?

We believe an effective financial reporting infrastructure depends heavily on high quality standards or practices in each of the following areas: accounting standards, internal control, corporate governance, auditing standards, and capital market regulation.

The need for a global infrastructure is present whether or not the SEC eliminates the reconciliation requirement. However, its importance is heightened in the context of IAS becoming “international GAAP”, because of the need for consistent application and interpretation of IAS worldwide.

FEI strongly endorses recent efforts underway to improve global financial reporting practices under the auspices of the International Forum on Accountancy Development (IFAD). This broad initiative seeks to improve home country practices and standards that form the core of the infrastructure.

FEI also believes that a more formal infrastructure is needed among capital market regulators. As capital markets in different countries merge and more extensive linkages are established between markets, we believe an integrated approach to securities regulation will emerge as a critical need.

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?

We have no direct experience regarding this issue.

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?

We agree that acceptance of IAS should be conditioned on a successful restructuring of the IASC. In accepting IAS, the SEC must not only be satisfied that the present standards are acceptable but also that future standards issued by the Board are developed through a high quality process.

However, we are unsure whether the views of U.S. corporations will be adequately reflected in the new IASC Board structure. The only clear requirement is that one representative from the U.S. will serve as the FASB liaison Board member. Given the size of the U.S. economy and the complexity and diversity of the activities it encompasses, we believe that it is essential that the views of U.S. preparers be represented directly at the IASC Board level.

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?

We have no direct experience regarding this issue.

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 would not object to such certifications.

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 have no direct experience regarding this issue.

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?

We have no direct experience regarding this issue.

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 have no direct experience regarding this issue.

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?

We have no direct experience regarding this issue.

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, that could result from reducing or eliminating the reconciliation requirement.

See the discussion in our cover letter.

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 believe that there are already too many variations in the reconciliation requirements and would not favor further segmentation.

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 discussed in our cover letter, we note that the bottom line of the reconciliation will no longer represent U.S. GAAP net income if additional IAS standards are accepted directly (i.e., without reconciliation). We therefore believe that continuing a reconciliation approach in this circumstance would not be useful.

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

We do not support continued reconciliation as the resulting information will be of limited usefulness and the reconciliation itself serves as an obstacle to adoption of IAS in the primary financial statements. If the SEC should decide to retain that requirement, it should establish mechanisms that would ensure that the need for this information is reviewed at least annually.

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?

As discussed previously we do not support continued reconciliation to U.S. GAAP. However, we also recognize the difficulties associated with retroactive application of standards in certain areas. We assume that decisions related to transition by the IASC were made for good reasons and that requiring retroactive application could impose unrealistic requirements on companies. It may be necessary to provide supplemental disclosure of the U.S. GAAP equivalent amounts in these circumstances.

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?*

We have no direct experience regarding this issue.