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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE ON IFRS IN THE U.S. MARKETS

Thursday, December 13, 2007

Securities and Exchange Commission

100 F Street, N.E.

Washington, DC 20549

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1 P R O C E E D I N G S

2 9:10 a.m.

3 O P E N I N G R E M A R K S

4 CHAIRMAN COX: I know that people are still getting
5 settled, but I want to extend a good morning and welcome to
6 everyone as you're still arriving, and particularly to our
7 panelists. Thank you for joining us and getting us off to an
8 excellent start this morning for the SEC's Roundtable on IFRS
9 in the U.S. Markets.

10 For several years now, American investors have
11 witnessed the growing use of IFRS in our domestic markets by
12 foreign companies with U.S. listings. IFRS, of course, has
13 been mandatory in Europe since 2005, and its use is now
14 mandated or permitted in over 100 nations around the world.

15 More than that, Americans have been buying
16 securities issued by foreign companies that report their
17 financial information using IFRS. Today two-thirds of U.S.
18 investors own securities of foreign companies. That's a 30
19 percent increase in the last five years.

20 Given the fact that IFRS financial information is
21 usually reported in home country filings well before they're
22 filed with the Commission, U.S. investors and market
23 participants have been analyzing and evaluating foreign
24 companies listed here on the basis of only IFRS financial
25 information for two years.

1 The result of this is that over the last few years,
2 our domestic markets have come to embrace two competing
3 accounting systems. In this, we join the other major markets
4 around the world, all of which have two or more competing
5 accounting systems.

6 It's certainly possible that U.S. GAAP and IFRS can
7 co-exist, and that investors can make sense of this, as the
8 experience of the last few years has shown. But what would
9 be a tragedy for investors and for global markets would be
10 cacophony of standards, the result if IFRS is vulcanized into
11 so many different national flavors.

12 So as the U.S. has welcomed the development of high
13 quality truly global standards, we've also kept our focus on
14 the global part, which is a necessary element if there is to
15 be comparability for investor not only here in America but
16 around the world.

17 With that in mind, the Commission in November
18 approved final rules, under which financial statements from
19 foreign private issuers will be accepted without
20 reconciliation to U.S. generally-accepted accounting
21 principles. Only, however, if they are prepared using IFRS
22 as issued by the International Accounting Standards Board.

23 We required the use of the IFSB approved version to
24 encourage the development of IFRS as a uniform global
25 standard, and not a divergent set of standards applied

1 differently in every nation.

2 Consistency of application of IFRS will help U.S.
3 investors who own foreign securities, to understand and draw
4 better comparisons among their investment options than they
5 could with a multiplicity of national accounting standards.

6 These rules will also facilitate cross-border
7 capital formation, and increase investment opportunities
8 available to U.S. investors. All of this came about only
9 after consideration of extensive and informative public
10 comment.

11 As we're nearing the end of 2007, let me briefly
12 recount the actions that we took during 2007. In March, the
13 Commission held a roundtable on IFRS, to assess the impact of
14 the co-existence of two sets of accounting standards on the
15 U.S. markets, on the decisions that investors make and on the
16 Commission's program of investor protection.

17 We heard from key participants in the capital-
18 raising process, issuers, accountants, investors, credit
19 rating agencies, investment bankers and lawyers, on whether
20 the benefits of eliminating the U.S. GAAP reconciliation
21 requirement for foreign private issuers are in fact
22 achievable in practice. Their responses were resoundingly
23 positive.

24 Based on this public feedback, in July we issued a
25 proposing release on eliminating the reconciliation

1 requirement for foreign private issuers who file IFRS
2 financial statements. At the same time, the Division of
3 Corporation Finance issued a report summarizing their
4 observations on IFRS compliance from reviewing the 2005
5 annual reports of foreign private issuers reporting their
6 results using IFRS.

7 After careful consideration of more than 125
8 comment writers, the Commission adopted the final rules in
9 November. Now that the Commission has addressed the
10 consistency of application of IFRS, to help U.S. investors
11 gain better comparability among foreign issuers, the question
12 becomes what does this mean for U.S. companies?

13 What's the effect of allowing foreign companies the
14 choice of whether to use IFRS or U.S. GAAP, and denying that
15 same choice to U.S. companies?

16 In August, we issued a concept release to solicit
17 public comment on the future role of IFRS in U.S. markets,
18 and on whether U.S. issuers should be permitted this same
19 choice to use IFRS to comply with our rules.

20 The comment period for the concept release ended a
21 month ago, and we are still reviewing the over 85 comment
22 letters that we received. Our roundtables today and Monday
23 continue our efforts to study these important issues with the
24 benefit of extensive public comment.

25 There are many more voices to be heard in this

1 ongoing discussion, about how the mandatory use of IFRS
2 throughout Europe and increasingly throughout the world,
3 influences our domestic markets.

4 Our goal for these roundtables is to gain a deeper
5 understanding of all of these views. Our panelists bring a
6 wealth of real world experience to these questions. We have
7 with us today representatives of investors, educators,
8 issuers, auditors, panelists, credit rating agencies and
9 exchanges.

10 This morning's panel will focus on the big picture
11 questions, about the impact of IFRS on the global capital
12 markets, and in particular on our capital markets. The first
13 panel will explore these issues primarily from the
14 perspective of U.S. investors, issuers and markets.

15 The second panel will look at the same set of
16 questions, primarily from the perspective of global markets.

17 Next Monday, the discussion will move on to the
18 practical issues surrounding the possible future use of IFRS
19 by U.S. companies. So on behalf of the Commission and the
20 staff, I thank all of you for joining us today for this
21 important discussion, and particularly I want to thank our
22 panelists for helping us crack these very difficult nuts.
23 These are big, tough, important questions, and we very much
24 look forward to learning from you and from this discussion
25 today.

1 So now we'll turn it over to Conrad Hewitt, the
2 Chief Accountant here at the Securities and Exchange
3 Commission, to introduce the specific issues for this
4 morning's panel. Thanks, Conrad.

5 INTRODUCTION OF ISSUES

6 MR. HEWITT: Thank you, Mr. Chairman and good
7 morning to everyone and welcome to our first day of two days
8 of roundtable discussions on IFRS for U.S. issuers. We will
9 have another roundtable on this same subject next Monday, so
10 please stay tuned.

11 The important matter that we're here today to
12 discuss is the role IFRS in the U.S. capital markets,
13 relating to the financial reporting of U.S. issuers. The
14 Commission acted on the coexistence of U.S. GAAP and IFRS
15 relative to our foreign private issuers last month.

16 So today, it's time to consider the U.S. issuers'
17 side. We have heard a wide range of views on the U.S.
18 issuers' aspect in the comments letters that we received on
19 our concept release.

20 Working through our considerations on this policy
21 matter, we require the input of all those affected:
22 investors, preparers, the accounting professional, users of
23 financial information and the many other intermediaries in
24 the financial reporting system.

25 So today, we welcome the opportunity to expand on

1 those points and hear even more about the panelists'
2 experiences to date, as well as what they see as the
3 potential effects in the future of allowing IFRS used by U.S.
4 issuers.

5 I look forward to the wealth of the on the ground
6 experience that our panelists bring to us today. Our first
7 panel, as Chairman Cox mentioned, will focus on the U.S.
8 markets, while the second panel will bring experiences from
9 the capital markets more globally.

10 I'm sure we all will learn much from our panelists.

11 Now the final panel will run approximately until
12 11:00 a.m., at which time we will take a break and then
13 resume with our second panel. The second panel will be
14 moderated by Julie Erhardt and Ethiopis Tafara. So for the
15 remainder of the day, I am just going to listen and learn. I
16 have an easy job this morning.

17 But before I do that, I want to thank Lisa McAndrew
18 Moberg and Steven Brown on my staff, along with Andy
19 Schoeffler of the clerks here in our office, for working with
20 the others in OCA and CORBFIN, to do all the work to plan and
21 organize these roundtables. That's a big job.

22 Now I will turn over the roundtable to our
23 moderators, Jim Kroeker and John White, and thank you very
24 much.

25 PANEL ONE - THE U.S. MARKET'S PERSPECTIVE

1 MR. JOHN WHITE: Thank you, Conrad. I'm John
2 White, Director of the Division of Corporation Finance, and
3 I'm very pleased to welcome everyone to the Commission's
4 Roundtable on IFRS in the United States.

5 Today, we'll be hearing from a broad range of
6 stakeholders in the U.S. capital markets. Joining me to
7 moderate this first panel is Jim Kroeker. Jim joined the
8 Commission as a Deputy Chief Accountant in the Office of
9 Chief Accountant in February of this year.

10 I'm also pleased to welcome our panelists. Each of
11 them has an important perspective to share with us, and I
12 would like to extend to them our gratitude for taking time to
13 be here today, particularly with all the press of the holiday
14 season. We're looking forward very much to your interesting
15 and informative comments.

16 We've prepared a number of questions for each of
17 the panels actually, and we anticipate that the commissioners
18 may from time to time wish to interject with questions as
19 well.

20 We have not asked the panelists to give any
21 prepared statements at the beginning, but we will, as we
22 approach eleven o'clock, stop the back and forth question and
23 answer part of this and move to ask each of the panelists to
24 give some concluding remarks of their thoughts that they'd
25 like to leave with the Commission.

1 To ensure that this all runs smoothly, figure out
2 some way to signal to Jim and me that you'd like to speak, or
3 you can turn your tent card up if we seem to be ignoring you.
4 But we will make sure that everybody gets to participate.

5 Let me also just mention for the record, since I
6 know there's a transcript out there, that all four of our
7 commissioners are here today, and will be participating.

8 I should also point out that this program is being
9 videocast on the SEC's web site, and will be available in
10 archive form I think as early as tomorrow. There will also
11 be a transcript posted as soon as we can.

12 With that, let me introduce the panelists.
13 Starting on the far end, Wendy Hamilton is the National SEC
14 Director of BDO Seidman. Matt Hilzinger is Senior Vice
15 President and Corporate Controller of Exelon Corporation.

16 Gregg Nelson is Vice President, Accounting Policy
17 and Financial Reporting at IBM; Jim Schnurr is Deputy
18 Managing Partner -- this is a long one -- of the Audit and
19 Enterprise Risk Services Professional Practice of Deloitte
20 and Touche.

21 Hal Scott is the Nomura Professor and Director of
22 the Program on International Financial Systems at Harvard Law
23 School. He also serves as the Director of the Committee on
24 Capital Markets Regulation, and Jerry White is President of
25 Grace and White, and Chairman of the Corporate Disclosure

1 Policy Council of the CFA Institute.

2 As we move to our first topic, let me lay out how
3 we've tried to organize this panel. Jim and I have basically
4 set up four or actually five topics for the panel, and
5 hopefully we can kind of spend 10 or 15 minutes on each
6 topic, and not kind of jump head, if we can, to keep
7 ourselves organized.

8 We're going to talk about first one of the primary
9 missions of the Commission, which is competition and capital
10 formation. We're then going to move to investors and
11 investor protection, a second primary mission of the
12 Commission.

13 Then we're going to talk about timing and readiness
14 for IFRS, and then move to the process of choosing to
15 electing to use IFRS. Then depending on how much time we
16 have, we're actually going to ask these panelists to come in
17 a little bit on what is really the Monday topics, are the
18 mechanics, because we've got a lot of viewpoints here.

19 So if we have a few minutes at the end, we'd like
20 to talk about mechanics, where you get an opportunity to make
21 a few thoughts on mechanics.

22 So with that, let's go to competitiveness and
23 capital formation, and I'd like to start with Gregg Nelson on
24 this one. So Gregg, I'll put the question generally, but
25 just to give it a little bit of focus. Will U.S. issuers be

1 more competitive globally if they are permitted to use IFRS
2 in their financial statements?

3 MR. NELSON: Okay, thank you John. Fundamentally,
4 we believe the answer to that question is yes for several
5 reasons.

6 First, you know, the development, the continued
7 development and then the use of a single set of globally
8 accepted accounting standards we believe will enhance the
9 efficiency of the capital markets around the world, increase
10 the quality of information reported by companies such as ours
11 and other registrants, and reduce the cost of compliance with
12 multiple reporting frameworks.

13 So as you go through that process, the
14 competitiveness of U.S. companies and therefore hopefully the
15 U.S. economy should be raised. Companies will be able to
16 raise capital in all worldwide markets equally, both in the
17 U.S. market and in non-U.S. markets.

18 The SEC has taken the first step to allow non-U.S.
19 companies to utilize IFRS in the U.S. market. So the use of
20 IFRS by U.S. companies in the U.S. market to us is the next
21 logical step to ensure a level playing field, and ensure that
22 U.S. issuers remain competitive or increase their
23 competitiveness, both here in the United States and globally.

24 As a result of these steps, we feel that overall
25 cost of capital for an issuer such as ours or companies like

1 ours should be reduced over time.

2 MR. JOHN WHITE: So Hal, you're -- you've got not
3 just one report out, but I guess a second report out
4 recently, being the king of competitiveness. What are your
5 views here?

6 MR. SCOTT: Well, in your question John, you used
7 the term "permitted to use IFRS," which I applaud, which
8 implies that there's an option, rather than that it's
9 mandatory. So it's on that basis that I would answer this
10 question.

11 I think choice is important for you as
12 competitiveness. I think U.S. issuers should be able to
13 reduce costs in the same way as foreign firms, by using an
14 internally consistent economics system that will reduce the
15 accounting and audit and cost.

16 In addition, they have to review us for increased
17 investor interest, and reduce their cost of capital by
18 stating accounts in IFRS, particularly if IFRS is used by
19 their major competitors.

20 Now having said, I'm not saying that this option
21 should be perpetual. I think that's a different question,
22 and also I'm not saying -- and I hope we get to these issues,
23 I'm sure you will -- when that question of perpetualness can
24 be decided. I think those are two different things.

25 But in principle, I am saying yes, I think it's

1 important that issuers have a option of, at least in the
2 short term, to do what their foreign competitors do.

3 MR. JOHN WHITE: Matt, do you want to offer a
4 perspective?

5 MR. HILZINGER: Thank you. We're a U.S.-only
6 issuer, and we're just beginning to see IFRS really kind of
7 discussed at the senior management level in the board rooms
8 now, really in the last six months. So it's relatively new,
9 I think, to U.S.-only issuers.

10 Right now, we currently have adequate and
11 reasonable access to capital. Yes, we don't see any
12 empirical data that would say that or suggest that this would
13 give us any kind of global advantage.

14 However, intuitively, you would think over time
15 that if all markets are headed towards IFRS, that you would
16 find that there would be an advantage. But in the short
17 term, we're very concerned really more around kind of a
18 domestic impact.

19 Our business is in a highly regulated industry, and
20 unless IFRS addresses key issues at the state and federal
21 level, we think it can have a very detriment on our business
22 here in the U.S. But time will tell.

23 MR. JOHN WHITE: Any other comments on U.S. -- I'm
24 going to go in a moment to the impact on the U.S. markets, if
25 there's distinction between that and the impact on U.S.

1 issuers, but any other thoughts on global competitiveness for
2 U.S. issuers?

3 So how would U.S. markets be affected if you had
4 some issuers reporting in IFRS and others using U.S. GAAP? I
5 guess I'll start with you, Jim.

6 MR. SCHNURR: Thank you. I think that it would be
7 a positive impact to a neutral impact, and let me explain
8 that. You know, if you look at particular industries right
9 now, you know, they're very global. For example, the
10 pharmaceutical industry. so we will have a lot of companies
11 already reporting on their IFRS, who are domiciled in EU.

12 If the U.S. companies elect the option and adopt
13 IFRS, there will be much more comparability with respect to
14 that particular industry, and therefore I view that as a very
15 positive impact on the markets.

16 In terms of the neutral impact, you know, if you
17 again look at a particular industry and those companies do
18 not, we already have that. It exists, and the markets are
19 dealing with that.

20 We've got, again, we have companies reporting under
21 IFRS, and we've got companies reporting under U.S. GAAP, and
22 the investment community, the analyst community have been
23 able to deal with that and make comparisons.

24 So while there might be more companies that will be
25 in that position, I don't think it will have an adverse

1 impact on the markets.

2 MR. JOHN WHITE: Other thoughts on market impact?

3 MR. NELSON: If I could add to what Jim said. you
4 know, I think that the U.S. markets can handle the impact for
5 a period of time, with some U.S. issuers using U.S. GAAP and
6 some issuers using IFRS.

7 If you look at non-U.S. markets today, they're
8 handling issuers using two sets of accounting standards.
9 However, over the long term, if the goal is to get, again as
10 I said earlier, to a single set of worldwide accounting
11 standards, then we think that the optionality that U.S.
12 issuers might have for a period of time should be followed
13 with a mandatory conversion to IFRS at some point in the
14 future, to get consistency amongst all markets.

15 But you know, I think initially the U.S. market
16 could cope with a period of dual GAAP systems, dual GAAP
17 reporting, because evidence exists in other markets around
18 the world that there's been minimal disruption as a result of
19 that.

20 MR. JOHN WHITE: Other thoughts? Hal?

21 MR. SCOTT: I would agree with that statement
22 entirely.

23 MR. JOHN WHITE: Wendy? You're on board? Any
24 thoughts, any questions from the Commission on --

25 CHAIRMAN COX: Yes. Either at this juncture or in

1 response to your next set of questions, I'd appreciate as
2 much focus as we could possibly get on what's going on right
3 now, because we already have IFRS and GAAP both in U.S.
4 domestic markets right now.

5 I want to understand how we're contending with
6 that, and what would be the consequence of averting our eyes
7 for an indefinite period, because that's one of the choices
8 that we have; how do we expect, then, that things would
9 develop here domestically and what would be the impact of
10 what's going on around us in the rest of the world that we
11 don't control.

12 As I say, if you want to address that immediately
13 or in response to other questions in that context, that's
14 fine. But I'm particularly interested in that.

15 MR. JOHN WHITE: Anybody want to go with that now?
16 Hal?

17 MR. SCOTT: Well Mr. Chairman, I think we're sort
18 at the beginning of collecting information about your
19 question. So I think we probably need some more time to
20 assess it.

21 But there have been some studies so far that have
22 looked at this. There was a study by Henry and others in
23 2007, and they tried to look at what the IFRS U.S. GAAP
24 reconciliations were telling us about the difference between
25 IFRS and U.S. GAAP, and I would say kind of summing it up,

1 that the number they kind of used was what would be the
2 difference on return on investment.

3 It was somewhat significant, five percent or more.
4 There was 28 percent of the firms had a higher return on
5 investment using IFRS than U.S. GAAP. So on the other hand,
6 for ten percent of the firms, they had a lower return on
7 investment using IFRS rather than U.S. GAAP.

8 But this is telling you that there are some
9 differences in the impact of using these two standards, at
10 least from a financial, pure accounting point of view. Now I
11 think what complicates any such effort of comparability is
12 that this is not just about the financial accounts.

13 This is also about other disclosure and other kinds
14 of information, that when put into statements that are not in
15 the numbers but are kind of separate disclosures, may
16 compensate, okay, for these things.

17 So investors may know things from the disclosure
18 that they wouldn't get from the numbers. So academics when
19 they look at this, there was a recent study by Daskey and
20 others in 2007, trying to figure out how to do that, and
21 figure out how to kind of take into account not just the
22 technical difference in the accounting standards, but also
23 what the impact was of other disclosures.

24 So my kind of bottom line on this is that I think
25 for right now, we're seeing there's some differences. It's

1 premature to know how significant they are. My takeaway from
2 that is let's be cautious here. We have more to learn about
3 this whole thing.

4 So we should not rush into irreversible decisions
5 at this point.

6 MR. JOHN WHITE: Commissioner Nazareth?

7 COMMISSIONER NAZARETH: I'd like to follow up on
8 that notion Professor Scott was referring to. To the extent
9 that the goal in the next few years is to achieve convergence
10 to a single high quality accounting standard, presumably what
11 that means is that, as we know, there are differences in the
12 two standards, and our goal is to get the best of both
13 perhaps even find the third way that is preferable for a
14 number of these items for which there is not consistency.

15 I guess my question and concern is whether imposing
16 optionality in the sooner rather than later, in fact will
17 slow down that convergence process, by simply essentially
18 encouraging a migration to one standard versus the other, as
19 opposed to imposing the discipline of getting, again, the
20 reconciliation that we want so that we do achieve the
21 ultimate goal, which I think we all, I hope agree on, which
22 is to have a single global high quality standard. So I'd
23 like your thoughts on that.

24 MR. JOHN WHITE: Jim?

25 MR. SCHNURR: There's certainly the danger that you

1 describe that, you know, it could -- you know, you could move
2 to one or the other, and it would detract from convergence.

3 But I actually think that as more, you know, U.S.
4 companies that are accountants and the users become familiar
5 with IFRS, and they better understand what the similarities
6 and the differences are, I think their contribution to the
7 standard-setting process will actually improve the
8 convergence process, because they will be able to identify
9 the things that were better or preferable in one set of
10 standards versus the others.

11 Right now, there's only a limited pool of people
12 that have the deep expertise in both disciplines. But as you
13 increase the numbers, I think you'll get better thinking
14 around it, and it won't be left up to, you know, a smaller
15 group of people.

16 MR. JOHN WHITE: Gerry?

17 MR. GERRY WHITE: Thank you, Commissioner Nazareth
18 for asking that question, because I think that is central to
19 this whole discussion. We opposed the Commission proposal to
20 allow non-U.S. registrants to use IFRS, precisely because we
21 believed that was likely to slow convergence.

22 We believed and I hope that we will be wrong, but
23 we believed that U.S. acceptance was a very powerful lever,
24 that could be used to ensure that IFRS standards become what
25 we would all like them to be. I think the question is how

1 will this play out, and I think we simply don't know.

2 There are major institutional issues surrounding
3 the IASB, and I am very much concerned that the IFRS will now
4 say "Well, we got what we wanted," and those players overseas
5 that don't want convergence and don't want U.S. companies to
6 use IFRS, will say "Well, we don't have to do anything more."

7 MR. JOHN WHITE: Commissioner Atkins.

8 COMMISSIONER ATKINS: Well, I guess to follow up in
9 that vein, I was just, I guess, wondering is there any value
10 to standards going forward. I mean you have general
11 equivalents here that we've sort of come out to accept.

12 But is there any value to a bit of competition as
13 between the two standards, where -- and I mean a good
14 competition, as in trying to get investors who -- for whom
15 this is the most important anyway, to gravitate one towards
16 the other.

17 You have, for example, FAS 133, IS 39, which was
18 the real rub, I guess, as far as acceptance in some European
19 countries of ISB's version of IFRS. You know, obviously we
20 have that here in this country. So is there some sort of a
21 benefit to having two different thought processes going on,
22 albeit with convergence, and trying to arrive more or less at
23 the same end?

24 But if there are twists and turns along the way,
25 then have investors ultimately choose through their investing

1 preferences which one might prevail or which one might be the
2 more acceptable one. But I just throw that out, if you all
3 have any comment on that.

4 MR. JOHN WHITE: Gerry?

5 MR. GERRY WHITE: Well, that's a very good
6 question, but I think this discussion has been overly narrow.
7 There are not just two sets of accounting standards. My firm
8 is a relatively small one. We have less than a billion
9 dollars under management.

10 Yet among the companies that we are invested in, we
11 have companies using U.S. GAAP, companies using IFRS GAAP
12 with up until now reconciliation to U.S. GAAP, companies
13 using IFRS GAAP without reconciliation, companies using
14 Canadian GAAP, companies using Japanese GAAP, Hong Kong GAAP.
15 I'm sure I've left at least one more out.

16 So convergence is not simply a U.S. versus IFRS
17 issue. It's a much broader issue. I think time will move
18 everybody together, with the possible exception of the
19 Japanese. But I don't want to get ahead of our script here.
20 But I think a plan transition which involves everybody makes
21 the most sense.

22 MR. JOHN WHITE: Jim?

23 MR. SCHNURR: I think it does have the potential to
24 improve, and let me give you an example. The ISB and the
25 IASB just issued a new standard on business combinations.

1 But in the U.S., they also issued a standard dealing with
2 non-controlling interests, which the IASB did not.

3 I think there will be a time where, you know, we'll
4 be able to see whether the incremental step that the FASB
5 took will be a better model, in which case there would
6 ultimately I think force or put pressure on the IASB to adopt
7 the standard that was just issued on non-controlling
8 interests.

9 So that would, to me, be an example where it can be
10 tested on regime, and if it looks better, it will force the
11 other to accept it.

12 MR. JOHN WHITE: Hal?

13 MR. SCOTT: I think there could well be benefits, I
14 think, to standards, at least in the short term. You know, I
15 think we need to see what happens in the U.S. marketplace
16 when we have two standards.

17 You've already talked about the fact that we'll
18 have some people switching for comparability and I agree with
19 that, and just to be doing some internal costs in very large
20 multinational companies.

21 But we may also see other people in the market who
22 may not be just indifferent, because of the particular
23 industry they're in, or because they see some significant
24 differences between these two standards, deciding to stay
25 with U.S. GAAP.

1 I saw a recent study that anticipated that a fairly
2 small number, at least in the near term, of U.S. issuers
3 would actually switch to IFRS. So if the market was telling
4 us over some period of time that they weren't ready to
5 transition entirely to IFRS, I think we should pay some
6 attention to this.

7 That is, I would like to see what the market does
8 with the option, and if the market's sort of voting
9 increasingly for IFRS, I think that's a good sign.

10 By the way, I think with the option, coming back to
11 your point, I think we had a option with a mandatory IFRS
12 adoption that could well chill the convergence, because why
13 would you work so hard for convergence when in 2000-whatever
14 there's only going to be one standard anyway.

15 But if it's not clear, okay, that there will be one
16 standard, and there are people that will want one standard, I
17 think the convergence effort would go forward. So coming
18 back to Commissioner Nazareth's question, I think the worse
19 thing we could do for convergence would be to adopt a
20 mandatory road map at this point.

21 Not to say we shouldn't do it in the future, when
22 there is more convergence, but right now, I think that would
23 be a mistake.

24 MR. KROEKER: Hal, maybe as a follow-up, given that
25 the first piece we're talking about competitiveness and

1 capital formation, do you think there is a differential
2 impact, depending on whether you had an option for say a
3 shorter period of time, five to seven years, versus a
4 perpetual state of a dual GAAP system?

5 MR. SCOTT: I would prefer to delay this decision,
6 as to whether we wanted a perpetual option. I think we
7 should not decide there is a perpetual option now, nor should
8 we decide there was a mandatory adoption of IFRS now.

9 I think the right solution is a period in which
10 there is an option, and it's not clear whether that option
11 will be perpetual or nothing. I think that's the right thing
12 to do for now.

13 MR. JOHN WHITE: Gregg?

14 COMMISSIONER CASEY: I just wanted to follow up on
15 that very quickly. Many of the comments that we received,
16 who suggested that we needed to have a transition plan, even
17 contemplating a temporary optionality component, suggested
18 that the ultimate plan would be moving to IFRS, and I
19 appreciate your comments on that, Professor Scott.

20 I wondered if anybody else had a view on why they
21 felt that the plan had to end in IFRS, as far as a mandatory
22 requirement, because again many of the comments who suggested
23 that we do have a plan, that that would be the ultimate end.

24 I don't know if anybody else here had embraced that
25 view, or if they have any perspective.

1 MR. JOHN WHITE: Gerry?

2 MR. GERRY WHITE: Commissioner Casey, that is the
3 cornerstone of our position. We believe that the objective
4 for users of financial statements in a worldwide capital
5 market is to have to companies that all use the same set of
6 accounting standards.

7 That provides comparability, and particularly in
8 conjunction with XBRL at some point, it provides for enormous
9 benefits to investor worldwide. The issue is how we get
10 there.

11 MR. JOHN WHITE: If we could move, just move
12 slightly on to just I'll call it a pure question of how this
13 affects investors today, we had a roundtable back in March,
14 in which we were considering primarily the topic of
15 elimination of reconciliation for private issuers.

16 At that roundtable, we actually went down the line
17 and asked each of the panelists whether they thought if we
18 did that, that U.S. investors would be protected today in
19 their ability to analyze the filings of foreign private
20 issuers without the reconciliation, assuming they were
21 following IFRSs promulgated by the ISB.

22 What we heard at that time, or at least what I
23 heard was first, that the reconciliation wasn't really being
24 used, and that the answer was actually kind of universally
25 yes, which I think is kind of what Chairman Cox was saying a

1 moment ago, was that we're already, at least with respect to
2 some group of issuers in the U.S. markets, we're using IFRS,
3 because it comes much earlier.

4 The filings come months ahead of the
5 reconciliation. So with respect to the foreign private
6 issuers, we've been doing that already. So let me now ask
7 the question with respect to if we went to an optional choice
8 soon, would U.S. investors, I'm just going to say, be
9 protected? Would they be able to handle this for U.S.
10 issuers?

11 We would have companies like yours, Gregg, I
12 assume, switching soon. Would we be okay in terms of U.S.
13 investors, since that's one of our primary missions? Well, I
14 was jumping ahead to suggest you'd be one of the first to
15 switch, Gregg.

16 (Laughter.)

17 MR. NELSON: Maybe you had some insight that I
18 don't have. You know, it's interesting. Just not to go
19 backward, but on the comment that was made on a survey of
20 companies, about whether they would take the option to go to
21 IFRS or not.

22 I would say the survey was premature, in that I
23 think a lot of companies have not yet even really thought
24 through the process of switching to IFRS, in any great depth.
25 So to answer a survey in early 2007 or in 2007, I don't think

1 you really get a true feedback from issuers.

2 Because I can just speak from the perspective of
3 our own company, you know, we're dealing with multiple GAAPs
4 worldwide in our statutory filings, right. So as we look
5 towards one single set of accounting standards, there's a ton
6 of benefits that would accrue to a multi-national company
7 like ours, and I suspect many multi-nationals.

8 I think if our company chose to produce financial
9 reporting under IFRS, you know, when given the option, it is
10 likely that we would do so. The question is, you know, rate
11 and pace, and you know, I think that investors, you know,
12 today they have many different types of investors from a very
13 sophisticated investors, who a few are sitting on this panel,
14 to the average mom and pop investors.

15 One could assert that the end of the spectrum or at
16 that end of the spectrum, the average investor has difficulty
17 today understanding financial reports, given the complexity
18 of the U.S. GAAP and the current financial reporting system
19 in the U.S.

20 Ask your mom or ask your dad to try to interpret
21 and understand whether to make an investment decision based
22 on your 10-K. It's not likely they'd understand. So I think
23 investors will seek their own level. As companies switch
24 from U.S. GAAP to IFRS for the reasons that they do, and they
25 will have to articulate those reasons to their investors and

1 to their shareholders.

2 The investors, depending on where they fall on that
3 spectrum, of knowledge about financial reporting, will adjust
4 and will sort of -- and I think will be afforded the same
5 protections, because I believe the Commission is not going to
6 reduce protections for investors as we switch, provide the
7 option for companies to change their recording.

8 So I think investors will benefit, in some sense
9 that they'll get better worldwide compatibility, depending on
10 the companies that they are investing in. The companies that
11 they are choosing to invest in should see a lower cost of
12 capital and reduced costs of compliance.

13 So in that sense, they benefit, and in the sense
14 that they can get an understanding of IFRS to the level that
15 they need an understanding of IFRS, which you would say is
16 the same level they need to understand U.S. GAAP today.
17 They're participating as an investor.

18 I think that they'll be able to get those benefits
19 and receive the same level of protection or competency that
20 they have today to make investment decisions.

21 MR. JOHN WHITE: So I actually want each of you to
22 talk about investors, but why don't we start down with you,
23 Wendy?

24 MS. HAMBLETON: I do think that investors would
25 have a benefit if certain companies are allowed to use IFRS

1 or companies are allowed the option of using IFRS. I think
2 it gets back to a point that's been raised somewhat, is the
3 comparability issue there.

4 If all the primary competitors of a U.S. company
5 are in an IFRS environment, then for them to be able to
6 prepare the financial statements on a comparable basis allows
7 investors to make a better comparison.

8 They can really look at the results, not try to
9 take the U.S. GAAP results, compare it to IFRS results and
10 say well, what would it be in this environment. I also think
11 in kind of a long-term range, the more users that are
12 involved in IFRS and U.S. users as well and U.S. preparers as
13 well, there will be more comparability, more concerns, more
14 issues will be brought to the table, so that IFRS will also,
15 in some ways, improve.

16 Also the last point I'd make on -- in terms of an
17 investor's benefit, maybe the fact that IFRS deals with
18 issues more appropriately outside the U.S. companies that are
19 global companies have to deal with things that happen in non-
20 U.S. environments.

21 The U.S. GAAP was framed in a U.S. environment. So
22 there may be instances where U.S. GAAP doesn't necessarily
23 make the most sense in an international environment or a
24 transaction that is more unique to international
25 environments, where IFRS may have dealt with that.

1 So an investor may be getting better GAAP for
2 transactions or events that occur outside the U.S.

3 MR. JOHN WHITE: Matt?

4 MR. HILZINGER: Yes. I'd echo both of the comments
5 on either side of me. I think investors would be -- would
6 get a benefit out of having one set of standards, and we're a
7 strong proponent of having one set as opposed to an option.

8 I think the complexity in U.S. GAAP now is so
9 enormous that unless you're a terribly sophisticated
10 investor, I think it's very difficult to even understand U.S.
11 GAAP statements. Introducing another set I think will not
12 only add a level of complexity and ambiguity to the
13 investors, but I think it will also add that to the board
14 rooms on the governance side.

15 I think, you know, in sitting in audit committees
16 and explaining complex standards like derivatives or variable
17 interest entities, those are very complex standards to
18 communicate to the governance function.

19 Adding in another set, I think, will just again add
20 a level of complexity there and ambiguity. So as a U.S.
21 issuer, we would strongly prefer that we end up with one set.
22 Now whether that's IFRS, that's a question to be debated
23 still.

24 MR. JOHN WHITE: So an interim situation where we
25 had two sets, you're saying --

1 MR. HILZINGER: You know, I think the U.S. markets
2 can adapt to standards for a period of time, but not for an
3 extended period of time.

4 CHAIRMAN COX: I wonder if I could ask you to
5 expand on half of what you said, because I think you gave us
6 a full explication of the first part.

7 But from the investor standpoint, if Wendy's point
8 is something that you also agree with, I want to understand
9 how it is that investors get to achieve the benefits of
10 comparability if in one case there's an Exelon, where the
11 relevant universe is compared as to other U.S. companies.
12 Then sitting right next to you is Gregg, where the relevant
13 universe is compared to global companies.

14 You would make one choice, Gregg would make another
15 from the investor's standpoint. If they're interested in
16 comparability akin to any trust analysis, drawing the
17 relevant market is pretty much the answer to the question.

18 Sometimes, as Wendy pointed out, it's the U.S., but
19 other times it's not. How do you square your agreement with
20 Wendy's point, and your agreement with --

21 MR. HILZINGER: Let me see if I can clarify. I'm
22 not sure our universe of companies is just U.S. companies.
23 There are a lot of global energy companies that we do compete
24 with. So if we perceive --

25 CHAIRMAN COX: But if that's so, if investors are

1 trying to compare you right now to other companies that are
2 using IFRS, try and look at this from the investor's
3 standpoint, and help us understand why comparability is
4 advanced by not letting them get apples and apples to
5 comparison.

6 MR. HILZINGER: Yes. I think there's two pieces.
7 I think on the investor's side, there are investors globally
8 that do look at particularly our industry. But I think those
9 investors are fairly sophisticated investors and have the
10 capability to understand U.S. GAAP and understand the
11 reconciliation to IFRS.

12 If we were try and expand that investor group, I
13 don't think there is the knowledge out there in the investor
14 community, particularly in the U.S., that can make that
15 comparison.

16 CHAIRMAN COX: I understand that point. So what
17 I'm trying to understand is if you're trying to make this
18 understandable by normal investors, who don't fully
19 appreciate all the density and the articulation of GAAP in
20 the U.S., and they are being asked now to compare what they
21 already have trouble apprehending to a whole separate set of
22 standards, which is IFRS, how is that better for them?

23 Well, I think that some situations require a
24 comparison only of U.S. GAAP companies, and in those
25 situations, we probably if comparability is our number one

1 aim, be much better off not to introduce IFRS into the
2 equation.

3 Other situations, and it sounds like Exelon might
4 be one or the other, I'm not sure. But if we were to
5 stipulate that Gregg, sitting next to you at least, is in a
6 situation where a whole lot of the comparability is already
7 going to require familiarity with IFRS. Isn't it a
8 simplification if we get one set of standards as opposed to
9 two?

10 MR. HILZINGER: Yes I do, Mr. Chairman. I think I
11 started off saying we're a strong proponent of one set of
12 standards. But whether that's IFRS is something that I think
13 needs to be debated.

14 I think part of our issue is how embedded GAAP is
15 into our business from a regulatory standpoint and a
16 compliance standpoint. So we don't necessarily look at the
17 issue separate from investors, from the way that we run our
18 business.

19 CHAIRMAN COX: Then I infer from that you would
20 probably be extremely uncomfortable with an SEC mandate that
21 you change tomorrow morning?

22 MR. HILZINGER: We would.

23 CHAIRMAN COX: All right.

24 MR. JOHN WHITE: Why don't we continue on down the
25 panel on the question of investors and I'll call it a choice

1 in the short term or in the near term. Jim?

2 MR. SCHNURR: I do think that in the short term,
3 investors can in fact understand the differences and use IFRS
4 financial statements and work with the two standards.

5 Part of that is the disclosures that are in the
6 notes to the financials, but also if you look MD&A, that
7 ought to describe the business, what's important in the
8 business, and in a lot of instances it doesn't matter whether
9 they were under IFRS or U.S. GAAP.

10 What's important to running the business is the
11 same. That's what the investor ought to be looking at or one
12 of the key things they ought to be looking at. So I think
13 when you look holistically at the disclosure, it will help
14 educate or bridge the differences that do exist in the two
15 sets of standards.

16 But I think the investor will not be disadvantaged
17 by having two sets of standards.

18 MR. JOHN WHITE: Hal?

19 MR. SCOTT: I think there's another element of the
20 investor's interest that we should pay some attention to,
21 which would be the cost to companies of transitioning from
22 U.S. GAAP to IFRS under a mandatory plan.

23 You know, I don't want to see 404 repeated here.
24 Talk about small companies. They're not global companies.
25 They're existing in a marketplace using U.S. GAAP and they're

1 very happy to do so, and they want to continue doing so.

2 So if the SEC were to step forward and say you must
3 use IFRS, you're going to have a similar discussion that you
4 had with 404. Why? Why do we have to do this? It's going
5 to be a lot of cost for us, what's the benefit?

6 So while we're talking about the big multi-
7 nationals, let's remember that there are a lot of small
8 companies in the United States, and their interests could be
9 different, and the investors in those companies' interests
10 could be different.

11 Also, I want to pick up on Jim's point, which is
12 the question of if we give U.S. issuers sort of this choice,
13 shouldn't we sort of require some disclosure about the choice
14 itself? Should we have a disclosure item saying at least
15 this is why we decided to go from U.S. GAAP to IFRS, and
16 there could be more than that.

17 I mean I wouldn't be advocating this, but you could
18 have a reverse reconciliation for some transition period, if
19 you know, that would be possible, so that in some transition
20 period actually investors would be able to look at the
21 financial statements of U.S. issuers that were going to IFRS.

22 I know this would be a cost and you know, all that
23 should be taken into account. I'm not sure unless I knew
24 what that cost was and what the benefit is, I would be
25 advocating it.

1 But what I'm saying is that there is a range of
2 disclosure that could be provided to investors, of when a
3 U.S. issuers makes a transition. I think we should carefully
4 consider where we want to be in that range.

5 MR. JOHN WHITE: Gerry?

6 MR. GERRY WHITE: Let me provide the perspective of
7 somebody who's been a professional investor for 39 years. I
8 think one point I would make is that we need to answer the
9 question by thinking about which investors are we talking
10 about.

11 Both the U.S. and IASB conceptual frameworks talk
12 about the objectives of financial reporting as being to
13 provide financial information to investors who have both
14 the -- I'll summarize -- the education and the diligence to
15 understand them.

16 Investors who fall into That category have been
17 dealing with multiple GAAPs and will continue to deal with
18 multiple GAAPs, whatever the SEC does for at least some years
19 into the future.

20 I think when you move down the line to investors
21 who rely on summarize information, databases for example,
22 those investors would be poorly served by having U.S.
23 companies have the option to convert to IFRS, because they
24 would have no idea what difference that conversion made to
25 return on investment, earnings per share and other metrics.

1 For the professional investor, the issue is really
2 complexity and the cost of that complexity. Giving issuers
3 an option would, I believe, shift complexity and cost to the
4 professional investor, because we would -- and I don't in a
5 million years believe that we would get any sort of
6 reconciliation.

7 We would be the ones who would have to try and
8 figure out what difference it made to the financial reports
9 we see. Even more fundamental than that, I think, are
10 disagreement with the proposal is based on our view that
11 managements should not have options with regard to financial
12 reporting.

13 I think the script calls for a discussion of gaming
14 later on, so I won't go into it now. But my experience tells
15 me that when managements have reporting options, they
16 generally don't exercise those options in ways that favor
17 investors.

18 MR. JOHN WHITE: So just to be clear, if you have
19 a, I'm going to say global company and as global competitors
20 and the global competitors are reporting in IFRS today,
21 you're saying you don't think from an investors standpoint
22 that there should be a choice?

23 MR. GERRY WHITE: Well, I think another aspect of
24 that, I guess, is our belief that IFRS is not quite there
25 yet. We very much hope it will get there. But there are

1 still many areas where IFRS is not very good.

2 I'm not just talking about those areas such as
3 extractive industries, where There is U.S. GAAP and no IFRS
4 GAAP. But let's talk about nice, narrow issue like revenue
5 recognition. Some people say there's no U.S. GAAP either,
6 but that's not really true, because we have a host of staff
7 accounting bulletins, EITF decisions.

8 There's a book about this thick now written by my
9 friend and co-author Tony Sondhi about revenue recognition
10 and about -- it's in a sense case law on that issue. If
11 companies moved to IFRS, I don't know what they would do.

12 CHAIRMAN COX: Before we move off of some of these
13 points, Gerry's raised, I think, a very useful point that I
14 want to turn to the present, as opposed to the future.

15 We've been, I think throughout the morning, focused
16 not surprisingly on the future. But I'm really trying to
17 mind the present, if I can, because a lot of this is going on
18 around us, independent of any choice that the United States
19 might make.

20 So I want to understand to the extent that Gerry
21 has pointed out to us that it is difficult to cross-walk
22 between IFRS and U.S. GAAP for investors, and we're relying
23 on intermediaries to do that, how are we doing it now?

24 Because it has to be done right now, in order to
25 compare, particularly in industries and markets where most of

1 the comparability that's required is with respect to U.S.
2 firms.

3 MR. GERRY WHITE: Well, Commissioner Cox, Chairman
4 Cox I should say, we have had, up until now, the
5 reconciliations, and even if you're dealing with a company
6 that says --

7 CHAIRMAN COX: Since those come six months later,
8 I'm presuming people are making real-time decisions some
9 other way. There must be something much more sophisticated
10 going on.

11 MR. GERRY WHITE: Well, there is. You will have
12 the history of the reconciliations, which in a sense will
13 give you, if you'll pardon the expression, a road map, to
14 enable you to know what you need to think about, and then
15 reconciliations for a company that has provided them, may
16 give you clues when dealing with companies that have not
17 provided them because they weren't required to.

18 The history of that will persist. I think
19 professional investors will, from historical experience, know
20 what they need to think about, and they make the best
21 estimates they can.

22 CHAIRMAN COX: So from the standpoint of the
23 individual investor, to use that as a proxy for the folks
24 that you described as relying on summarized information.
25 From the standpoint of that individual in the United States

1 right now, how are they being served when what they need is
2 comparability between U.S. GAAP companies and let's say
3 European companies using IFRS? Who's doing that? How does
4 it filter down to the ordinary investor today?

5 MR. GERRY WHITE: I think the individual investor
6 doesn't have any sense of that, and that will remain the same
7 regardless of what the Commission decides.

8 MR. SCOTT: Could I just come back to a point that
9 was raised here. Let's not fool ourselves into believing
10 that the only companies that IFRS provide reconciliation.
11 We've got a whole bunch of companies out in the world that
12 aren't issuing in the U.S. marketplace and don't have to
13 reconcile. They just IFRS, okay.

14 MR. GERRY WHITE: I will tell you I just got
15 Chairman Cox's point.

16 MR. SCOTT: Yes, but I'm trying to reinforce it.
17 What I'm saying is that, you know, in terms of the total
18 number of foreign issuers using IFRS, those that actually are
19 reconciling because they're issuing stock in the U.S.
20 markets, is probably a fairly small percentage.

21 So we're already faced, and I'm just reinforcing
22 Chairman Cox's point right now, and have been ever since IFRS
23 began to be adopted, and of course when Europe made it
24 mandatory, even more so with this problem. So, which is not
25 going to go away unless we went to a mandatory IFRS, which

1 you have your doubts about.

2 So it seems to me that, you know, There must be at
3 the professional level today, people like you and others,
4 have to deal with this problem without relying on
5 reconciliations.

6 MR. GERRY WHITE: Chairman Cox asked about the
7 individual investor, the individual investor for the most
8 part isn't looking at those non-reconciling companies,
9 because he's looking -- he's dealing with companies that are
10 listed on the U.S. exchange; more importantly, he's dealing
11 with what happens when his broker calls him and tells him you
12 should buy this new issue.

13 CHAIRMAN COX: And Gerry as I hear you say it, he's
14 basically or she is getting essentially no sense of the
15 comparison, the way things sit today.

16 MR. GERRY WHITE: I believe that's the case, yes.

17 CHAIRMAN COX: Jim, you want to move to the next
18 topic?

19 COMMISSIONER ATKINS: Okay, let's -- I just wanted
20 to follow up on one point. Maybe we can do this later, if
21 this is one of your topics. I wanted to follow up on I think
22 Gerry made a good point there about sort of the common law
23 aspects and the regulatory aspect of this whole question,
24 that I guess I wonder will we ever truly have convergence.

25 Even if everybody adopted around the world a set of

1 principles called IFRS, with all the other inputs, whether it
2 be from the SEC, from whatever might succeed, the EITF, from
3 pressures coming from accountants and lawyers and others
4 trying to get the right answers so they can write their
5 opinion, and the FAQs and interpts and anything else that
6 might be coming down from whatever country has its interest
7 in accounting principles, we might get back to the cacophony
8 that Chairman Cox was talking about in his opening statement.

9 I wonder, or maybe not. But then you layer on top
10 of that differences of culture and litigation and all sorts
11 of other things that might come in there. Would we ever
12 truly have ultimately one set of principles as applied in
13 real life?

14 MR. GERRY WHITE: Commissioner Atkins, you've
15 raised important issues. I think the answer is that it
16 depends. It depends on whether the ISB has adequate funding
17 and adequate independence to be able to provide that sort of
18 infrastructure that is now in place in the U.S.

19 It also depends on what role is played by the
20 Commission and by other securities regulators, in ensuring
21 that companies properly apply IFRS. Both of those issues are
22 to me very unclear as to their outcome, and that is another
23 argument, I believe, for waiting before allowing U.S.
24 companies to convert to IFRS.

25 MR. KROEKER: I think that Commissioner Atkins'

1 question is great segue to the next issue about timing.
2 We've talked already about whether or not a move would
3 encourage convergence or discourage convergence. There's
4 been a discussion of whether the impact of having IFRS and
5 U.S. GAAP not totally converge at this point; that is the
6 fact that there remain differences.

7 We've talked about it in terms of impact on
8 investors and competitiveness. Maybe we can turn to whether
9 or not that should some how have an impact on timing, of
10 allowing a U.S. issuer an option. Start with Jim Schnurr,
11 maybe your views on should there be an impact on timing?

12 MR. SCHNURR: I do think there should be an impact
13 on timing. You know, there are a lot of things from a
14 transition standpoint and preparation standpoint, that even
15 to allow an option, I think, are needed.

16 You know, right now there is not a lot of expertise
17 in the U.S. marketplace, whether that be at the preparer
18 level, even within the audit firms. There's only a small
19 portion of the staff that are currently trained under IFRS.

20 Then when you look at the user or investor
21 community, there is an education that needs to occur there as
22 well. So we also, you know, in the academic community, it's
23 not part of the curriculum, and that has to be addressed.

24 So I do think there needs to be some time between
25 now and giving companies the option, for those things to be

1 addressed. I think longer term, as Gerry said, I do think
2 that there are other issues that need to be addressed, to
3 provide for, you know, what I would call the quality of the
4 standards and how they're applied.

5 And that is if there is no global regulatory
6 infrastructure to decide where the bounds are or the limits
7 are of acceptability with the particular standard, there's
8 the potential that there could be a free for all, and you
9 would end up in the situation that you've just described,
10 which would be the standards would be whatever they want, and
11 there would be no comparability.

12 That would be, you know, the worst of all worlds.
13 So there does need to be an infrastructure put into place,
14 that if you want to call, polices the quality and makes sure
15 that the practice isn't becoming so diverse that you can't
16 really have, you don't have any comparability.

17 So I think those are some of the key things from a
18 timing standpoint That I see, and just maybe one other point,
19 in that you know, if you move to IFRS, it's clearly what I
20 would call less rules-based. I wouldn't necessarily call it
21 principle-based.

22 It's less rules-based than U.S. standards, which
23 -- and then it requires more judgment. I think part of
24 improving the quality is to make sure that there's a
25 framework for making those judgments.

1 In other words, right now some of the things that
2 we encounter when we deal with our member firms who are
3 auditing foreign and private issuers and we're dealing with
4 some of the accounting issues under IFRS, we often hear that
5 "Well, it's not in the standard, so it's my judgment and I
6 can do whatever I want."

7 You know, I think that that's not an appropriate
8 way to approach this. But if that would be permitted to
9 exist, as I said, IFRS would actually become -- you know, it
10 would be terrible. It would be the worst situation.

11 MR. KROEKER: Gregg, any thoughts on timing
12 considerations, and maybe we can come back to this issue
13 about quality, if others have a perspective there. But let's
14 start with the issues of timing.

15 MR. NELSON: Thanks, Jim. You know, the question
16 that you posed, should the current differences between the
17 two standards, set of standards impact the decision, I think
18 the answer is no from my point of view.

19 But you also have to think -- my perspective is
20 that the decision is not an overnight decision, right,
21 because as Jim and others have pointed out, there are
22 readiness issues, infrastructure issues, regulatory aspects
23 associated with any optional conversion from one GAAP to
24 another.

25 So therefore not just -- those are issues that need

1 to be resolved, as Jim has indicated. Therefore just the
2 differences themselves in the two sets of standards is a
3 factor in your decision. But then there are other decisions,
4 there are other, in some respects, more important decisions,
5 more important factors that go into that decision.

6 Because to go back to the point on convergence,
7 there's been a lot of debate about convergence. You know,
8 it's not likely that a small company or a U.S. domestically-
9 based company would take the option right away. I agree with
10 that.

11 So that's why convergence efforts that continue to
12 narrow the differences between these two sets of standards
13 through the optionality period, whatever you choose to do at
14 the end, which is maintain optionality into perpetuity or to
15 create a mandatory conversion is so important to the overall
16 objective of a single set of worldwide standards that could
17 be universally applied, and that you can build around for
18 these readiness issues, the regulatory issues, application
19 issues and things of that nature.

20 So the optionality period will, I think, highlight
21 some of these differences even more than they've been
22 highlighted today, because there hasn't been a great degree
23 of comparability, as we've heard from a number of
24 participants this morning, between financials reported in
25 IFRS and financials reported under U.S. GAAP.

1 But if a company chooses to take the option, I also
2 agree that the company and its board is obligated to present
3 a comparison upon implementation, so that users and investors
4 can sort of reset the financial trending and expectations of
5 these companies.

6 So yes, there are differences. There are
7 differences. I think these differences will get highlighted,
8 and that's why convergence remains important. But I also
9 think that as others have pointed out, these other factors in
10 terms of readiness and infrastructure need to be considered,
11 as well as just differences, Jim, between the two sets of
12 standards in the short term.

13 MR. KROEKER: Wendy.

14 MS. HAMBLETON: I think there's kind of two issues
15 there on the convergence. I think there is a concern that if
16 certain issuers elect to use IFRS and if those are the larger
17 companies, that then there may be less pressure to converge.
18 Then that puts a bigger burden on the smaller companies, in
19 terms of pushing that.

20 It's just by the natural resources that they have
21 available, probably more costly to them, to push convergence.
22 But I'd also just like to comment back on a point you made
23 earlier, that convergence is never going to be equal, and
24 even if everyone uses IFRS, you're not going to have exactly
25 the same accounting in every situation, because of the issues

1 that you've identified and others.

2 There is more judgment involved; there's more
3 options allowed in IFRS; and you have cultural biases that
4 are naturally going to be there, and you have language
5 issues. You've translated this into however many different
6 languages. In some cases, the words don't even exist in
7 another language.

8 So you will have differences. So even if you have
9 IFRS, one standard and one high quality standard, you're
10 still going to have differences. If you converge, you'll
11 never have 100 percent convergence either. But I do think
12 that there is an issue in convergence, back to the point that
13 I think smaller companies may have more of a burden dealing
14 with that.

15 MS. HAMBLETON: I just wanted to follow up on the
16 timing issue, appreciating that there are these transition
17 issues that everybody has identified. What are -- are there
18 certain threshold issues or concerns that we should be
19 concerned with more than others.

20 We talked about the lack of curricula in many
21 universities and schools, understanding IFRS is. All these
22 things were expertise issues, even at the auditing level.
23 But the question I guess I would have is do we have to wait
24 for every university to adopt a curriculum module before
25 allowing optionality.

1 If that were the consideration that we had, and
2 what influence, if any, would allowing optionality help
3 facilitate or foster those transition issues. In the absence
4 of that, would they occur more naturally and at what pace?

5 COMMISSIONER CASEY: The answer to the first
6 question, I don't think you would need to wait until, you
7 know, broadly all the universities adopt it. I do think that
8 there is, because, you know, maybe training materials are
9 available because of the EU experience.

10 Those can be leveraged across one, the accounting
11 firms, but also to the issuer community as well. So I think
12 that, you know, in a two or three-year time frame, you could
13 get the expertise and the different constituents to a point
14 where you would be able to move forward with the option.

15 I do agree with you, the point that I think it
16 would then also accelerate the academic community preparing,
17 you know, the undergraduate people in IFRS, and you know,
18 that would certainly put a lot of pressure on them to do
19 that.

20 MR. KROEKER: Hal?

21 MR. SCOTT: Well, I'm shocked to have to confess
22 that Harvard University and other major universities at the
23 undergraduate level don't even get to this issue,
24 Commissioner Casey, because they consider it wrong to teach
25 accounting. It's sort of below them.

1 I was once at a -- I was a visiting professor at
2 Princeton for a year, and I was at a meeting at which the
3 then-head of the Economics Department told me that it was
4 shocking because some party at the university had actually
5 invited some guests -- not the Economics Department -- to
6 lecture on accounting, and what an intellectual wasteland
7 that must be.

8 I asked him did they speak, teach French at
9 Princeton. You know, I mean it's a language of the world. I
10 know this has nothing to do with your plight, but I would
11 just say let's keep in perspective that there are many
12 universities today that don't teach any accounting.

13 MR. KROEKER: Maybe in a similar vein related to
14 quality, Gerald you talked about concerns about revenue
15 recognition and accounting guidance under IFRS. Obviously
16 there is a memorandum of understanding, where the two boards,
17 the FASB and the ISB are actually working to jointly improve
18 a number of standards.

19 Part of the issue is neither the U.S. or IFRS has
20 the ultimate answer. So there's need for improvement in the
21 U.S. as well, that's obviously evidenced by the fact that
22 there's a committee looking to advise the SEC on improvements
23 to financial reporting.

24 So given the fact that there are certainly areas
25 where U.S. GAAP can be improved as well, the fact that

1 International GAAP could -- IFRS could benefit from
2 improvement in certain areas, specifically what impact or
3 what areas would need to be improved prior to a view that we
4 would be ready to, in your view, ready to move to IFRS for
5 U.S. issuers?

6 MR. GERRY WHITE: I think there are changes or
7 change is not exactly the right word -- things that need to
8 happen on both the broad level and the narrow level. A
9 narrow level is specific standards that are needed.

10 The ISB has a work plan, which is a very good work
11 plan. The question is how quickly are they going to move
12 through that. Standard-setting seems to move at two speeds.
13 This is not just the ISB, slow and slower. But the ISB does
14 seem to be moving from slow to slower, and that is one of the
15 things that concerns us.

16 That may really be a symptom, though, of the
17 broader problem, is that the ISB does not have assured
18 funding; there are some questions about its independence,
19 particularly going forward, given some of the things that are
20 happening with oversight committees.

21 Frankly, our other concern is that of the 14 ISB
22 board members. There is one part-time member who has a
23 background as a financial statement user. So that we believe
24 that that perspective is very often missing from ISB
25 deliberations.

1 So I think those are both broadly and narrowly the
2 things that we would hope to see happen before the SEC would
3 permit U.S. companies to use IFRS.

4 CHAIRMAN COX: If you're moving around in the
5 questions that are actually listed in the agenda, I haven't
6 heard us get to Question No. 2 yet, and it's one that is of
7 particular interest to me, because as I say, a lot of this
8 discussion is focused on the future and what we might do.

9 I really do want to appreciate the consequences of
10 all the choices that we have made and others have made
11 already, because you know, it is a very real live option to
12 persist in the status quo, and I want to understand the
13 ramifications of it.

14 The second question on the agenda is what would be
15 the long-range effect of allowing foreign companies the
16 choice of whether to use IFRS or U.S. GAAP and denying that
17 same choice to U.S. issuers.

18 I think that describes roughly the status quo. So
19 what's the consequence of doing that, if we -- I think
20 analyzing that scenario is really important, because that's a
21 very possible scenario.

22 MR. JOHN WHITE: Hal?

23 MR. SCOTT: Well, I think it really comes back to
24 competitiveness, which is where we started. I think if you
25 maintain this scenario, as IFRS becomes more widely adopted,

1 you are imposing cost on U.S. firms that are not experienced
2 by their foreign competitors, who can state all their
3 accounts in IFRS, that is if they're outside the United
4 States.

5 So that from a cost competition point of view, we
6 are imposing costs on U.S. companies that are not imposed on
7 their foreign competitors.

8 Then secondly comes the comparability issue, which
9 we've also discussed, which we are preventing U.S. companies
10 that want to be compared with companies that do state their
11 accounts in IFRS, from having that kind of comparison.

12 That can have an impact on them, in terms of the
13 cost of capital. So if we do nothing, I would argue that we
14 are putting our own, some of our own firms, not all of them,
15 but some of them and particularly the global ones, at a
16 competitive disadvantage to their foreign competitors if we
17 do nothing.

18 CHAIRMAN COX: Maybe I'm hearing things slightly
19 differently than the panelists intend, but I think that at
20 least some of our panelists are not particularly concerned
21 with that. I mean that is to say, they are not that
22 concerned with it, compared to the consequences of changing
23 the status quo.

24 MR. GERRY WHITE: No. There are a lot of different
25 kinds of companies. So what I'm saying is a small U.S.

1 company I don't think cares about this whatsoever.

2 But there are many important companies in this
3 country that are global, and they probably have a fairly
4 sizeable impact on the U.S. economy. So I think for those
5 kinds of companies, there is going to be a competitive
6 impact.

7 CHAIRMAN COX: And to get at my real interest here,
8 which may be eclectic or idiosyncratic, I'd almost like to
9 wash out, just for the sake of discussion for the moment, the
10 competitiveness questions, and just focus on the investor
11 protection question.

12 What's the consequences to the investors that we're
13 trying to look after, if we do nothing and if U.S. markets
14 continue, as I believe they have over the last few years, to
15 have registrants using IFRS, but all of those registrants are
16 foreign companies, and none of them is a U.S. company.

17 MR. SCOTT: Well, just somebody owns these
18 companies we're talking about called investors. If the
19 companies that they invest in are put at a competitive
20 disadvantage, that's not good for these investors. So I
21 don't know that you can really separate these two things. I
22 think they sort of go together.

23 If you look at the question of the prospective
24 investor, who is not invested, okay, in any of these
25 companies, then you have kind of a different question. I

1 would just say let's remember we've got a lot of investors
2 who are invested in these U.S. companies and will continue to
3 be invested in these U.S. companies.

4 So what the impact is on these global companies, of
5 not being able to reduce their cost has an impact on all
6 those investors.

7 MR. KROEKER: Gerry, you look like you've got your
8 finger on the button there.

9 MR. GERRY WHITE: Yes, thank you. I think we need
10 to put this issue in perspective. The U.S. capital market, I
11 believe, is still the largest in the world, and both U.S.
12 investors and know this is outside the Commission's purview,
13 but non-U.S. investors have been investing in and analyzing
14 U.S. companies for many years.

15 If I remember correctly, about one-third of the
16 membership of the CFA Institute is now outside of the U.S.,
17 and that's where the growth has been. One of the aspects of
18 the CFA examination program is equity analysis. By the way,
19 IFRS has been in the curriculum for 10 or 15 years now.

20 I think maybe a useful comparison, somebody, one of
21 the other panelists made an allusion earlier to some of the
22 Swiss pharmaceutical companies.

23 They converted to IFRS very early, and I think they
24 did so because they felt the need to make themselves
25 comparable to companies that were not using Swiss GAAP,

1 because the Swiss capital market, while not the smallest in
2 the world, is a very small fraction of the markets of the UK,
3 the U.S. and so on.

4 I don't think that imperative is there for U.S.
5 companies. I think they have adequate sources of capital and
6 if the current situation, if the status quo Chairman Cox, at
7 your suggestion were to continue for a period of time, the
8 financial markets would continue to cope with that, and in my
9 opinion that's a much better outcome than allowing companies
10 to use IFRS prematurely.

11 COMMISSIONER CASEY: I had a follow-up question for
12 you, Gerry. Earlier on when you were talking about some of
13 the concerns associated with allowing U.S. companies to move
14 to IFRS, you mentioned the governance issues, which you
15 highlighted again, certainly the funding question.

16 But you also mentioned that any claim to transition
17 should include everybody. I don't want to put words in your
18 mouth. My impression was that you were talking about the
19 variant GAAPs all over the world.

20 So I guess I'm asking when you said a planned
21 transition for everybody, was that anticipation that you'd
22 want to see whether IFRS was being adopted consistently in
23 other countries, or whether it was just a matter of the
24 convergence efforts, the continued convergence efforts of the
25 FASB and the ISB on U.S. GAAP and IFRS?

1 MR. GERRY WHITE: What I meant, Commissioner Casey,
2 was that first of all, convergence outside of the U.S. is
3 continuing. I believe the Canadians, who are an important
4 outlier right now, having a plan in place. The Japanese will
5 do whatever they do. But I think virtually every other -- to
6 my knowledge, virtually every other important market will be
7 converting.

8 I think the plan that is needed is with regard to
9 implementation in the U.S., and that's what I was referring
10 to.

11 COMMISSIONER NAZARETH: Can I try to put this and
12 frame the question in some perspective as well? I thought
13 the question that the Chairman asked was what are the long-
14 term effects of letting the foreign issuers who are listing
15 companies here, I take it was the question, report in IFRS
16 and not letting U.S. companies do that.

17 I mean I thought there was some consensus here that
18 the goal ultimately is for everybody to be on a single
19 standard. So what we're talking about here is a shorter term
20 transition issue, not a long term issue. I don't think -- I
21 assumed that it was no one's goal to have in the long term
22 sort of arbitrage with the standards, right.

23 So then the question is, you know, what is the
24 preferable approach in this transition period, and is it a
25 problem in the transitional period to have two standards. I

1 think you have to sort of ask whether the number of foreign
2 issuers who are affected --

3 I mean I looked at the rulemaking that we just did
4 and thought, among other things, it was an interesting
5 opportunity to have this transition.

6 But it was also a very modest proposal, because the
7 number of foreign listed companies who are impacted by this
8 and impacted competitively on the U.S. market, I would argue,
9 was rather small, because the number of issuers affected was
10 rather small.

11 So again, I guess my question is, really framing
12 this, is what's the -- what am I hoping to take away from
13 this. I'm looking for advice on what you think the best
14 thing is to do in this transitional period, because I assume
15 it's transitional, and what's the best way to achieve that?

16 MR. SCOTT: I just want to apologize that I have to
17 leave, because my flight has been canceled and I have an
18 earlier flight and I'm not going to get back to Boston if I
19 don't leave now. So I apologize. I think --

20 MR. JOHN WHITE: I assume you're going to cede your
21 closing time to someone else. Are you going to choose who
22 you're going to cede it to.

23 MR. SCOTT: I would just like to leave people with
24 one sort of curious thought I had last night about this
25 process, which is why isn't the EU thinking about this? I

1 mean the EU is not thinking about giving their companies to
2 use U.S. GAAP, and we're sitting here thinking about giving
3 our companies the option to use IFRS.

4 CHAIRMAN COX: If I may, I believe that they have.

5 MR. SCOTT: They have?

6 CHAIRMAN COX: That in fact there is now a proposal
7 for U.S. companies to be able to use U.S. GAAP in European
8 markets.

9 MR. SCOTT: I'm not saying U.S. companies.

10 CHAIRMAN COX: Pardon?

11 MR. SCOTT: I'm saying their own companies. That
12 is, the EU is not contemplating this. My understanding,
13 given their --

14 CHAIRMAN COX: Well, I think that gets back to
15 Commissioner Nazareth's point, which is they're actually used
16 with the destination in mind.

17 MR. SCOTT: All I'm saying is they're not having
18 the conversation we're having here, and I don't know what to
19 make of it. But does that mean that in the end, we all think
20 we're going to IFRS?

21 Because if we don't all think that, then you know,
22 why don't they have the same issues here about allowing their
23 companies the option to state their accounts in U.S. GAAP, if
24 they're comparable to U.S. GAAP and so forth?

25 It just -- so it strikes me as an interesting

1 question. I don't know what to make of that, but you know,
2 I'd just raise that issue.

3 MR. JOHN WHITE: Not to put words in the mouths of
4 the commissioners, but I think most of the SEC
5 representatives up here having suggested that they think
6 we're moving long term to a single standard, and not
7 maintaining optionality.

8 COMMISSIONER NAZARETH: I would suggest that to do
9 that would not only have standard-setters moving in two
10 speeds, slow and slower, but might even be slow and reverse.
11 So I don't think I would advocate that.

12 MR. SCOTT: Why I brought it up is because I think
13 what it really tells us that everybody thinks we're going to
14 wind up with IFRS some day. But if you actually believed
15 that it would have a perpetual option in our marketplace to
16 use U.S. GAAP and IFRS, then I think this question would be
17 relevant.

18 MR. KROEKER: Should we go to the next topic?

19 MR. JOHN WHITE: Thank you very much, and travel
20 safely. Maybe we can move on to questions about electing
21 IFRS.

22 MR. KROEKER: Just looking at our time and
23 recognizing I want to give you all an opportunity to sum up,
24 let me just get one question that I wanted to cover on the
25 election of IFRS, that Gerry alluded to earlier.

1 That's the idea of giving a company the choice.
2 The question of how do they choose and can they switch back
3 and forth and I'm just going to say "game the system"? I
4 know that's been a concern that's been raised in some
5 settings, and I just wanted the thoughts of the panelists on
6 this.

7 In part when I say "how they would choose,"
8 recognizing that you could have management choose, you could
9 have the Audit Committee choose, you could have the
10 shareholder choose, plus the mechanics of switching back and
11 forth. But Jim, do you want to start with that?

12 MR. SCHNURR: Well, I think in terms of the factors
13 that somebody would consider, there are a variety of factors.
14 One would be, you know, what kind of a global footprint do
15 they have and how many of the subsidiaries do they have are
16 already reporting under IFRS, let's say, that also might be
17 impacted by where they want to raise capital.

18 In certain jurisdictions, IFRS would be acceptable.
19 It might be more efficient for them to be on, you know, one
20 set of standards. You'd also want to look at, you know,
21 there are systems in place today, financial reporting
22 systems, what would it take to upgrade those, modify them.

23 You have the issue we talked about earlier around,
24 you know, the people and whether they have the right
25 background and expertise. Then there are a host of, if you

1 want to call it legal or regulatory issues, you know. If a
2 company's regulated, it might have to report under U.S.
3 standards. So you have to deal with that.

4 If they've got contracts, you know, whether it loan
5 covenants or others, there is requirements that they report
6 under U.S. GAAP. They'd have to deal with that. So there's
7 a host of considerations that one would have to consider.

8 Those all would impact as well switching, you know.
9 I certainly wouldn't advocate giving somebody the option to
10 switch back and forth willy-nilly, you know, or I think my
11 view would be you adopt it, you know, that's the horse you're
12 going to ride. You're going to stay with it.

13 I think one of the reasons it would add tremendous
14 confusion. You know, if one year IBM reported under IFRS and
15 the next year they reported under U.S. GAAP, I think it would
16 be very confusing to the marketplace, would actually add a
17 cost and a burden to the investment community if you did
18 that.

19 MR. JOHN WHITE: Although presumably, they'd have
20 to go back and reaudit the earlier years --

21 MR. SCHNURR: Yes. There would certainly be
22 additional costs associated with that, one of which would be
23 you'd have to keep two sets of books, because trying, you
24 know, given the time line and the filing requirements, you
25 wouldn't be able to make that decision at the last minute

1 unless you were keeping two sets of books.

2 So there's a cost associated with that as well, and
3 not only keeping the books but then the auditing of those
4 financial records as well.

5 MS. HAMBLETON: I would just echo some of the
6 things Jim said, but I do think to switch and forth would be
7 problematic. I guess it's hard for me to say that I could
8 never envision a situation where that might be appropriate.

9 But it seems to me it would be suspect as to why
10 you'd want to go back and forth between systems, knowing that
11 it's going to take a lot of resources, infrastructure to get
12 to, if you're in U.S. GAAP or IFRS, then to want to go back
13 and forth seems to be questionable why you'd want to do that,
14 and whether you'd even be capable of doing that.

15 I have a client that's moved to IFRS because they
16 are a subsidiary of a European company, and they're
17 considering going public in the U.S. They don't know if they
18 can go back and do U.S. GAAP necessarily for the historical
19 periods that they might need.

20 So I can't really envision them wanting to go back
21 and forth without some underlying reason for doing that.

22 CHAIRMAN COX: That's an interesting example.
23 Without intruding on that client's particular circumstances,
24 can you describe what the options are for that firm is
25 thinking about going public? What are the variety of

1 choices, including domicile and so on?

2 MS. HAMBLETON: Well, right now they are -- they're
3 the sub of a European company, a European-listed company.
4 When they went to IFRS, they went through all their bank
5 covenants are under IFRS done from the management company,
6 even for the U.S. subsidiary.

7 So essentially we went through with them and said
8 are you sure you don't need U.S. GAAP statements for any
9 reason, and they said "No, we don't need them." So now all
10 they really have and their infrastructure has really switched
11 over their monthly reporting. Everything is under IFRS for
12 them.

13 So for them, if they wanted to go public in the
14 U.S. right now, they'd have to go back, recreate U.S. GAAP
15 statements for the historical periods, and then, you know, to
16 have that information.

17 So really right now for them, they don't view that
18 as an option, even though it's an option that they would like
19 to consider going public somewhere. They don't think that
20 that's a good option for them, because of the cost to go back
21 and do that now.

22 CHAIRMAN COX: So their options are all go public
23 in almost anywhere else except the U.S.?

24 MS. HAMBLETON: Or elsewhere that would accept
25 IFRS, yes.

1 MR. JOHN WHITE: Gerry, I know you have a view on
2 this point.

3 MR. GERRY WHITE: Well, as I suggested earlier, I'm
4 somewhat allergic to having accounting choices available, and
5 perhaps one illustration of that, I taught financial
6 statement analysis at the Stern School at NYU for some years.

7 One class I was teaching about FAS 52, foreign
8 currency. The accounting for foreign subsidiaries depends on
9 the inflation rate, the three-year inflation rate. At that
10 point in time, Mexico had just about 100 percent three-year
11 inflation, which was the dividing line.

12 It turns out that one of my students worked for a
13 multi-national company, and he told me "Well, they looked at
14 it both ways, and they picked the way to report that made
15 them look better."

16 I'm somewhat concerned that the companies that
17 convert, that choose to convert will be the companies, will
18 not be because there's a real business advantage, but because
19 they will see some advantage in controlling the message they
20 give to investors.

21 MR. JOHN WHITE: I promised each of you a few
22 minutes at the end to give us your closing thoughts. This is
23 one of the few opportunities when somebody named White can
24 give an advantage to somebody named White. So we're going to
25 go in reverse alphabetical order down the line here. So

1 Gerry, you get to go first.

2 MR. GERRY WHITE: First time in my life.

3 MR. JOHN WHITE: That's why I was focusing on that,
4 those of us at the end of the alphabet.

5 MR. GERRY WHITE: I think I've said most of what I
6 intended to say, but let me try and summarize it. We believe
7 that what the Commission ought to do is rather than allow a
8 free option now, that the Commission ought to start planning
9 for an eventual conversion of all U.S. companies to IFRS.

10 A number of the issues that need to be addressed
11 have already been discussed and I won't review them. I would
12 just add that taking an optimistic view, I think if the
13 Commission were to set a target date of, just to pick a
14 number, 2011, there would be reason to believe that by that
15 point in time, the ISB would have, if not completed its
16 current work plan, at least be most of the way.

17 Perhaps many of the other issues that we talked
18 about would also be resolved. The preparers would be more
19 ready. The auditors would be ready. Users would be more
20 ready and regulators would be all ready.

21 The narrower the differences between U.S. and IFRS
22 GAAP, and presumably they would be narrower say four years
23 from now, would make it easier for companies to convert, and
24 that's not an easy project. It would have to be a long-term
25 project, but we believe that that sort of plan would be in

1 the best interest of everybody.

2 Two subsidiary points I would make is one, there's
3 a lot of discussion of cost-benefit, of doing this, that or
4 the other, and unfortunately a lot of the discussion talks
5 about the cost to companies, and the benefits are somehow
6 never measurable.

7 It seems to me the costs are borne ultimately by
8 the shareholders, and the question ought to be posed as will
9 the shareholders receive benefits that exceed the costs that
10 they incur?

11 The second subsidiary point that I think while
12 technically outside of the Commission's area of
13 responsibility, assuming that it shares the long-term goal of
14 moving everybody to IFRS, it needs to think about the
15 consequences for non-public companies, and to make an analogy
16 with a discussion we had a minute ago.

17 If U.S. private companies remained on U.S. GAAP and
18 public companies were on IFRS, it would mean that every
19 company that wanted to go public would have to convert, and
20 there's a cost attached to that.

21 Finally, thank you for giving me the opportunity to
22 appear on the panel.

23 MR. JOHN WHITE: Jim?

24 MR. SCHNURR: First of all, we are a supporter of
25 one global standard-setter. That's key to everything that we

1 have said today, not only my personal views but the firm's
2 view.

3 We do think that there is potential for significant
4 improvement in financial reporting, and that will improve the
5 efficiency of the capital markets. However, we do think that
6 there are many implementation issues that need to be
7 addressed, to prepare all the stakeholders for the adoption
8 of IFRS.

9 I talked earlier about the need for a global
10 infrastructure to police the quality and define the limits of
11 acceptable alternatives, you know, under a set of standards
12 with fewer rules and more judgment. I do think part of that
13 is a key to ultimately going, requiring all companies in the
14 U.S. to adopt IFRS.

15 We do think there are significant benefits in the
16 form of reduced costs, because of the one set of records or
17 books that the company would have to keep. We also think
18 there are benefits to audit firms only having one set of
19 training globally, that they can leverage out. That should
20 reduce the cost of audits, or limit increases in the cost of
21 audits.

22 Maybe to address a point earlier, the question was
23 asked but I'm not sure it was answered was we believe not
24 allowing the option in the transition period would be a
25 mistake, because I think the option will all of the players,

1 whether they be preparers, the audit firms or the users, as
2 well as the regulators, to benefit from the experience that
3 will be had from those companies that have chosen to adopt.

4 Similar to what we saw with 404, I think practice
5 and application improved over time. We learned from our
6 mistakes. So I think giving the option is very important to
7 learning from those mistakes. Once companies are required to
8 do it, they'll have the benefit of those experiences.

9 It also will allow us to identify those things that
10 need to be dealt with before we flip the switch and require
11 all companies to adopt, because as we go through that
12 process, we're going to learn how U.S. companies adopt IFRS.

13 We've got a different legal environment here than
14 they do in Europe, and I think that a lot of the issues
15 around how companies adopt will be important to determine
16 what needs to be adjusted or dealt with before we require all
17 companies to adopt it.

18 MR. JOHN WHITE: Gregg?

19 MR. NELSON: Okay. Just a few closing points.
20 I'll try not to be redundant. First of all, I just want to
21 also thank the Commission for the opportunity to present our
22 views here this morning. It's very important question for
23 future financial reporting.

24 As I said at the onset, you know, we support the
25 Commission's objectives. We really support 100 percent the

1 end goal here, which I believe is the application of the use
2 of a single set of worldwide accounting standards, because
3 there are significant benefits that can be gained long term.

4 With respect to the efficiency of capital markets,
5 the quality of information that will be reported by entities
6 in the various jurisdictions around the world, and for many
7 companies, a relatively significant reduction in the cost of
8 compliance.

9 As an example, our company files about 600
10 statutory reports per year, and we've been dealing with
11 multiple GAAPs for many years in order to comply. That is
12 narrowing, as countries around the world are converting to
13 IFRS on a mandatory basis.

14 In some countries where the option has been given
15 to convert to IFRS, we've taken that option because it's
16 cost-effective for us to do so, and it's consistent with our
17 long-term objective of having a single accounting
18 infrastructure and financial reporting infrastructure in our
19 company around one set of accounting standards.

20 So that benefit, while there is a cost to
21 implement, is a recurring benefit that would accrue to the
22 company and hopefully to the shareholders. I'm not as
23 skeptical as others. I think it does fall to the bottom line
24 and hopefully can get reinvested into things that are more
25 important or provide future value to investors.

1 I also think that there is, by use of a single set
2 of standards, the quality of our overall financial reporting
3 model improves worldwide.

4 The training of our employees becomes easier,
5 because today we have to train folks both on U.S. GAAP, which
6 is obviously primary, but secondarily, we have to train
7 people around the world to file statutory reports, and we
8 have to spend shareholder funds in order to audit all these
9 various reports too.

10 So consistent with some of the thoughts that Jim
11 shared, there is a lot of cost-benefits to be derived from
12 this. However, we are of the belief that the optional period
13 should be tied to a mandatory conversion point at some point,
14 at some date certain, you know, in the future, so that the
15 necessary readiness issues and infrastructure issues that
16 need to be addressed, they would get momentum and inertia
17 behind it, if there's something to work towards.

18 So an option that will -- an optional period
19 forever may be selected by a handful of companies, and you
20 may have a very narrow implementation by U.S. issuers using
21 IFRS. I'm not sure that's the objective long term.

22 So an optional period now, which I think will be
23 beneficial, because there will be a limited number of
24 companies that will select the option.

25 I think there will be benefits that will be derived

1 from companies selecting the option that will be useful, to
2 get us ready for that date in the future when all companies
3 would have a single set of standards to apply.

4 So again, I wanted to thank the Commission for the
5 opportunity to participate.

6 MR. JOHN WHITE: Matt?

7 MR. HILZINGER: I recognize we're short on time, so
8 I'll try and keep this brief. But I can't speak for all U.S.
9 issuers but I can speak for our company. We are certainly
10 receptive to change, if it's in the best interest of the
11 company and the investors.

12 To give you an example, we're a huge proponent of
13 XBRL. We're in the pilot program. We think there's real
14 benefits to that. So we see a lot of real positive things
15 occurring out in the marketplace.

16 As I said in my comments, we do prefer U.S. GAAP,
17 but we do support one standard globally. We'd ultimately
18 like to see one standard applied in the U.S. and
19 internationally. But I think there are a host of complex
20 regulatory and commercial aspects that need to be dealt with,
21 and I think those can be dealt with effectively.

22 If they are, then we're a supporter of that. We're
23 also a supporter of a clear and defined transitional pack. I
24 think more clarity to practitioners, the better off everybody
25 is, and we also would prefer some type of mandatory date by

1 which we would have to convert. So again, I want to thank
2 the Commission and I appreciate being here.

3 MS. HAMBLETON: In looking at the question,
4 particularly as it relates to the option of allowing
5 companies, you hear at first that if international companies
6 are allowed to report in the U.S. using IFRS if not
7 converting, then it must be a high quality enough set of
8 standards for them; why shouldn't it be a high quality enough
9 set of standards for U.S. issuers?

10 But U.S. issuers don't really have a lot of
11 practice with IFRS yet, where the international filers didn't
12 drop into this in a day. They've been in a transition plan
13 for some period of time.

14 I think should you decide to allow that option, I
15 think there has to be a transition plan there as well. I
16 think you can look at the plans that other jurisdictions had
17 in place, because they -- you can see what they did well and
18 what they didn't do well, and hopefully adopt the best of
19 what went well for them.

20 I do think you have resource issues, training
21 issues, and I think particularly if you're looking at
22 resource issues, I go back again to some of the smaller
23 companies, where they don't necessarily have the resources
24 in-house.

25 The number of resources that are IFRS-familiar

1 right now is limited, and so there's going to be competition
2 for those, which makes it more expensive.

3 Some of the small companies may be some of those
4 where their competitors are global. So it's not necessarily
5 all global companies. They could be a U.S.-based company,
6 but if their competitors are in a global market and they want
7 to be comparable, then it is probably an additional cost to
8 them if others in their industry are moving that way.

9 The last point I'd like to make too, just as it
10 talks to for long term convergence or long term to one high
11 quality set of global standards, is that hopefully in the
12 U.S., that won't become U.S. GAAP as reverse reconciled to
13 IFRS, but that it really will take the time, and I think the
14 time would be needed, to go through and have U.S. issuers,
15 users, preparers, auditors really look at those standards and
16 apply those standards as not U.S. GAAP as reconciled to IFRS.
17 So thank you very much.

18 MR. JOHN WHITE: I'd like to thank each of our
19 panelists on behalf of the Commission for being here today.
20 We very much appreciate your thoughts and your time, and we
21 will reconvene at 11:15. Chairman Cox --

22 CHAIRMAN COX: May I just in closing thank our
23 excellent moderators, John and Jim, for doing a splendid job
24 this morning? I thank each of our panelists once again on
25 behalf of the Commission. We are very, very impressed that

1 you'd take the time to share your expertise with us. You're
2 all very busy people.

3 We benefit greatly from this, as does the entire
4 Commission and investors throughout America and I think in
5 this discussion, we're not being too self-aggrandizing to
6 point out that investors across the whole world are
7 benefitting from wise discussion on these topics.

8 So thanks very much for informing it, and thanks
9 particularly to Matt and Gerry for your plug for XBRL. I
10 appreciate that.

11 (Whereupon, a short recess was taken.)

12 PANEL TWO - THE GLOBAL PERSPECTIVE

13 MS. ERHARDT: Welcome back to the second panel in
14 today's roundtable on IFRS in the U.S. markets. I'm Julie
15 Erhardt. I will be moderating this panel, along with
16 Ethiopis Tafara, both of us from the SEC staff.

17 I'd like to start out first by just quick
18 introductions of the panel, and since they know who they are
19 better than I do, I mean just quickly ask them to go down the
20 line and give their name and their affiliation today. So
21 Neri, do you want to start?

22 MR. BUKSPAN: Neri Bukspan, Standard & Poor's New
23 York. I'm Standard & Poor's global chief accountant.

24 MS. CULHANE: Noreen Culhane, the New York Stock
25 Exchange. I sit at the New York Stock Exchange Euronext, and

1 I run all listings business.

2 MR. EVANS: Good morning. George Evans. I'm an
3 international fund manager, Oppenheimer Funds in New York.

4 MR. KAPLAN: Dave Kaplan. I'm with
5 PriceWaterhouseCoopers.

6 MR. LANG: Mark Lang. I'm with the University of
7 North Carolina.

8 MR. MAHONEY: Jeff Mahoney, general counsel of the
9 institutional investors.

10 MS. ERHARDT: Thank you. I'd like to set out, just
11 give a little context, and then open up the first topic. For
12 those of you that watched the first panel, probably ask a
13 couple of you to reply. Others can chime in and the
14 Commissioners obviously also will join in, as well as
15 Ethiopis, as we trade off back and forth.

16 I mean I think it's pretty clear we're here today
17 to talk about the possible use of IFRS by U.S. issuers. As
18 an SEC staff person who works in this area, I guess I sort
19 envision this as kind of a strategy session, and we can have
20 a strategy session ourselves.

21 But what we lack when we do that is really on the
22 ground real time input from people such as yourselves that
23 are out there. So the advantage we have today is we actually
24 can kind of have a strategy session with that input, which is
25 invaluable.

1 Really, the strategy session, I think, relates to
2 the goal, which the Commission articulated in its work on
3 allowing IFRS for foreign issuers, and for that matter has
4 articulated for many years that the merging of the two sets
5 of accounting standards just really don't do investors any
6 good, and somehow we need to conquer this.

7 Obviously in the U.S., with U.S. GAAP, we've been
8 conquering this over the last five years, as we've worked to
9 align the content of U.S. GAAP with IFRS, which is got some
10 legs as a global standard.

11 The subject of today's discussion, I think, is
12 really strategy discussion on should we adopt another, an
13 additional tack or an additional approach, which in addition
14 to the convergence approach we're on, to get rid of all this
15 divergence of all sets of accounting standards.

16 The additional tack, which we teed up in our
17 concept release, was the idea of allowing U.S. issuers the
18 choice to file in our markets under IFRS. So I think we'd
19 really like to talk today about three aspects of that. First
20 is just the more logical, deductive if you will, what is the
21 effect if we were to do that.

22 Then really taking advantage of your experience,
23 either in our markets or in other markets, on the ground,
24 what is your experience about what has happened when others
25 have done that or what might happen in our markets were we to

1 do that.

2 Lastly, as with any decision in life, I guess
3 sometimes it's all about timing. So if you have any sense in
4 that regard. But first, let me go back to effects, and I'd
5 like to hear from all the panelists on this. So maybe we'll
6 just go in alphabetical order and start with Noreen and work
7 our way down, or start with Neri, rather, and work our way
8 down.

9 You know, what would be the effects if we were to
10 allow U.S. issuers to choose to file an IFRS, you know, and
11 maybe speak to effects from what you're familiar with? I
12 don't expect an economic treatise on the future of GDP or the
13 future of the U.S. capital markets.

14 But you know, effects on investors, issuers,
15 capital formation. Just effects that you see from where you
16 sit. We're really trying to dial into your experience. So
17 Neri, do you want to start us out.

18 MR. BUKSPAN: Sure. We'll be delighted to, and
19 thank you for inviting me to be here today and speak to you
20 on this topic. For those of you who participated in the
21 first panel, I may be a little bit repetitive here, but
22 emphasis is sometimes useful as well.

23 I believe there are immense benefits from having a
24 single financial reporting system. I think there are
25 tremendous benefits to investors from using one single

1 method, period. It was emphasized here earlier, and I think
2 there is great convergence on the goal. You appropriately
3 captioned it as a strategy meeting. In my mind, a strategy
4 is as important.

5 It's extremely difficult for me to articulate my
6 thoughts in response to your question without understanding
7 the strategy. The strategy will have meaningful consequences
8 to investors, to how we do our business, to how costs are
9 being shifted and the timing of costs being shifted, from
10 preparers to investors, and how broadly we look at the cost
11 of the systems.

12 So I think transition has to be looked at. Each
13 element of transition, as was discussed very extensively this
14 morning, has its own pros and cons. In my mind, I will start
15 to reverse engineer the process a little bit.

16 I would say that if we all are firm believers in a
17 true, broad, useful financial reporting system, I cannot
18 emphasize and it's very extensively referred in both of our
19 comment letters on the reconciliation as well as the
20 optionality, that it is not -- we don't view it as IFRS
21 versus U.S. GAAP. We view it as the future of financial
22 reporting.

23 I believe that the capital markets of the 21st
24 century deserve a better financial reporting system, and this
25 information provided in reports, information provided in

1 footnotes. We should all work together to get there. In the
2 interim, there will be certain challenges.

3 There will be certain things that we're all going
4 to have to agree on, and some of it we have to commit to a
5 road map or blueprint or whatever was referred to by many
6 commentators on the comment letters.

7 You asked me to refer to my perspective. I work
8 with analysts across the globe. They will tremendously
9 appreciate and have been appreciating the migration to IFRS
10 in many jurisdictions that we rate. It's of immense benefit
11 to them.

12 However, if you talk to my U.S. analysts, they're a
13 little bit reserved with respect to moving to IFRS today.
14 When you try to dissect the answer, it could be associated
15 with some of the issues that were discussed this morning,
16 which some of it is unfamiliarity with the topic.

17 But some of it could be associated with where
18 you're converging from, and the question is does U.S. GAAP
19 provide us, in addition to comfortable environment, better
20 information? I'm not saying better information in the sense
21 that the numbers are better.

22 But there is more information in the financial
23 statements that provide our analysts with something they're
24 both comfortable with, and additional data points beyond the
25 basic financial statements.

1 So just to sum up, we are very encouraged about
2 convergence, but we believe the emphasis should be on the end
3 game and the financial reporting element of the end game.

4 MS. ERHARDT: I take it from your comments that to
5 you include U.S. issuers, not just the foreign issuers that
6 the Commission has worked on today.

7 MR. BUKSPAN: Absolutely.

8 MS. CULHANE: Thank you. I'd like to start by
9 saying that the New York Stock Exchange has been listing non-
10 U.S. companies obviously for many, many years, and as long
11 ago as 1990, commissioned a study, an independent study, to
12 look at the notion of a single accounting system that would
13 be applied globally, and had this person, group of people go
14 off and look at that and came back with a resounding "yes,
15 that is exactly what we should do."

16 That it would be better information for investors,
17 better comparability for investors looking at issuers across
18 the globe. The world even then and increasingly now is
19 migrating into a global view, not a national view. The
20 notion that we can stick within our national boundaries, I
21 think is very far outdated. We're way, way beyond that.

22 I think for capital formation purposes, this
23 enhanced comparability is not just important, but I think
24 it's critical. At the end of the day, a single framework for
25 financial reporting would reduce regulatory burdens and the

1 cost for issuers. Of course, any cost for issuer reduces the
2 cost of capital, which accrues value to investors.

3 So this is a virtuous cycle. This is not is it
4 good for one and not the other. They're intrinsically
5 connected. I think also reducing complexity and perhaps even
6 the opportunity or risk for errors, better understanding
7 across the board.

8 I agree with what many of the panelists on the
9 first panel said. It is not an oversight kind of a
10 transition. It needs to be carefully thought through, and
11 everyone who participates, from the issuers to investors to
12 regulators, standard-setters, the entire community needs to
13 really be trained and understand what this means, and at the
14 end of the day be apply the tools consistently and to the
15 ultimate value of the entire ecosystem there.

16 So I think that the notion that there should be
17 optionality, it just has to be that way, because you can't do
18 it on an overnight basis. Those that move early will benefit
19 those that follow, in that the learnings that evidence
20 themselves can be applied down the road.

21 So and, as I said, the last thing I would just say
22 is you cannot underestimate the requirement for and value of
23 training and education across the board.

24 MS. ERHARDT: But in terms of -- I mean just to
25 follow up. In terms of the actual functioning of the

1 exchanges and their roles in the market, you don't -- I don't
2 want to put words in your mouth, make a leading question.
3 You'll still function business as usual. If we granted an
4 option today, the exchange's employees would come to work
5 tomorrow morning and life would go on?

6 MS. CULHANE: Yes. I mean look. The exchanges are
7 a great example of what's happened in just the last two years
8 in our industry in terms of global consolidation. So you
9 know, we ourselves now are a global company. We have a very
10 large entity in Europe that always reported in IFRS, and now
11 we have ourselves, having had reports.

12 So we're doing our own internal reconciliation.
13 We're no different than any other industry going through the
14 same thing. Our investors are global. They're all over the
15 world. I think we're a good proxy for any other industry.
16 M&A activity is increasingly borderless.

17 So we're going to see a lot of this stuff happen
18 just by virtue of business and the way it's happening around
19 the world. I don't think it's stoppable. I think we need to
20 figure out the best way to harness what's happening anyway,
21 and ensure that investors are protected, that they understand
22 what they're looking at.

23 Anyway we can help in that regard, I think we all
24 have -- in my view, actually I think there are many nails
25 hitting the same hammer.

1 MS. ERHARDT: George, before you start, I framed my
2 question sort of presupposing, since I'm an accountant, that
3 financial information is critical to investors, and they're
4 dying to see it and use it.

5 I realize you actually are a real live investor.
6 So feel free to rebut my assumption right from the outset if
7 you'd like, or make comments in that regard.

8 MR. EVANS: Okay. The first thing is that am a
9 fund manager that manages an international fund, which means
10 that I don't own any domestic U.S. securities. So I'm
11 primary invested in Europe, Japan and Australia.

12 Clearly many of those markets have experienced a
13 transition, and the good news is that the transition was
14 relatively seamless and there wasn't really much of a fuss
15 made about it.

16 When I first started in the late 80's, there was an
17 awful lot of analyst output from the sell side analysts that
18 dealt with making adjustments to the accounts, so that they
19 were comparable.

20 A good example would be between the sort of
21 Germanic block accounting standards, which being sort of a
22 bank-oriented, sort of financed corporate sector, respect for
23 the balance sheet was always much more emphasized.

24 So earnings were very, very understated, as they
25 had to make adjustments for that, versus sort of the English-

1 speaking world, which is a more equity-oriented culture and
2 the earnings are more important.

3 I don't see any outputs about that at all these
4 days. I mean there is just not a big deal made about
5 accounting. There are -- we are a very lean team. Many of
6 the institutional investors, some of them have big armies of
7 analysts working for them. Many have very lean teams.

8 We are, in the global team at Oppenheimer we have
9 eight portfolio managers and six analysts. We don't have
10 time to be building lots and lots of models, and we do rely
11 on outside sources a lot.

12 There are an army of analysts covering just about
13 every stop in the world of every market cap, and you know, we
14 to a great extent rely on the output of that army of analysts
15 to make the comparisons.

16 There are also big data services which are making
17 the adjustments, and we have to rely somewhat on that. So
18 people like Fact Set. There's a lot of input into Bloomberg,
19 which standardized the account, so that we can run screens
20 across borders.

21 So there's a strong intermediary function here,
22 which the institutional investors does rely on a lot. I
23 think the main thing from just an additional point is that
24 there are a lot of companies around the world that, you know,
25 that want access to the U.S. capital markets, and the

1 difficulties and the expense that they have to go through to
2 restate things in a form that is acceptable to the state, can
3 add a lot of costs to it.

4 I just think we had a single set of standards
5 across the world, that there would be seamless access for all
6 companies, for markets that they found appropriate. I think
7 that's very important in a world in which 20 years ago, it
8 was considered rather racy to have five percent of your
9 portfolio in foreign equities.

10 Most of the people that we deal with now, the
11 financial planners are recommending 20 to 30, and the more
12 aggressive ones are recommending 40 to 50. So I think it
13 would be a very positive step.

14 MS. ERHARDT: Dave, you want to comment?

15 MR. KAPLAN: To sort of start, I think you need to
16 take a global perspective as Noreen was talking about, and
17 look at really what's going on in the world, before you look
18 at what we think ought to happen in the U.S., and what the
19 potential effects would be.

20 To focus on the effects, you also need to take a
21 step back and say well, what is your vision? Where do you
22 think the overall direction ought to go?

23 At the end of the day, we do believe in a single
24 set of high quality, robust accounting standards around the
25 world.

1 We do believe that the Commission should ultimately
2 establish a mandatory date for the U.S. to move in the
3 direction of IFRS, because it is apparent to us that the rest
4 of the world will not accept U.S. GAAP. So there's really
5 only one direction to go in.

6 We believe that you need, because change is
7 difficult, a detailed plan to move from where we are today to
8 move ultimately to IFRS. We believe that early application
9 should be allowed or, as many people are talking about, an
10 option to use IFRS in the U.S.

11 What we see, in talking to a lot of our clients,
12 with that as sort of background, is that a number of the
13 larger ones, the more sophisticated ones, the multinational
14 ones, are actually starting to take a very hard look at the
15 cost of moving, the steps to move.

16 They're starting to look at their own accounts and
17 think about what the potential advantages are. They're
18 looking at aspects such as the concurability of themselves to
19 their foreign competitors.

20 So if most of their foreign competitors are on
21 IFRS, to them it's helpful in working with the analysts and
22 the investors from that perspective, to also move potentially
23 in that direction.

24 They see significant communication advantages from
25 being able to do that. They also see a number of benefits,

1 as was talking about in the first panel, around the
2 operational aspects. So the effects to the companies are
3 operational benefits, the ability to put a single set of
4 accounting standards in around the world, have all of your
5 subsidiaries on a common set, to have common systems.

6 Of course when you have common systems, that helps
7 you improve, in terms of your internal controls around those
8 systems. So it can become better-controlled, because you're
9 not consistently reconciling from one set of accounting
10 standards to another.

11 It also gives them the ability to move their
12 personnel around the world, because they understand one
13 common accounting language, both to have someone that's very
14 good overseas in IFRS. They can bring those resources into
15 the U.S.

16 So free movement of personnel, and of course
17 regulation also becomes easier, if you move ultimately to a
18 single set of standards.

19 Another major aspect is the reduced complexity. We
20 talked about principles-based versus rules-based. But
21 without going into that debate around principles versus
22 rules, it is clear that the complexity of the standards in
23 the U.S. is tremendous, and that that is a very difficult
24 thing for companies to deal with.

25 It does increase the numbers of restatements that

1 occur in the U.S., and that can't be a good thing for
2 investors at the end of the day. So having a principles-
3 based set of standards, better internal controls, could
4 improve, if you will, the functioning of the markets and
5 reduce some of the disruption that occurs from that
6 perspective.

7 From an investor perspective, although it's better
8 to talk directly with the investors, but from a personal
9 perspective, it forces investors to learn IFRS if they
10 haven't done that yet, to some extent, to become much more
11 familiar with it as it starts to more slowly be introduced
12 into the market through an option.

13 So it increases their knowledge over time before
14 the U.S. might ultimately completely go to IFRS, and it gives
15 the education system time as well to move in that direction,
16 in sort of slow, more methodical way to actually move towards
17 IFRS, allow an option and to realize where the world is going
18 and how to build the infrastructure to support it in the U.S.

19 We also think that convergence has been a big
20 issue. Clearly, it was the right thing to do at the
21 beginning of 2000, and the standard-setters have been working
22 diligently in that direction. But it has been very hard.

23 It's been very slow to move in that direction.
24 It's been a very complex process, as you have two independent
25 boards supposedly making up their minds independently, but

1 trying to work to a single answer at the end of the day.

2 You see them going back and forth, sometimes
3 leapfrogging each other, and that means each time they do
4 that, preparers have to keep changing their accounting and
5 modifying how they do things. That becomes very difficult
6 for them.

7 So we think that if you do have a plan to move in
8 the right direction, the effect could be that you could
9 really focus on improving the one set of standards, and put
10 your efforts where you could really make a big difference in
11 improving the single set, if you will, of surviving
12 standards, rather than continually trying to work back and
13 forth between multiple sets.

14 So that gives it probably a high level review of
15 what see are the effects.

16 MS. ERHARDT: Mark, you're in an academic setting.
17 Maybe you've had a chance to at least think a little bit
18 about what the effects might be. So anything you want to say
19 in that regard is fair game.

20 MR. LANG: Yes. I'm thinking about what I could
21 contribute on this panel. I guess I thought maybe the one
22 thing I have a comparative advantage at is sort of the
23 academic research.

24 So maybe just a few thoughts on what we see on the
25 research, recognizing these are based on large sample

1 studies, and we have a relatively short time series to work
2 from.

3 We're a little bit hampered here, but I think
4 there's a few results you see from the research that relevant
5 here.

6 The first one is that historically, U.S. reporting
7 has been the best in the world or very close to the best in
8 the world. I think there's lots of research evidence to
9 suggest that as IFRS has come in, in the environments in
10 which it's been instituted, you see a marked improvement in
11 financial reporting.

12 So I think IFRS is a step in the right direction.
13 I think if you look at environments in which IFRS is applied
14 today, on average it's still sort of a step below the U.S.,
15 and it really depends on the country. It depends on how it's
16 being applied in a particular country.

17 The one thing that you do see is that in
18 environments where you have the same country with two sets of
19 standards being applied, IFRS and U.S. GAAP, there's not a
20 lot of examples to work from. But the ones that you can find
21 show that the two sets of data seem to have very similar
22 qualities.

23 So both in terms of transparency and in terms of
24 evidence of things like earnings management, given a
25 consistent field in terms of attestation enforcement and

1 litigation environment, I think the two stack up very well
2 against each other.

3 I think we're very fortunate in the U.S. and some
4 other countries like the UK and Australia, to have a very
5 strong enforcement environment, a very strong or active
6 litigation environment, I suppose, and strong attestation.

7 I think all the evidence would suggest that you're
8 likely to see very similar results, in terms of sort of
9 reporting quality and transparency in U.S. markets, from IFRS
10 being applied, as you would from U.S. GAAP being applied.

11 I think the research evidence also suggests that
12 you're going to see client telefax and you're going to see
13 stocks that chose to follow IFRS.

14 They'll be doing that because their shareholder
15 base tends to be a little more international and by doing
16 that, they'll attract more investors who are interested
17 internationally, and firms that stay in the U.S. are going to
18 be the ones -- or with U.S. GAAP are going to be the ones
19 that have primarily U.S. shareholders. That's going to
20 increasingly lead them to have more U.S. shareholders.

21 In terms of the effects from an academic
22 perspective, I was told by my colleagues to come and push for
23 options, because in fact if the SEC would impose
24 randomization across the sample for us, that would be a very
25 nice thing, because we could run lots of very cute

1 experimental designs. We've got some randomization.

2 But certainly from an experimental perspective, the
3 idea of having some firms in one cap and some in the other
4 would be nice.

5 MS. ERHARDT: That's the benefit of having you guys
6 here, because I wouldn't have thought of that. Jeff?

7 MR. MAHONEY: Good morning. I think like most
8 investors, the Council is in the process of learning and
9 trying to understand what this is all about and what the
10 issues are.

11 In that regard, at our last membership meeting we
12 had the chairman of the ISB, the vice chairman of the ISB and
13 the chairman of the PCOB come in and speak to our members
14 about this whole topic area and what it means to investors.

15 In addition, I recently formed an informal
16 accounting and auditing group within the Council, so that we
17 can debate and discuss these issues as we move forward.

18 Third, we commissioned a paper by Professor Donna
19 Street, University of Dayton, who's one of the leading
20 academics in the area of international accounting standards.
21 She put together a paper for our members on international
22 accounting standards, what investors need to know.

23 So we have distributed that paper to our
24 membership. It's up on our web page, and we're going to
25 continue to try to work within our membership to evaluate the

1 issues that were discussed on Panel 1 and that will be
2 discussed today.

3 We do not yet have any policy position on how we
4 should move forward, but it's something that we're looking
5 very closely at. In response to one of your earlier
6 questions Julie, we do have a policy order that says that we
7 believe our membership believes that high quality accounting
8 standards are a critical source of information for
9 institutional investors in making decisions.

10 We believe that high quality accounting standards
11 are critical to the well-being of our financial markets, in
12 that quality financial information in turns depends on having
13 quality, high quality accounting standards, having a high
14 quality process to establish those standards, and also that
15 high quality auditing and enforcement of those standards.

16 MS. ERHARDT: I appreciate the input, and I could
17 ask the inverse and go down the line. But let me, in the
18 interest of covering other topics, try to shortcut that a
19 little.

20 The inverse is obviously what happens if we don't,
21 you know, what happens if it's status quo, which in essence,
22 by virtue of the Commission taking a decision on allowing
23 foreign issuers to use IFRS if they choose, but having taken
24 no action to date on U.S. issuers.

25 So that taking no action is a decision in and of

1 itself. It creates the dividing line. So I sense if the
2 Commission were to continue with the current approach, and
3 not take any form of any action here, then what's at stake
4 under that strategy is, in terms of tactics, we continue with
5 convergence as the way to align the content.

6 But what is at stake is all the things that each of
7 you mentioned, in terms of potential benefits. I mean that's
8 the cost, if you will, is kind of in essence the loss of the
9 benefits.

10 If somebody thinks differently, raise your hand.
11 But otherwise, I think if not, I just wanted to point out
12 that it really is do or don't do, and then -- but yes.

13 MR. BUKSPAN: I'm just going to make a question
14 point here, that transition is important. It's very
15 difficult to answer. I don't know how many bites we're going
16 to have of the apple.

17 So if we do it, there has to be a great conclusion
18 that we do it right, because moving to a single accounting
19 standard is motherhood and apple pie. But if we do that, and
20 we don't have the benefits of trusting the system to take us
21 to where we want it to take us, and then you're looking at an
22 organization that is possibly putting accounting standards,
23 that some of the concerns that are being raised, that are
24 real concerns actually playing out, we are not going to be
25 where we are going to be.

1 So I think we need to be thinking very hard in our
2 transition is implemented, beyond the mere option and
3 continuation.

4 MS. ERHARDT: Actually, that's a great segue, and
5 you'd think that I hired you to say that, because the next
6 second broad topic we wanted to talk about was experience,
7 which really is how has it gone, what are -- how might it go,
8 and then eventually get to potential timing. So Ethiopis,
9 why don't you pick it up from there?

10 MR. TAFARA: That's actually a terrific segue, and
11 I'd like to elaborate on a topic that was discussed during
12 the first panel, and also I think addressed in part, at least
13 at a high level, by Dave Kaplan.

14 But get a sense from your experience as to what the
15 immediate and the short term and the long term incentives
16 would be for an issuer to prepare financial statements using
17 IFRS, and would those incentive differ depending on industry
18 segment, depending on geographic location of operations, or
19 where capital is raised, or the demographic factors?

20 At the same time, if you could also address what
21 you think the difficulties might be in actually moving to
22 IFRS for domestic issuers. I guess I'd start with Noreen and
23 Neri, and then have others jump in after they've addressed it
24 first. So Noreen, maybe you could go first?

25 MS. CULHANE: Well, I'll start by saying I'm not a

1 practitioner for sure. But I will say that, you know, as we
2 look at what's happened here over the recent past, we now see
3 that there are 100 companies out there that have some form of
4 -- 100 countries that have some form of IFRS, even if it's
5 IFRS with an accent. Not exactly IASBs, but some version of
6 it.

7 We know that that's 12 to 13 thousand companies. We
8 also know that Canada, Israel, Korea, Chile and others have
9 already said they're moving in that direction. I mean at
10 some point, I think we run the risk, at least, of being
11 somewhat marginalized, in being sort of the only one out of
12 step with where everybody seems to be going.

13 I'm not saying we should follow the leader, and
14 that that's the only reason to do it. I'm just saying it's
15 something to keep in mind as you think about where you're
16 going.

17 I mentioned already that increasingly many, many
18 companies are perhaps not having subsidiaries or
19 relationships with other companies in other geographies, but
20 clearly doing business in other geographies, and having
21 clients there and that sort of thing. So there's many, many
22 sort of different relationships here.

23 But you know, at the end of the day, the U.S.
24 capital markets are very deep, they're very liquid. There
25 are sources of capital here. We could afford to keep

1 marching on, you know, to our own drummer.

2 But I don't think that's reflective -- I think it
3 would be a mistake, because I think we should be smarter
4 about seeing into anticipating where things are going, and
5 getting ourselves ready to participate in that global
6 environment and that global community.

7 I do think if we look at the invested dollar of
8 U.S. issuers, I think Chairman Cox mentioned this earlier,
9 increasingly we see U.S. investors diversifying their
10 portfolios with an ever-increasing amount of investments in
11 companies outside the United States.

12 So they're clearly getting very, very comfortable
13 with this as a notion, and these are for the most part, many
14 of these companies are not reconciling their financials to
15 U.S. GAAP.

16 Someone made the point on the first panel here,
17 there are thousands of companies that don't, you know, the
18 number of non-U.S. SEC registered companies listed in the
19 U.S. is relatively small, compared to the whole pie. So I
20 would say that the foot of the march is already on, and I
21 think we need to think about how to harness that and be sure
22 that we're in the conversation early, because there area a
23 lot of things that we do extraordinarily well here.

24 We should be participating in the dialogue about
25 how to get to where we're all ultimately going, and not

1 letting that train leave the station and we're here, you
2 know, at the caboose, at the end of it.

3 You know, at some point maybe, unfortunately having
4 to catch up with a much smaller voice in how it all turns
5 out. So I think anticipating and moving and getting in that
6 direction earlier in the process is going to serve us better,
7 as issuers, investors, capital markets, whatever hat you've
8 got on in the longer term.

9 MS. ERHARDT: One quick follow-up before Neri. Do
10 you have any war stories from the exchanges that are in
11 countries that have moved to IFRS, that converged in process
12 like Europe or whatever, that there was anything that
13 happened?

14 I mean like they have listing requirements and
15 obviously. Was there any blips or does it seem to have
16 -- you could anticipate how your company could continue with
17 its listing function, and there wasn't any big do's or don'ts
18 from other exchanges that we might think about?

19 MS. CULHANE: First of all, the exchanges --
20 there's many flavors of exchanges. Some in very developed
21 markets that have capital markets much older than the United
22 States capital markets, and they're very good, well-regulated
23 markets. There are some much more nascent markets, much
24 younger markets, who will need the benefit of time to mature
25 and season the way we've had the opportunity to do that.

1 But to answer your question Julie, I think we can
2 look at very recent history. We have this year 47 or 48
3 companies that are deregistering and delisting from the U.S.
4 capital markets. Now granted most of them are Western
5 European companies, where we had very little trading volume.
6 These are not from emerging markets.

7 But at the end the day, you can look with what
8 happened to the investor base, to the liquidity in the
9 trading, to the price of the stock. There was absolutely no,
10 nothing happened. Really nothing happened.

11 Which tells you that this notion of reconciling
12 their financials to U.S. GAAP, this comfort that should be
13 derived from that as a matter of confidence in the markets
14 and investing, people are very confident in the regulatory
15 frameworks in other geographies in other countries.

16 You do have to take the time to know, appreciate,
17 understand and get educated on them. But at the end of the
18 day, it's not like people are saying that's lacking
19 transparency, it's opaque, I don't know what it means. No,
20 not at all.

21 So I think we have a little microcosm, at least in
22 the recent past here, that we can look at a little sort of
23 group of cases where we can see that life went on and it's
24 just fine.

25 MR. TAFARA: Thanks. I mean that's actually --

1 it's interesting, because you focus on the incentives for us
2 as a regulator and for the U.S. market to consider IFRS use
3 on the domestic market, which was my question. But it's
4 certainly important to consider.

5 Neri, do you want to pick up on what Noreen has
6 said, and also --

7 MR. BUKSPAN: I'll be very brief and respond to
8 your initial question. I believe all the incentives were
9 discussed early on, and I think they are practically making
10 sense.

11 The only challenge that I have is some
12 consideration about the disincentives including, for example,
13 where you have some utility companies and others, and then
14 where competition is defined. The current market is the
15 other market.

16 If you look at the car manufacturer, they look only
17 at the Big Three that happen to play in the international
18 environment, or you want to look at some smaller
19 environments. So I think it's very appealing to look at
20 industry and compare the two. But it's very hard to put the
21 defining line.

22 Even if management can think what their investor
23 base do, it's not necessarily their entire investor base and
24 clearly I think there's -- you either invest in U.S. market
25 or an emerging market. So you have other dividing lines that

1 need to be considered beyond that.

2 So the argument seems to be appealing, but it needs
3 to be dissected further. But what I want to focus on is
4 actually what Gerry mentioned earlier, which is where
5 analysts do struggle with options.

6 There were some elements of companies, some
7 research that the companies' liquidity may have been
8 enhanced, but the cost of capital hasn't been increased as a
9 result of adopting IFRS.

10 And clearly options. We all remember the, and FAS
11 52 was mentioned earlier. We all know what happened to the
12 option under FAS 95 for cash flow here in the U.S., when FASB
13 indicated there's a preferred method. We also remember what
14 FASB did with stock option expenses. It was the preferred
15 method, and nobody expensed stock options.

16 We all remember the recent experience with the fair
17 value option, that deputy chief accountant, Jim Kroeker, had
18 to issue a very strong letter to companies, not to perhaps
19 abuse an option.

20 So I recognize the optionality, but I believe
21 optionality is challenging. Recognizing that migration
22 immediately for everybody will be challenging as well, I
23 encourage to introduce a third element to the equation, of
24 perhaps a gradual migration based on either market cap or
25 certain profiling rather than optionality.

1 Because the option to me raises the issue of its
2 own, issues of its own.

3 MR. TAFARA: Would anybody else like to address
4 incentives and disincentives? Yes, Dave?

5 MR. KAPLAN: Well, let me speak a little -- I spoke
6 before about some of the benefits to companies, and the other
7 question you asked was what about the challenges? What are
8 some of the issues that they need to face?

9 There is a tremendous amount that companies need to
10 do to change. It's not just a question of changing your
11 accounting policies. It's a question of changing your
12 accounting policies and the business that really supports
13 that and works with that.

14 There are a number of contracts, as was mentioned
15 earlier in the day, that may need to be changed. Debt
16 agreements and debt compliance agreements. Of course they
17 need to look at accounting policies and look at what their
18 competitors are doing, to see does that make sense from an
19 IFRS perspective, to make sure that they get consistency on a
20 global basis.

21 There sometimes is a presumption in the U.S. well,
22 if it's U.S. GAAP, then it should work under IFRS.
23 Interestingly, in many cases, that's not true. There are
24 IFRS is its own model, and there's a number of U.S.
25 treatments that would not be applicable under IFRS. So

1 companies would need to look at those and change those.

2 Everyone has been talking about the training that
3 companies need and the knowledge that they would need within
4 their organizations. They would need to change their systems
5 and their controls to support their new accounting policies
6 around the world, and their reporting processes internally.

7 Something that we can learn from Europe, which is
8 another question, Julie, that you asked, is around embedding
9 that and actually what they do, and in their control systems,
10 and not just overlaying it over the top.

11 In other words, you don't want to in a sense have
12 your old systems under U.S. GAAP and then sort of convert at
13 the last minute. What you really want to do is embed that
14 into your systems.

15 There's a number of other things that could change
16 in this. They could be looking at their benefit plans and
17 they need to talk with regulators. Other regulators need to
18 be involved with this. So there are a number of challenges
19 that companies really do have. The other lessons learned
20 from Europe was that they of course picked a 2005 date.
21 Everyone changed around the same time.

22 They didn't have the advantage that we have and the
23 ability that someone else had already gone onto IFRS. You
24 know, we have a big portion of the global market already
25 using IFRS or will be using IFRS in the very near future.

1 So we can actually go in a more orderly fashion and
2 allow some companies to change earlier, to build the
3 resources in the U.S. Because what we saw in Europe was sort
4 of a mad scramble at the end of the day, for resources to go
5 through that conversion process. Allowing those resources to
6 build in the U.S. could be a real advantage to us in a much
7 more orderly fashion.

8 MR. TAFARA: Mark, anything in the academic
9 research you want to highlight?

10 MR. LANG: Sure. Just a couple of things to note.
11 First of all, as I mentioned before, there's the clientele
12 issue. So I think there would be sort of a strong, as I
13 mentioned, clientele effect in terms of incentives. The
14 firms that you would expect to move to IFRS are, I think, the
15 logical candidates.

16 The second one that I think is important is to
17 realize that there's a large body of research, not
18 specifically on IFRS but in general, on why firms choose the
19 accounting policies that they do.

20 The answer unfortunately is that they're
21 opportunistic, right. So on almost any choice that you look
22 at, it appears that a lot of companies will sit down and look
23 at what the numbers would look like under the two
24 alternatives, and pick the one that they like best. So I
25 think it is important to bear that in mind when you're

1 thinking about something like this.

2 The other thing that I think is important here is
3 the end game, right. So the incentives are going to very
4 much depend on where firms see this thing ending up. If they
5 know that it's going to IFRS in say five years, that's going
6 to, I think, really change the incentives.

7 Because as we saw in Europe, for example, you're
8 going to really see as many companies switching because of
9 the costs.

10 MR. TAFARA: George or Jeff?

11 MR. EVANS: I think some of the critical things for
12 us, we're very long term investors. My average turnover last
13 year or my turnover last year was about 12 percent. So the
14 holding periods are very, very long.

15 As such, we like to analyze companies going back
16 over a long period of time, and it's just important that the
17 accounts are understandable in the sense of sort of
18 continuity, and being able to sort of compare numbers sort of
19 through time, rather than having a lot of jumps around, which
20 take a long time to explain. That's one of the critical
21 things.

22 I think, you know, just in terms of Europe,
23 particularly adopting a single accounting system, you know,
24 you've got to look at Europe in the context of 20 years ago.
25 It was many sort semi-closed economies, with semi-closed

1 capital markets and pension funds only invested in their own
2 sort of local market.

3 And really this is part of a general process, is
4 making a Europe a very powerful pan-regional economy, and you
5 know, power has sort of projected it into sort of a bigger
6 position in the global economy.

7 I think that this has got to be looked at the
8 context of where the world is going and the creation of
9 global capital markets, global access to capital, etcetera,
10 which can only be a good thing.

11 MS. ERHARDT: George, one maybe just slightly more
12 detailed question and then we'll get to Jeff. Earlier, you
13 were describing that you get your information from sources,
14 if you will, who are probably the ones that are a little bit
15 maybe more than you yourself, boots on the ground, to take
16 the information companies provide and get it so you can work
17 with it.

18 Were there any -- when the other countries
19 transitioned to IFRS, were there any looks or any war stories
20 you heard about from their work, or was it pretty, went
21 pretty smooth or anything you might add in that regard?

22 MR. EVANS: Just anecdotally, one of the
23 interesting things was that -- or just backing up. First of
24 all, the world has moved from some country-specific analysts
25 to very much sector-specific analysts. So they've been doing

1 comparisons across borders for many, many years and doing all
2 the adjustments.

3 Just in terms of some anecdotes from the adjustment
4 period, there was always an assumption that the German-
5 speaking bloc was always really conservative, and they were
6 always massively understating things.

7 When they converted to IFRS, you found out that
8 some of the companies were a lot more awful than you ever
9 imagined. But I doubt that that would be the case in the
10 transition in the U.S. But there weren't that many war
11 stories, but some quite unusual ones.

12 MS. ERHARDT: Jeff, you were trying to jump in.

13 MR. MAHONEY: Just to follow up on a couple of the
14 earlier comments. The professor's comments about some
15 companies may be opportunities. I think there is some
16 evidence. Jack Sizelski's done some work on this, and I'm
17 sure you've seen that there are still some very, very
18 significant differences between these two sets of standards.

19 Jack's research showed that, in review of the 2006
20 reconciliations, that most of the companies would have a
21 boost in earnings from switching from U.S. GAAP to IFRS, with
22 a medium boost of 12.9 percent.

23 There's also a very significant range of the
24 reconciliations he looked at. In some cases, IFRS was 826
25 percent higher than U.S. GAAP, and on the other side, 336

1 percent lower and everywhere in between.

2 So I think that we have to recognize that there are
3 some very, very significant differences between these two
4 standards, and as the professor said, I think some companies
5 may try to take advantage of that if they're given the
6 option. Then that raises the question is that really good
7 for investors or not.

8 On the comment about the march is on, I agree; the
9 march is on, and I personally as an investor believe that
10 having a single set of high quality financial reporting
11 standards are rigorously implemented, audited and enforced is
12 very positive for investors in our capital markets.

13 But I think it's important that we don't march off
14 a cliff, that we actually carefully and thoughtfully look at
15 all the issues that have been raised, and work these issues
16 out before we pull the trigger on this.

17 MR. TAFARA: We'll move on to a slightly different
18 question, and probably direct this to George initially and
19 maybe you Jeff as well.

20 George, you indicated that your fund invests in
21 markets around the world, and indeed I expect invest in
22 markets where there are already two standards co-existing,
23 two high quality standards co-existing, IFRS and a local
24 standard.

25 So what has your experience been in terms of

1 investment decisions? Have you been hampered by the fact
2 that you have a choice or there is choice in a given market,
3 whether you're talking about the London market or the
4 Japanese market, the Tokyo market or other markets of that
5 kind?

6 MR. EVANS: I have not been hampered by it. As I
7 said, there's an awful lot of work done by the analyst
8 community, and we don't access just a single analyst. We
9 look at a whole range of analysts on the same company, to
10 sort of try to sort of tease out all the investment issues,
11 including accounting issues.

12 You can get a pretty well-informed picture of
13 virtually any company in the world. So there have been no
14 issues for me whatsoever.

15 MR. TAFARA: Neri, maybe you as the analyst maybe
16 have a view on this?

17 MR. BUKSPAN: Well, it's interesting, because I was
18 about to jump in. I can tell you that the one issue that is
19 overly naive to think that any computer system or any analyst
20 or any data provider can take one system and convert it to
21 another system, and pretend that you get the same
22 information. It is not.

23 We've worked with this very closely, and we have an
24 analytical methodology for many, many years, prior to getting
25 our companies across the globe to common grounds. But I can

1 tell you one thing, as much as we were very proud on what
2 we've done, we are just getting close.

3 But there is X degrees of freedom between the
4 numbers, and I can tell you this boils down to optionality
5 does exist, even within U.S. GAAP, you know. LIFO, FIFO,
6 there's all this pooling versus purchase, which was a bonus.

7 But the list goes on, including fair value option,
8 to hedge or not to hedge. An analyst always when they look
9 at the picture say do I look at -- am I looking at something
10 that is comparable?

11 Even if you get to comparability, we all read the
12 paper today and we know that even if you think that you're
13 comparable, then everybody's second-guessing the estimates
14 and assumptions. Is your write-down appropriate. Is it more
15 than appropriate? Is it less than appropriate?

16 So I think we need to look at comparability, and we
17 need to think about how we get to comparability, and then
18 open up a little bit, and that was discussed earlier as well.
19 Is it only the financial statements?

20 If I have a scale today and I kind of put the GAAP
21 financial statements and then the IFRS financial statements,
22 U.S. GAAP and IFRS financial statements, I can tell you one
23 thing. The balance sheet, the income statement, the
24 statement of cash flow will not weigh more. They're about
25 the same size.

1 The GAAP financial statement will take you down.
2 They're much more sizeable. Some of it is excessive weight
3 and people argue it's complex. But some of it, in my mind,
4 is critical information that analysts are using.

5 I'm going to put a plug here for work product. I'm
6 going to put a plug here for work product of the committee
7 that both Jeff and I are co-chairing. This is the Investors
8 Technical Advisory Committee that advises the Financial
9 Accounting Standard Board.

10 We just wrote a letter to the Financial Accounting
11 Standard Boards and cc'd the International Accounting
12 Standard Boards, and I also encourage the Commission to look
13 at that, because I believe that the disclosure framework and
14 an MD&A framework will be critical to any transition in any
15 future robust financial reporting system, for the reasons
16 that I just mentioned.

17 MR. TAFARA: So ultimately you continue to advocate
18 for just there being a single standard?

19 MR. BUKSPAN: I'm advocating to having the single
20 standard, but I'm advocating for a greater focus to think
21 that there's much beyond a single number. I can tell you a
22 single number is a great thing, that at least we know that
23 companies are starting with a single number.

24 If you think about the transition and how companies
25 are transitioning and when they are transitioning, and if you

1 ultimately think that you buy in on what I'm selling here,
2 which is a broader disclosure framework that will survive as
3 part of a broader framework, I think you're producing it as
4 part of transition could be a very useful element to mitigate
5 a lot of the things that we are hearing here today, and
6 including providing investors return information, that they
7 are concerned will go away with migration to IFRS.

8 MS. ERHARDT: Just to your first point, I mean I
9 think we absolutely understand that IFRS and U.S. GAAP are
10 not the same. They don't yield the same results, and that's
11 really what makes this policy question a policy question.
12 You know, if they were really close together, it might be
13 kind of an easy call.

14 But the fact that we're not trying to measure
15 distance and get to a certain closeness. Indeed, there are
16 separate system. But we're trying to recognize the move into
17 one system is really what -- that's exactly the tension in
18 the policy question.

19 So I appreciate your bringing it up. But just be
20 clear. I do understand, at least speaking for myself as we
21 always do, I do understand that.

22 MR. TAFARA: Anybody else want to address this
23 question, because I have a related question to ask? But I do
24 want to give people an opportunity to answer the specific
25 question.

1 If not, then could I ask in your view, what is it
2 we could as an international community of securities
3 regulators, to try and ensure that we're getting as
4 consistent application and interpretation of IFRS? There's a
5 fair amount we've been doing, in terms of building an
6 infrastructure for consistency.

7 But I'd be interested in your views as to what we
8 as a community of regulators internationally could be doing
9 and should be doing going forward. Dave?

10 MR. KAPLAN: Well, first and most obvious is
11 consistent communication among the securities regulators
12 around the world, and it becomes very difficult for preparers
13 when regulators in certain territories interpret literature
14 in a certain way and others interpret it in a different way.

15 Then they need to figure out essentially what to
16 do. It takes what would otherwise potentially be comparable
17 information and creates other versions, if you will, of the
18 standards.

19 I mean certainly, the Commission recognized that
20 when they said that they would only allow IFRSs as issued by
21 the ISB to be filed in the U.S., without reconciliation to
22 U.S. GAAP.

23 So making sure that the securities regulators, as
24 they actually interpret the literature, as well set the
25 standards within their own territories and follow IFRSs

1 issued by the ISB and impose, if you will, their
2 interpretations on companies, making sure that they are
3 aligned in their thinking with local regulators, is
4 critically important.

5 I also think that in the U.S., you know, it is
6 through the regulation process that a number of the requests,
7 as well as from auditors. I think we're all a little bit at
8 fault here to be fair preparers, auditors, regulators, users,
9 in terms of going to the FASB and constantly asking for that
10 additional piece of literature.

11 That additional interpretation time after time has created
12 the tremendous complexity that we have in the U.S. today.

13 So having securities regulators talk amongst
14 themselves and decide when it's really important to go to the
15 standard-setter and say you need to address this, and when it
16 is not as important, you can let the marketplace, in a sense,
17 work out some of those issues, becomes important as well.

18 MR. TAFARA: Mark, Jeff, anybody else on that
19 particular question?

20 MR. LANG: Yes, I mean so related actually to the
21 previous question a little bit as well. I mean I think one
22 of the things that's sort of frustrating, if you look at the
23 research literature, is that it's actually very hard to find
24 that accounting standards per se matter very much, right.

25 It's the application of the accounting standards

1 that matters a huge amount, and that's probably not
2 surprising.

3 As I mentioned earlier, one of the things that's
4 interesting is if you look at two firms within a regulatory
5 environment, you tend to see very similar attributes of their
6 reporting, even if they're under different technical
7 accounting standards.

8 In fact, one of the things I noticed on the first
9 panel is that people talk about IFRS largely as if it's sort
10 of this one application of accounting standards. The
11 research evidence would suggest, although I can't actually
12 show you the data on the U.S., but I would bet you a dollar
13 that if you compare a U.S. firm that follows IFRS to a German
14 firm that follows IFRS, you're going to find that they're
15 further apart than a U.S. firm that follows U.S. GAAP,
16 relative to a U.S. firm that follows IFRS.

17 Because so much of what seems to matter in terms of
18 the quality of reporting, I think again and again in the
19 literature, is the auditing that takes place, the quality of
20 auditing, the quality of regulation and litigation to a large
21 extent, the extent to which firms feel like they're in danger
22 of being litigated against.

23 So I think, you know, looking sort of across the
24 world in terms of getting consistency, a lot of it is making
25 sure that different environments have the same attention to

1 investor protection that I would say the U.S. has.

2 MR. MAHONEY: To emphasize an earlier point, I
3 think this, getting some handle or control, if that's
4 possible, over this country by country endorsement process.
5 As I said earlier, I think as an investor I believe a single
6 set of high quality accounting standards can be very
7 beneficial to everyone.

8 But if we have a, end up having a country by
9 country endorsement process, we're not going to have a single
10 set of high quality standards. We're going to have many,
11 many sets. So somehow, we have to get a handle on that
12 issue. I don't know. I have no idea how you're going to do
13 it, but I think that's a key issue here.

14 MS. ERHARDT: Let's get to the third topic, because
15 I'm conscious of the clock and we certainly want to leave
16 some time at the end for whatever closing comments each of
17 you may have.

18 You know, the third topic is okay, if the
19 Commission were to move ahead in allowing use of IFRS by U.S.
20 issuers, and we appropriately considered, you know, the
21 points you've raised earlier about experiences of others and
22 the application of infrastructure to facilitate that, you
23 know, so if you kind of felt ready to go as a Commission
24 staff person, but it still boils down to just raw timing.

25 I mean, you know, there's timing date and timing

1 sequencing perhaps, and timing perhaps other aspects of it.
2 So if you were me, and you had to write a recommendation to
3 the four people sitting over there, what advice do you have
4 for me on things to think about, about timing, sequencing?

5 It could be when to start, when to end, how long to
6 go, you know? Just anything you have. I guess maybe this
7 falls under the topic of readiness. But any advice you have
8 and I'm interested in hearing it from the perspective of
9 everyone's experience.

10 But in the spirit of not always having Neri have to
11 go first, maybe we'll go in the reverse order. If Jeff is
12 ready and if you're not, just tell me. I'm not trying to
13 trick you here. Just any thoughts you want to pass along on
14 sequencing, timing, etcetera, and then we'll work our way
15 down.

16 MR. MAHONEY: You did trick me. I think we need a
17 realistic and clearer time line. I'm not going to tell you
18 what that should be, but I think we need one out there that
19 everyone can look towards.

20 So they could look at that time line and then
21 figure out how to deal with all the issues that we talked
22 about today, the educational issues and the training issues
23 and all the things that need to be done for this to be
24 accomplished correctly.

25 So I don't have a number or a date for you, but I

1 think there should be a clear deadline that gives people
2 enough time to work through these issues before we pull the
3 trigger and move to IFRS.

4 MS. ERHARDT: Mark?

5 MR. LANG: So I said I was going to talk about
6 research, but now I'll talk about the other side of
7 academics, which is teaching. I might agree that we need to
8 know sort of what the time frame is. I don't know. Five
9 years comes to my mind. I'm not sure why that is. But don't
10 go beyond that.

11 But I do think one of the things you find when
12 you're teaching students is that they want to know kind of
13 what's in it for them, right? So it's sort of hard right now
14 to sell IFRS if the Big Four aren't paying extra for people
15 who know more IFRS.

16 So it would certainly be the case if you could say
17 five years from now, you're going to be out of your job,
18 right, if you don't know IFRS. I think that would be a huge
19 benefit in terms of making sure people are ready to go when
20 the system needs them to be.

21 MS. ERHARDT: Speaking of what some call the Big
22 Four, Dave?

23 MR. KAPLAN: I think the timing can be informed to
24 some extent by what's taken place around the world and how
25 many years they took to do it. It was announced in 2002 that

1 Europe would be going. They went in 2005.

2 You know, and other countries have been moving in a
3 relatively systemic pattern. Canada having announced and now
4 moving forward. So we can look at what some other countries
5 are doing.

6 But I think at the end of the day, the ultimate
7 timing needs to be informed by the plan that we developed,
8 and the challenge that we identify up front that we need to
9 address, in how long it will take to address numbers of those
10 challenges, whether it be the academic community and
11 education of our students, or it means getting the resources
12 and the training done in the U.S. as well.

13 I would look out and say you do need a reasonable
14 period of time before you would mandatorily change in the
15 U.S. for all public companies, because what you don't want to
16 do is force companies to do something in too short a period
17 of time. You want them to be able to take the time that's
18 necessary to do a good implementation, if you will, of a new
19 set of accounting standards.

20 It will also give us time in between for those that
21 don't yet want to adopt it, to allow for the standards to
22 continue to improve, which they will continue to do just like
23 we know the FASB standards in the past have needed to
24 continue to improve.

25 If you look at timing, we'd probably look out for a

1 mandatory date, somewhere in the range of 2013 to 2015. But
2 we would also look to allow an optional period or early
3 adoption significantly before then. What we see is most,
4 there may be a few companies that may be ready today to
5 change very quickly, but most of them will probably want to
6 run their U.S. GAAP and their IFRS and build that, if you
7 will, over time.

8 So they make sure they account for both sets of
9 systems as they sort of go. So the first year that they
10 might go would be after they've been able to do that for a
11 year or two. So I would look at allowing it optionally
12 either shortly, but I wouldn't expect a lot to go, and then
13 others would probably start to move fairly quickly within a
14 couple of years.

15 Then medium-sized companies would be looking at the
16 larger ones, saying "Well look. They're moving to IFRS, you
17 know. What do they see in the advantages of it?" Then they
18 would start to move as well, and that would allow the
19 resources to build in a reasonably market-focused kind of
20 way.

21 MS. ERHARDT: George, do you have any preference?

22 MR. EVANS: I'm not sure I've got sort of too much
23 directly constructive on the timing, but I would say that
24 just that the recognition, that the differences in the
25 interpretation of the standards worldwide should not hold you

1 back, because the accounts are just one aspect of many things
2 that we sort of look at, in terms of investor protection or
3 looking after our investors' money.

4 You know, there's hugely different legal systems;
5 there's hugely different levels of government interference.
6 There's hugely different levels of minority
7 investor protection, many of which are sort of bigger than
8 just the statements.

9 So all I'm saying is there's still going to be a
10 real texture to international investing, and I just think
11 that moving towards comparability can only be a good thing,
12 but differences will remain and be very important in the
13 accounts and many other aspects.

14 MS. ERHARDT: Noreen?

15 MS. CULHANE: I totally agree, that a date should
16 be set, although I don't have any particular insight as to
17 what that should be, and others could probably give a more
18 informed view there.

19 But I would just say that on the education and
20 training, the obvious communities have already been
21 mentioned. But I think anytime you make this fundamental a
22 change, it really impacts, you know, more than just obvious
23 communities.

24 So the entire business community, all the people
25 that are out there, you know, producing revenue or whatever

1 they're doing, they need to be incorporated into this too.
2 They need to be trained, they need to understand and learn
3 the differences.

4 So it's bigger than just the people who directly
5 touch the end product. I think that's really important to
6 work into, both the training and the timing of how this
7 change gets made.

8 I totally agree with the fact that the regulatory
9 systems, the legal systems, the tax implications and other
10 things that surround us in different jurisdictions, all have
11 to be, you know, all have to be folded in. So it's complex.

12 MS. ERHARDT: Neri?

13 MR. BUKSPAN: I agree with everything that was said
14 about timing. One thing I add, I am hoping it's not going to
15 happen tomorrow with respect to the optionality.

16 MS. ERHARDT: We're not that good, the roundtable
17 today and meeting tomorrow.

18 MR. BUKSPAN: Although on the reconciliation, you
19 were fairly efficient. I just want to reiterate Jeff's note
20 about the importance of understanding the end game and the
21 end game that we all buy into that's going to be a single
22 standard.

23 Because if we are not committed to make sure that
24 it's going to be the standard of the future, and we put
25 something on the road without a clear plan, and clearly we

1 all know that both systems need to be improved. So a clear
2 plan for improvement, and then we'll end up with a single
3 standard, with major hurdle to execution, timing that's going
4 to move from slow to slower to doing nothing, because you
5 have to deal with so many regulators.

6 So the regulatory infrastructure and oversight is
7 clearly important. So what I would say if this cannot be
8 assured, or not even assured, if we cannot get comfortable
9 with this, I would challenge whether we should start. So I
10 just again reiterate what Jeff said, and getting commitment.

11 Because otherwise, we're going to find ourselves or
12 perhaps our kids or grandkids sitting at the same roundtable
13 and say the world is divergent again, and what do we do to
14 get it convergent.

15 MS. ERHARDT: One follow-up question, and just I
16 would only pose it to anybody who wants to jump in, actually
17 sequencing.

18 For example, we talked about timing, but there's
19 also in theory a strategy question, if indeed you were to do
20 something in this area, about do you just open it up, you
21 know, all registrants, whatever you were going to do, all
22 registrants, all comers are in the same sequence.

23 Or you know, in essence like in the market, self-
24 sequence. Or do you have a real more a regulatory answer to
25 sequencing, where the Commission itself, you know, sets out

1 some characteristics or demographics and says you this, you
2 that?

3 Do people have any opinion on that, on sequencing,
4 whether you know, anything you might want to add, just jump
5 in. Dave?

6 MR. KAPLAN: I again would look at it from the
7 perspective of the managements of companies will take a look
8 at what they think will be in the best interests of
9 themselves, their shareholders, and will make presumably an
10 intelligent decision in terms of whether to change or not
11 change.

12 I don't think we need a regulatory solution there.
13 I think we ought to, if we move to allow an option, we ought
14 to allow that option. Why would we preclude, for example,
15 smaller public companies that may have a lot of international
16 operations, from being able to move to IFRS if the larger
17 public ones can that also have a lot of international
18 operations.

19 Would it be fair to the smaller companies by
20 precluding them from being able to take advantage of the
21 operational efficiencies they may be able to obtain?

22 So I would again let managements and boards of
23 directors make that decision themselves, and allow it to be
24 market-based.

25 MS. CULHANE: I think you could have some

1 combination, where for some period of time there was an
2 option, and those who felt ready, large, medium or small,
3 could certainly move in that direction. But at some point if
4 you have six-year, eight-year, whatever the time line is,
5 everyone's not going to get there unless there's some date by
6 which they need to get there.

7 It's impractical to think everybody would get there
8 at the same time, for all the reasons that have already been
9 mentioned.

10 So at some point, the optional part would have
11 become, I think, more specific, and then there would have to
12 be either size of company, global footprint of company,
13 whatever, some process to get to the end of the agreed-to
14 time.

15 MS. ERHARDT: Which may need a regulatory component
16 to it?

17 MS. CULHANE: Yes, which would have, you know, an
18 optionality and then a regulatory component to it.

19 MR. TAFARA: I think Commissioner Atkins has a
20 question.

21 COMMISSIONER ATKINS: Well, I'm just seeing where
22 you're working. I was just wondering why does it necessarily
23 have to be we who do it? Could it be a listing standard.

24 For example, if you think the New York Stock
25 Exchange stable of companies is more, you know, ready to do

1 that than say the AMEX or somebody else, would that be
2 something that would be appropriate for you all to set as
3 listing standards?

4 MS. CULHANE: I'm certainly open to discussion.
5 But the Exchange, heretofore from a financial statement
6 perspective, has always basically relied on the financial
7 statements as filed, and not ever dictated when companies
8 should comply with, for example, new interpretations of
9 standards or any of that.

10 We've always accepted what the SEC has reviewed.
11 So it would be different. Not to say it's not possible, but
12 it would be sort of a different spin on that.

13 COMMISSIONER ATKINS: Although originally, I mean
14 we sort of -- the SEC adopted our requirements regarding
15 annual reports --

16 MS. CULHANE: Oh yes, because we started those
17 before the SEC existed.

18 COMMISSIONER ATKINS: Existed, right.

19 MS. CULHANE: Once you came along, we were happy to
20 say that's yours.

21 COMMISSIONER ATKINS: You passed the buck.

22 (Laughter.)

23 MS. CULHANE: No, I think you took it. But I don't
24 know. But since then, it has been -- it's been pretty clear.
25 But again, that's not to say that that's a forever thing.

1 But at the moment, that's the way it has worked for a long
2 time.

3 MR. TAFARA: I'm conscious of time and we did
4 indicate we wanted to give each of you an opportunity to make
5 some closing remarks. So I think --

6 CHAIRMAN COX: Ethiopis, before you do that, I
7 wonder if I could inject a penultimate question, not to take
8 away your opportunity to wrap up in a more general fashion.
9 But I'd just be interested if we went down the line quickly,
10 and challenged each of you to try and tell us what you think
11 the whole panel agreed on today.

12 We have a panel that is intentionally diverse, and
13 so we know you don't all agree on everything. But I wonder
14 if you could each give us your sense of what it is you think
15 is a common thread running through all of your comments?

16 MR. TAFARA: Neri, do you want to start?

17 MR. BUKSPAN: I think we are a diverse panel. I
18 sense a reasonable level of agreement among my peers, unless
19 someone disagrees.

20 (Laughter.)

21 MR. BUKSPAN: I think we are very consistent about
22 the goal. We have confidence in the current structure to
23 take us there. We are confident we are being heard and
24 listened to, and our concerns may not be new to individuals
25 here in the room and they will be addressed when the

1 standards come on line.

2 Certain concerns may have to be associated with
3 some sort of a compromise, and we hope that the issues will
4 be deliberated appropriately, and the same issues that I
5 raised about options and hearing David, I sat back and I said
6 "Well, it does make sense perhaps to have some options."

7 So if it were so evident and immediately apparent
8 to all of us, I think we'd have the solution and we didn't
9 need this roundtable today. It's just articulating the steps
10 that we all need to take, make sure that the pain that will
11 be inflicted to some or all of us would be as short as
12 possible, and we all be committed to reach what I attribute
13 to maybe perhaps a financial reporting nirvana. So I'm
14 clearly hopeful.

15 MR. TAFARA: Noreen?

16 MS. CULHANE: I think I would say that it seems
17 that everyone agrees that there is benefit to all the
18 stakeholders in the system if we could have a single set of
19 very high quality globally accepted accounting principles.

20 While that is easy to say, it is complicated to get
21 there. We need to be very mindful of getting there in a way
22 that doesn't do a disservice to the ultimate goal. So it
23 needs to be very focused on education information, obviously
24 the quality of the standards. Everyone needs to be brought
25 along for sure, and Leslie, I would say that you know, in the

1 end, the markets as they become increasingly global, I think
2 really this requirement will only increase over time. So the
3 sooner we sort of get started down that path, I think the
4 better.

5 MR. EVANS: Maybe saying the same thing in a
6 different way, but I think that there's a recognition that
7 there's going to be hassle, costs and some potential
8 confusion in the transition. But it's a worthwhile goal from
9 every stakeholder's point of view.

10 MR. KAPLAN: Consistent with what I just think I
11 heard, I believe that all the panelists focused on the desire
12 to get to a single set of high quality global accounting
13 standards.

14 Where they differed was how to do it, and the basic
15 theme that came out there was that first of all, I didn't
16 hear anyone say that they thought that U.S. GAAP would be the
17 final answer.

18 So the single set of high quality standards, the
19 general at least understanding I got was that most people
20 accepted the fact that ultimately, we would need to move
21 towards IFRS.

22 How we got there would be the real question, and in
23 a sense, what I also heard was that everyone was very focused
24 on the need to get there on a developing a thoughtful
25 approach to actually transitioning from where we are today to

1 where we think we need to be.

2 MR. LANG: I would agree with the idea that we all
3 felt that it's trying to go to the right place. It would be
4 one set of standards, IFRS likely, and it's important to have
5 a time line in place to know how we're going to get there. I
6 think there's room for options in the interim, as long as
7 it's clear when it's all going to resolve.

8 MR. MAHONEY: I don't think I have anything to add
9 to that, other than I'd say in addition to accounting
10 standards, which is mainly what we've been talking about, I
11 think we also have to think about the implementation of the
12 standards and how we do that properly.

13 We have to think about the auditing of this new set
14 of standards that we're going to, to make sure that's done in
15 a rigorous way, and we also need to think about the
16 enforcement mechanism that we're going to have to have in
17 place, to make sure that these -- these standards are
18 consistently enforced.

19 MR. TAFARA: Since the Chairman has asked the
20 perfect last question, I won't add to it by asking a further
21 question, but give each of you an opportunity to take time, a
22 minute or so, to add anything else you wanted to add.

23 But otherwise, thank you for being here today, for
24 taking time out of your busy schedules to contribute to our
25 deliberations on a very important policy question. Mr.

1 Chairman?

2 CHAIRMAN COX: Well, I'm just worried that I might
3 have constrained what otherwise might have been truly robust
4 closing statements, by telling everybody that they should
5 synthesize what everyone agreed on. So perhaps we should go
6 once more through and let you highlight the things that are
7 perhaps uniquely your point of view.

8 MR. TAFARA: We'll let Noreen start, because you
9 probably have a train to catch. Yes. Noreen and George can
10 go first, since they both have trains to catch.

11 MS. CULHANE: I don't necessarily have anything
12 additional to add, other than what I said in the beginning,
13 in that I think this is really important work. I'm very
14 pleased that we're here talking about this.

15 I'm pleased to have had an opportunity to
16 participate, and I will say, you know, in the spirit of some
17 of the other things that are going on, mutual recognition, at
18 many levels, from a governance perspective, between and among
19 markets, this is one more piece of that, I think.

20 So I think it fits well in a broader framework, but
21 it's a very important element of that broader discussion.

22 MR. EVANS: From an investment standpoint, I think
23 it's important to recognize that there are an army of
24 analysts out there who are, many of whom like to agree with
25 each other and many of whom like to differentiate themselves.

1 So there's always been a free market in
2 interpretation of a business model, a set of accounts, both
3 as a snapshot and over time, and the markets internationally
4 have transitioned very well, without that being a big hiccup
5 or many big hiccups, well surprisingly few, and that I think
6 that there are probably bigger issues, in terms of investor
7 protection, than just the accounts that are going to continue
8 to affect direct investment internationally.

9 But it's well-covered. The issues are well-
10 telegraphed, and we're never going to be able to have perfect
11 information. That's the essence of investment. But you
12 know, we are very well informed.

13 MR. TAFARA: Jeff?

14 MR. MAHONEY: A couple of things. First, as I
15 mentioned, as the Council, we're still trying to get up to
16 speed on all these issues, and we don't have policy yet on
17 convergence of accounting standards.

18 We do, however, have a policy with respect to what
19 makes for a good accounting standards-setter. I think the
20 items that we have in that policy are something that the
21 Commission and others should keep in mind as we move down the
22 road.

23 So what do we think makes for a good accounting
24 standard? Well, I think the most important thing is we think
25 it should be an independent private sector organization, a

1 body that has the adequate resources to do the job, that has
2 the people with the appropriate technical expertise to do the
3 job, and also a body that has significant representation and
4 input from the people who are the real customers of financial
5 accounting and reporting, which is the investors and the
6 other users.

7 In addition, since Neri plugged ITAC and I'm the
8 co-chair of ITAC, I'm going to make a plug as well. ITAC did
9 write a comment letter on the concept release, and I thought
10 I'd just mention a couple of points that I think would be
11 useful to read that letter.

12 Three of the points I want to mention that are in
13 that letter that I think are good points. One -- well,
14 there's more than three good points in the letter, but I
15 thought I'd just mention these three.

16 One, the letter recommends that the Commission
17 should undertake an evaluation, and I think you're probably
18 already doing some of this, an evaluation of the differences
19 in the auditing enforcement of IFRS to date, as compared to
20 the auditing enforcement of U.S. GAAP, and whether those
21 differences or anything we should be concerned about as we
22 move forward.

23 I think an analysis of that type posted up on the
24 web page, so our members and others could take a look at it,
25 would be helpful as part of this process.

1 Second, a letter, the ITAC letter also suggested
2 that the SEC undertake, and again I think you're already
3 doing this, an evaluation of the differences that I talked
4 about earlier.

5 There are very significant differences. Let's have
6 an evaluation of those; let's put them up on the web site so
7 all of our members, investors and everyone else can see what
8 these differences are. I think that would be helpful.

9 Third, a point I mentioned earlier and a number of
10 others have, that the ITAC believed that we should have a
11 realistic and clear time frame for this process, so that
12 everyone can gear up for the major change that will be
13 necessary. Thank you.

14 MR. TAFARA: Mark?

15 MR. LANG: Yes, just a couple of things to
16 reiterate, and then one thing that's a little bit new. I
17 want to emphasize the fact that I think IFRS are a good set
18 of standards, but that everything is in the application of
19 the standards.

20 It's been said before but I think it's worth saying
21 that the recent literature really comes down strongly on this
22 notion that the standards are less important than they way
23 that they're applied, the attestation and the litigation and
24 the enforcement environment.

25 Secondly, I want to say that I'm a big fan of the

1 SEC, and I think that the U.S. capital markets are very
2 strong and have an unparalleled degree of transparency,
3 because we do take the regulatory environment seriously. I
4 think this is a very important process, to make sure that we
5 don't lose anything in going through this, because I think we
6 come from a very strong point.

7 Thirdly, and a comment that comes to me every time
8 I mention this to my colleagues, is this question of what the
9 IASB would be like without the FASB. We haven't really
10 talked much about that, and I'm not sure, at least the
11 perception that I have and my colleagues do is that the IASB
12 relies fairly heavily on the FASB, in terms of providing it
13 with some of the underpinnings that are used in making the
14 IASB's decision.

15 It comes back partially to the resources issue, but
16 just sort of making sure that if you took the FASB and they
17 naturally became less important in this process, whether that
18 would make the IASB less effective in the end as well.

19 MR. TAFARA: Dave?

20 MR. KAPLAN: I would focus on first starting with
21 how important our markets are, obviously to the U.S. It's
22 one of the things we all hear and hold very dear. In many
23 ways, like our children, the things that we hold most dear we
24 try and get them focused in the right direction.

25 When they come to us and they say what should we be

1 doing, you know, what schools do we go to, what's our career
2 look like, we always tell them well, come up with a vision.
3 I mean what do you want to do? What do you want to do in the
4 long run? Where do you want to be? Set your vision, your
5 direction and your goal, and then figure out a plan to get
6 there.

7 In this instance, the rest of the world has, for
8 all intents and purposes, told us where they are going, and
9 they are not coming to U.S. GAAP. We built it, but they're
10 not coming in this direction. They're going to IFRS. It is
11 a sufficiently high quality robust set of standards.

12 I agree with Mark. It clearly has a lot of areas
13 where it needs to improve, but so does U.S. GAAP. But in any
14 case, that debate is sort of behind us. That's where the
15 world's going.

16 So one of the things we need to do now is focus on
17 what's the vision, and I think the vision has to be to get to
18 that high quality set of standards, we will ultimately need
19 to move to IFRS.

20 The next thing comes what's the plan? That's one
21 of the reasons why, as we look at it, we say we need to set
22 that plan. It needs to be very thoughtful. It needs to
23 recognize all of the challenges, because there are many.

24 Changes is not easy, but recognize those
25 challenges, figure out how to address those challenges,

1 establish a detailed plan to do that, set a mandatory date,
2 allow an option to move in the right direction so that
3 companies can gain experience, investors can gain experience,
4 and allow the resources to build in the U.S.

5 That will allow us to, in a fairly orderly fashion,
6 do what frankly most of the rest of the world has done at
7 this point in time.

8 MR. TAFARA: Before I give the mike to Neri, I just
9 wanted to respond to some of your remarks that unfortunately
10 we did anticipate a question with respect to the IASB, its
11 characteristics, its governance, and our relationship with
12 it.

13 Unfortunately, time did not permit us to get to it.
14 But we are certainly thinking about those things, as we
15 consider the application of IFRS here in the U.S. market.
16 Neri?

17 MR. BUKSPAN: I just wanted to thank you for the
18 opportunity to be here. All my closing thoughts, including
19 the ITAC letter Jeff talked about I wanted to mention, were
20 referred to.

21 I just wanted to pick up on what Noreen said before
22 she left with respect to the mutual recognition, that there
23 is a lot of international harmonization issues that seemed to
24 come together. It's important to look beyond IFRS versus
25 U.S. GAAP. I mentioned disclosures earlier. Mark, you

1 picked up on that with respect to this topic as well.

2 But we have to look at XBRL, and how this will fit
3 in the context of companies and investor efforts to get to a
4 different environment. So there's a lot of moving pieces in
5 the puzzle, and I think we have a great opportunity to put
6 some -- including the complexity or the improvement,
7 including the committee of improving auditing.

8 So there's several variables that need to be
9 thought together, and perhaps if we do it correctly, 2008
10 will be a milestone year for financial reporting. Thank you
11 again.

12 MS. ERHARDT: Well, as staff, we were always told
13 we were never speaking on behalf of the Commission or the
14 commissioners. But I'm going to break that a little bit and
15 say I think on behalf of the Commission and the
16 commissioners, I definitely thank you for your time and your
17 thoughts today.

18 It was exactly what I think, at least speaking for
19 myself now, I wanted to get out of it, in terms of some of
20 the aspects of the thinking, that we just can't get here in
21 our building. So we certainly appreciate your time and your
22 willingness to come and join us.

23 MR. TAFARA: Me too.

24 CHAIRMAN COX: And on behalf of the Commission and
25 the commissioners, thanks to Ethiopis and Julie for being

1 such outstanding moderators.

2 Thanks once again to our panel. It really is a
3 great benefit to the SEC, that people of such expertise take
4 the time not only to come here and participate, as you have,
5 but also to prepare, prepare specifically for this roundtable
6 and prepare by your occupations and your professions, to give
7 us your judgment and your thoughts.

8 It's of great, great assistance to the staff and
9 the members of the Commission, and to the investing public at
10 large. So thanks again. It's been an excellent roundtable.

11 MS. ERHARDT: With that, I think we are finished
12 for today. So those in the auditorium can certainly just
13 exit the way you came in, and obviously we'll continue with
14 our roundtables on this topic on Monday.

15 (Whereupon, the roundtable was adjourned.)

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