



**CENTER FOR CAPITAL MARKETS**  
**C O M P E T I T I V E N E S S**

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November 13, 2007

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File No. S7-20-07

Dear Ms. Morris:

The U.S. Chamber of Commerce is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region. We commend the U.S. Securities and Exchange Commission (SEC or Commission) on this concept release on allowing U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). We have been a strong advocate for the movement toward global accounting standards and are pleased to submit comments on the current release.

In recent years, there has been increased momentum behind the demand for a single set of high quality global accounting standards. Through its rapid international expansion, IFRS has become the global standard of the future. At the same time, domestic standard setters have struggled to evolve from the rules-based culture of U.S. Generally Accepted Accounting Principals (U.S. GAAP) that diminishes the effectiveness of financial reporting. As part of our effort to improve the competitiveness of the U.S. capital markets, we strongly support efforts and policies that will facilitate convergence of global accounting standards and the adoption of IFRS into the U.S. reporting system. As foreign markets rapidly adopt IFRS into their reporting frameworks, it is critical that U.S. regulatory organizations accelerate their efforts to implement IFRS, thereby ensuring that the U.S. is best situated to compete in the global marketplace.

**I. International expansion of IFRS and the complexity of U.S. GAAP are driving the shift toward universal accounting standards.**

There have been considerable advancements in foreign capital markets which have sharply increased their competitive position in relation to the traditionally dominant U.S. markets. While we must embrace the universal benefits of this growth, it is critical that we respond to these increasingly competitive forces with the resources and innovation that have made the U.S. the traditional center for global market activity. Allowing U.S. issuers the option of filing under IFRS is a critical step in ensuring the future vitality and competitiveness of our capital markets.

**A. Globalization and strengthening foreign markets have driven the demand for IFRS.**

Increasingly strong foreign markets are engaging in global implementation of IFRS. It is thus imperative that U.S. regulators construct a convergence plan that will facilitate the U.S. transition toward an international standard. The Chamber cited several compelling statistics in our September 24 response to the rule proposal to eliminate the U.S. GAAP reconciliation requirement for foreign private issuers filing under IFRS. For example, information and data from the World Federation of Exchanges and Deloitte & Touche - IAS Plus indicate that nearly 75% of the global market capitalization outside of the U.S. is currently subject to IFRS reporting to some degree, with many markets moving toward mandatory use in the coming years.

Indeed, when considering those countries that — although not currently using IFRS — have adopted a fixed timetable to convert to this standard, the future of IFRS usage includes over 98% of the market capitalization outside the United States. Although many of these countries have initially opted to utilize their own jurisdictional variants of IFRS “as published by the IASB,” their transition toward IFRS illustrates the overwhelming international momentum to adopt one global accounting standard. In the end, the objective should be to achieve one single set of high quality standards coupled with an independent standard setting body that is properly funded and constituted.

Moreover, the increasing level of participation by U.S. investors in foreign markets illustrates that IFRS is already heavily relied upon by U.S. market participants. As noted in the SEC concept release, as a critical mass of foreign issuers in a certain industry begins to report their financial statements under IFRS it will create increased

pressure on U.S. companies to move toward IFRS to achieve greater comparability. Further, having the option to file under IFRS would lower costs for U.S.-based multinational issuers who currently report under multiple standards. To realize these benefits and stabilize the decline of the U.S. competitive position in the global marketplace, it is imperative that the SEC act with diligent speed in allowing U.S. issuers the option to report under IFRS.

**B. The complexity of U.S. standards has driven the movement toward principles-based accounting.**

The rigorous development and implementation of IFRS has coincided with increased market participant frustration related to the complexity of U.S. GAAP. The deficiencies inherent in such a complex framework were brought to light by the major accounting scandals earlier this decade and by the development of complex and opaque accounting techniques such as off balance sheet financing having little economic purpose, but designed to achieve particular accounting results. Such complex rules open the door to those willing to engineer their way around the intent of standards and produces financial reporting that neither reflects the true economic substance of transactions and events nor is truly understandable by anyone other than the most sophisticated reader.

In response to these challenges, the Financial Accounting Standards Board (FASB) initiated an effort to move toward a more principles-based system of “objectives-oriented” standards in late 2002. However, such a paradigm shift has remained contingent upon the ability and willingness of preparers, auditors, and others to exercise sound professional judgment. The fear of the potential consequences of second-guessing by regulators, enforcers, and the trial bar has perpetuated a culture that demands detailed rules and exceptions. This, in turn, has continued to produce disclosures that, although detailed and lengthy, fail to effectively communicate information that is crucial to investment decisions.

Despite the recent initiatives of the FASB to utilize a more principles-based approach, the fundamental behavioral obstacles remain intact and the need to reduce complexity and increase transparency has intensified. The rapid expansion of foreign markets – along with their adoption of IFRS – has created both internal and external forces that are driving the demand for IFRS reporting in the U.S. We encourage the FASB to increase its efforts at incorporating a more principles-based ideology into the existing U.S. GAAP framework and applaud their cooperation with the IASB to

converge the two standards. Despite this progress, the market demand for IFRS has reached a critical threshold. We encourage the SEC to reallocate its efforts to identify the most efficient means of meeting this demand by adopting IFRS into the U.S. reporting regime. Indeed, one of the several advantages of providing U.S. issuers the option to file under IFRS is that it provides the FASB the incentive to simplify its existing framework and transition toward a more principles-based model.

## **II. IFRS implementation matters for U.S. issuers.**

### **A. In transitioning toward international standards, U.S. registrants should be given the option to file under both IFRS and GAAP.**

The transition process to allow U.S. issuers to file under IFRS should not produce an extended period where redundant regulatory regimes are allowed to co-exist. Instead, U.S. regulators should adopt a transitional model whereby the FASB and the International Accounting Standards Board (IASB) co-exist as dual standard setters in the U.S. for only a defined period of time, during which the FASB and the IASB are able to drive their respective standards toward convergence as quickly and efficiently as possible. This competitive model would benefit the entire spectrum of market participants and would be superior to a regulatory structure in which the FASB assumed the international standard setting role for U.S. issuers.

This framework would allow the U.S. to establish and maintain an influential international voice through more formal representation on the IASB. The SEC could continue its traditional oversight and veto power over such a delegate thereby directing the U.S. direction at the international level. A transition period during which some issuers report in accordance with IFRS and others in accordance with U.S. GAAP would create a selection effect that will encourage both standard setters to operate in the most efficient manner possible. This phased implementation will provide the optimal balance of flexibility and control for allowing regulators, issuers, and investors to transition toward IFRS.

To achieve this goal we encourage the SEC to initiate the process of designating the IASB as a private-sector standards setter pursuant to Section 108 of the Sarbanes Oxley Act of 2002 (SOX), while at the same time pursuing efforts to ensure the IASB is properly funded and constituted. Under this rule the Commission must assess the IFRS knowledge of those parties that are involved in the preparation, audit, and use of IFRS statements. The Commission's recent rule proposal to accept

IFRS financial statements without U.S. GAAP reconciliation supports this effort. Accordingly, we reiterate our call to the SEC to approve this rule by December 15, 2007 ensuring that foreign issuers will be able to file their 2008 financial reports without U.S. GAAP reconciliation. Timely implementation of this proposal will facilitate future SEC efforts of recognizing the IASB as a private sector standards setter. Although the U.S. would be ceding a certain level of control by recognizing the IASB as the official custodian of IFRS, this action is necessary to gain future influence at the international level.

In recognizing the IASB as a private sector standards setter the SEC would have to afford the same level of deference to the IASB's creation and interpretation of IFRS as it currently does to the FASB and U.S. GAAP. The FASB would preserve an influential voice through an elected delegate to the IASB with the SEC maintaining veto power over that delegate's voting decision. This would institute a process in the U.S. that uses the existing organizational framework in the FASB to raise and vote issues at the international level. However, it remains necessary to ultimately vest the IASB with the authority to set standards that are advised – not directed by – U.S. standard setters.

**B. Market dynamics will facilitate the growth and implementation of IFRS in the U.S.**

There have been concerns that the differences between U.S. GAAP and IFRS will create investor confusion and market inefficiencies. This argument, however, fails to recognize that many market participants within the U.S. — including retail and institutional investors, analysts, investment bankers, accountants, auditors and public companies — already rely on and deal with IFRS on a regular basis and in many different contexts. Even if U.S. regulators, legislators, and policymakers stand still on this issue, market forces are necessarily going to continue driving this reality — and at an accelerated rate.

Further, this competitive model will generate market forces which will resolve, or greatly reduce, many of the issues that cause some to resist the acceptance of statements under IFRS. The filtering influence and resources of other market constituencies such as accountants, research analysts, and investment bankers can

cope with different reporting models in the U.S. capital markets context. In fact, in a relatively short time these forces could provide greater understanding within the investor community than might be achievable through the convergence efforts that are currently underway.

**C. Legal and regulatory changes are necessary for successful IFRS implementation.**

Although some of the issues causing resistance to the acceptance of financial statements under IFRS will resolve as a result of a competitive standard setting model, others will not. The current legal and regulatory environment in the U.S. is an impediment to the successful movement to IFRS and resolution will require carefully considered reforms to both the laws and mindsets of U.S. regulators.

While the majority of business transactions are routine and relatively easily accounted for, a significant number are very complex. As a result of the complexity, both the preparation and attestation of U.S. GAAP financial statements require the exercise of professional judgment. This is true even though U.S. GAAP is a rules-based, prescriptive approach to accounting and financial statement preparation. IFRS, by contrast, is a more principles-based approach that is not supplemented by detailed and specific implementation guidance. A move to IFRS, therefore, will necessarily and appropriately increase the reliance on the professional judgment exercised by both preparers and auditors.

The problem, however, is that the current U.S. legal and regulatory environment subjects preparers and auditors to second-guessing by regulators and potential litigants and inhibits the use of professional judgment. In a more principles-based system, there must be an acknowledgement in dealing with complex business transactions that different, yet appropriate, conclusions about the correct accounting treatment may sometimes be reached by different professionals. If the shift to IFRS is to work for the U.S. capital markets, the increased reliance on accounting judgments will require safe harbor protections. Various efforts to develop the scope and substance of this safe harbor should be pursued, including attention from the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR) and the Treasury Department's Advisory Committee on the Auditing Profession (Treasury Auditing Committee). These Committees should evaluate the framework within which professional judgment is exercised and ensure that their recommendations address the necessary legal and regulatory changes.

A closely related issue is the legal environment in which audit firms operate. The concerns regarding catastrophic litigation claims combined with a lack of adequate commercial insurance have created a situation in which auditors are understandably risk-averse. This state of mind negatively impacts U.S. businesses and, therefore, U.S. markets and investors. The Treasury Audit Committee was formed to consider how to further strengthen the U.S. auditing system. We encourage the SEC and other policy-makers to seriously consider the forthcoming recommendations to address this issue.

**D. The convergence of auditing standards must also occur.**

The SEC must also act on the broader global convergence considerations parallel to IFRS implementation. Accounting standards are not the only obstacle to participation in our markets and the movement toward accounting convergence is only one step in creating an integrated and efficient global marketplace. While the Chamber does not view the current level of auditing convergence as a barrier to acceptance of IFRS financial statements from U.S. issuers, we urge the SEC to dedicate the resources and develop the infrastructure to support convergence of auditing standards. To this end, we reiterate our strong encouragement to the SEC to work with the Public Company Accounting Oversight Board (PCAOB), their international counterparts and the International Auditing and Assurance Standards Board (IAASB) toward global convergence of auditing standards.

**Conclusion**

Although certain short-term adjustments will be necessary to facilitate this continued transition toward IFRS, the benefits of universal standards will continue to incentivise those driving the convergence process. This process will be enhanced by adopting a competitive regulatory model that will provide issuers with the option to report under U.S. GAAP or IFRS. Under this model, market forces will accelerate the convergence process to align the U.S. with the rapid global shift to IFRS reporting. These competing standards will work to dissolve the cultural stagnation that fosters complexity in the U.S. environment. Furthermore, a successful transition toward the more principles-based IFRS reporting model must include the development of a safe harbor for accounting judgments. Finally, it is critical that we develop a blueprint for the convergence of auditing standards and the Chamber will continue to support those agencies and organizations driving this process. We encourage the SEC to move with diligent vigor in taking these necessary steps to transition toward IFRS.

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Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Ryan, Jr." in a cursive script.

Michael J. Ryan, Jr.  
Senior Vice President and Executive Director  
U.S. Chamber Center for Capital Markets  
Competitiveness

cc: Christopher Cox, Chairman, U.S. Securities and Exchange Commission  
Paul S. Atkins, Commissioner, U.S. Securities and Exchange Commission  
Kathleen L. Casey, Commissioner, U.S. Securities and Exchange Commission  
Annette L. Nazareth, Commissioner, U.S. Securities and Exchange Commission  
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