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

Comments related to SEC Proposed Rule: Acceptance from Foreign Private lssuers of Financial Statements Prepared in Accordance with lnternational Financial Reporting Standards without Reconciliation to US GAAP (Release Nos. 33-8818)

Dear Ms. Morris:

As a Master of Accounting student, it is very pleased to have the opportunity to comment on the proposed rule by the Securities and Exchange Commission (the Commission). The Commission proposed to accept from foreign private issuers (FPIs) of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP. Many foreign private issuers and investors in the world definitely welcome the proposal.

Personally, I support the Commission's proposal. In the course of harmonization of accounting standards, many attempts have been instigated to reduce the accounting differences across countries. According to the IASB, "nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRS." Elimination of reconciliation to U.S. GAAP will bring benefits to investors and foreign private issuers. Primary benefit of this proposal is that FPIs can save a lot of cost and time, and get easier access to the capital market. If the capital market gets active, investors have more opportunities to invest their capital, and the active market makes possible smooth capital allocation.

I hope the Conceptual Framework between the IASB and the FASB will be completed successfully, and elimination of the reconciliation will be beneficial to many investors and FPIs. To attain greater comparability, the significant differences between the US GAAP and IFRS will be removed in the process of the Conceptual Framework.

Sincerely yours,

Yoko Nakamichi

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INTRODUCTION

Accounting methods to measure economic activity sometimes differ in foreign countries, and the different accounting measurements bring major diversities in accounting standards among countries. In September 2002, The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) issued a memorandum of understanding, which is called Norwalk Agreement. The purpose of the Norwalk Agreement is to make “a significant step toward formalizing their commitment to the convergence of U.S. and international accounting standards” (FASB, 2007).[1] In the process of the harmonization of accounting standards, the demand for elimination of reconciliation to US GAAP has been growing.

The objective of this paper is identify both positive and negative effects of the proposed rule, *"Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to US GAAP"*. After analyzing the proposed rule, this paper supports the opinion of the SEC towards the proposed rule.

POSITIVE EFFECTS

There are some significant positive effects on the proposed rules. The followings are some positive effects from the removal of the reconciliation. The three topics on this paper are 1) the cost benefits, 2) the protection of investors by accepting statements without reconciliation, and 3) the greater comparability.

1. *Reduce the costs to foreign investors and encourage their continued participation in the U.S. public capital market.* [2]

Currently, all foreign private issuers are required to reconcile their financial statements to U.S. GAAP if the statements are filed with the Commission and are prepared using accounting standards other than U.S. GAAP. Some foreign issuers keep two books within the companies— books under their home country accounting standards and U.S. GAAP. Reconciliation is a costly and time consuming procedure. Therefore, many foreign companies, especially in EU countries which adopted or permitted the use of IFRS, might hesitate to offer their securities on the U.S. market.[3]

IFRS are the most widely used accounting standards in the world. According to the IASB, “nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRSs”.[4] Also, many other countries are switching their national standards to IFRS. Removal of the reconciliation will encourage foreign issuers to stay in the U.S. market. Companies which use IFRS may start to seek capital opportunities in the U.S. market.

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[1] http://www.fasb.org/intl/convergence_iasb.shtml
[2] Release No. 33-8818 page 37967
[3] Release No. 33-8818 page 37964
[4] http://www.iasb.org/About+Us/About+IASB/IFRS+Around+the+World.htm

2. *Greater* comparability and improved capital formation globally.[5]

As a convergence of accounting standards are well performed, there should be one single set of high-quality, globally accepted accounting standards. By the popularization of IFRS and U.S. GAAP, the overall level of accounting standards must improve after the harmonization of accounting standards. One single set of high-quality global accepted accounting standards will bring greater comparability to the investors. More accurate investment information will assemble more investment in the capital market and increase the activities.

3. *Facilitate cross-border capital formation while ensuring adequate disclosure for the protection of investors and the promotion of fair, orderly and efficient markets.*[6]

Greater comparability will make easier for investors to accept and adjust IFRS. Even though there might be some minor standard differences after the Conceptual Framework, "international accounting standard may be adequate for investors even if that information is not the same as information required under U.S. GAAP" (Proposed rules, p. 37966). Market efficiency is accomplished by the decrease of inefficiencies for foreign issuers wishing to raise capital in more than one country from compliance with differing accounting requirements for foreign private issuers.

NEGATIVE EFFECTS

There are also some negative effects from the proposed rule. The followings are some of the expected negative effects by eliminating the reconciliation. Three topics on this paper are 1) the quality of financial statements, 2) having two standards in the same country, and 3) the impossibility of refusal of this proposed rule.

1. *SEC does not believe that a particular degree of convergence should be a prerequisite for our acceptance of financial statements prepared under IFRS as published by the IASB without reconciliation. There is a risk that constituent to support the convergence if IFRS financial statements are accepted by the Commission without reconciliation to U.S. GAAP.* [7]

The FASB and the IASB seek convergence by 2008, and the SEC is going to accept foreign issuers of financial statements prepared in according with international financial reporting standards without reconciliation to U.S. GAAP by the beginning of 2009. Comparability is at risk if some significant differences are remaining after the convergence project.

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[5] Release No. 33-8818 page 37966
[6] Release No. 33-8818 page 37965
[7] Release No. 33-8818 page 37967

In addition, the quality of financial statements and auditing is doubtful if the auditors are from various countries. Maintaining the audit quality among 100 countries should not be easy. It is possible to interpret same standards differently among countries. From the accounting theory perspective, "there is a wide variety of different users, and in conjunction with numerous users, there are many different applications for accounting information" (Evan, p. 130, 2003,).

Furthermore, the application of same accounting standards can be affected by management of the firm. The work of Watts and Zimmerman in 1978 found five variables that influence a firm's accounting and are considerations when managers decide to adapt an accounting standard. These five variables are 1) taxes, 2) government regulations, 3) political cots, 4) information processing costs, and 5) management incentive plans (Evan, p. 137, 2003).

2. *End of U.S. GAAP*

Problems may arise when the SEC accept financial statements from foreign issuers without reconciliation to U.S. GAAP. The question is whether the U.S. firms can also use IFRS or not. Logically, the U.S. firms should be able to choose IFRS instead of US GAAP, if the SEC allows foreign private issuers to use IFRS. If the SEC does not allow using IFRS to the U.S. firms, it is not fair to everyone in the capital markets.

Now, U.S. companies are required to follow the U.S. GAAP. If the SEC gives them a choice between accounting rules, it could lead the end of a U.S.-based accounting system. International standards are viewed as giving more flexibility because of the emphasis on road-based principles over detailed rules. Also, many multinational corporations are using international standards for foreign subsidiaries and prefer international standards rather than the U.S. GAAP (Reilly, 2007).

3. *If the SEC does not adapt this proposed rule, foreign issuers chose not to offer their securities in the United States.*[8]

As mentioned earlier, the reconciliation of the statements to the U.S. GAAP is costly and time-consuming. If the U.S. still keeps the reconciliation requirement for foreign private issuers, they pat prefer to get access to the capital not in the U.S. but in the counties where IFRS are accepted. The more counties accept IFRS, the more companies will seek capital outside the U.S.

CONCLUSION

Acceptance from foreign private insures of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP will be beneficial to many investors and foreign private issuers. More foreign private issuers are interested in raising capital in the U.S. market. Therefore, investors

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[8] Release No. 33-8818 page 37964

will have more investment opportunities. If investment becomes active, more capital comes to the market and capital allocation will happen to smooth.

At the same time, the SEC needs to observe the reactions of the society carefully. If there is a change in accounting rules, there are not only benefits but also negative effects to society. The convergence of accounting standards should be kept even after acceptance of statement without reconciliation. The convergence of accounting standards is the fundamental step to achieve a single set of global accounting standards.

I support the proposed rule because this is the one of steps to attain a uniform set of worldwide accounting standards. If the SEC does not accept IFRS in the U.S., it will make a future situation that the U.S. is the only country with own brand of accounting standards. It is not necessary mean that the end of the U.S. GAAP is bad. Before the U.S goes behind the capital market, the SEC eventually adopts international standards to the U.S. companies.[9]

References:

Evan, T. G. (2003). *Accounting theory: contemporary accounting issues.* Ohio: South-Western.

Reilly, D. (2007). Moving the market SEC to consider letting companies use international accounting rules. *The Wall Street Journal*. Retrieved September 20, 2007, from ProQuest database

Securities and Exchange Commission, (2007). *17 CFR Parts 210, 230, 239, and 249 Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to US GAAP; Proposed Rule.* Federal Register, Vol. 72, No. 132. Retrieved September 19, 2007, from http://www.sec.gov/rules/proposed/2007/33-8818fr.pdf

[9] Reilly, D. (2007). Moving the market SEC to consider letting companies use international accounting rules. *The Wall Street Journal*.