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September 28, 2007

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

***Re: File Number S7-13-07-Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP***

Dear Ms. Morris:

It is a pleasure to respond to the SEC's Proposed Rule, Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP. I have read with considerable interest statements submitted by commentators across the government-education-industry spectrum. In submitting this letter, I speak only for myself, not for my University employer or colleagues.

I have worked as teacher, trainer and consultant in the international financial reporting and analysis arena for the past twenty years. I have trained hundreds of FPI financial reporting personnel -- from accounting managers to controllers and CFOs – in the intricacies of Form 20-F, U.S. GAAP, and IFRS. Since 2000, I have served as coordinating co-author of *World Accounting*, a multi-volume Lexis-Nexis treatise dealing with accounting and reporting standards in different countries.[1] During this time period, I have closely followed the progression of International Accounting Standards and, now, IFRSs.

Viewing the question through both academic and practice lenses, I join the financial analysts, investment managers, and public auditing firms who have endorsed the SEC's proposal to no longer require the reconciliation from FPIs that prepare their financial statements in accordance IFRS. Likewise, I join PricewaterhouseCoopers, LLP and others in recommending that the scope of the pronouncement extend, as well, to FPIs that follow national IFRS variants if they provide a reconciliation to IFRS as promulgated by the IASB.

[1] If it were not for the International Accounting Standards Board and its impact on accounting harmonization, I would probably be earning considerably more in royalties from *World Accounting*.

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While some accounting academics are loath to abandon the reconciliation requirement, my sense of the international business environment, capital markets, and IASB process tells me that the application of U.S. GAAP is no more likely to ensure "quality" reported earnings and assets for FPIs than is the application of IFRS. In fact, it is possible that reconciled U.S. GAAP income and equity numbers – to the extent that they are used by analysts and "reasonable" retail investors -- mislead more than they inform by obscuring behind a veneer of accounting standardization material regional differences in operating environments, capital markets, and regulatory infrastructure.

In this connection, one of the most memorable of all Financial Accounting Standards Board statements is in SFAS No. 52, paragraph 40, where the FASB explains why it cannot and will not provide a bright-line definition of "functional currency":

> It is *neither possible nor desirable to provide unequivocal criteria* to identify the functional currency of foreign entities under all possible facts and circumstances and still fulfill the objectives of foreign currency translation. *Arbitrary rules that might dictate* the identification of the functional currency in each case *would accomplish a degree of superficial uniformity but, in the process, might diminish the relevance and reliability* of the resulting information.[2]

The same may be said of "arbitrary rules" that "dictate" outcomes "under all possible facts and circumstances" in almost any corner of accounting under U.S. or any other GAAP. In many cases, the rules do no more than yield "superficial uniformity" at the cost of relevance and reliability, lulling readers into thinking they can safely rely when, in fact, they should be taking GAAP financial results and position as two not-so-sacred data points in a large array of data.

In part because they are less regimented and more flexible in response to local circumstances and individual corporate behavior, IFRS may actually yield more meaningful and higher quality financial data than equivalent U.S. GAAP. If this is true, the reconciliation to U.S. GAAP does nothing more than provide a few U.S. readers with less useful data in a more familiar format. This does not seem consistent with the SEC's mission to protect investors.

In the debate over quality of accounting standards, it is worth noting a few examples of continuing gaps in U.S. GAAP: revenue recognition, consolidation policy, and joint venture accounting.

It is remarkable that, after so many decades of intensive funding and development, the FASB has yet to issue a comprehensive guide to revenue recognition. Of all financial statement line items, shouldn't revenue be one of the first to get serious attention? In fact, as with so many other FASB projects, the current revenue recognition project – pursued jointly with IASB – is years behind schedule. What system of accounting principles can truly be labeled "comprehensive" without a general rule for revenue recognition? In this area, IAS 18 has been effective since 1984.

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[2] See SFAS No. 52, paragraph http://www.fasb.org/pdf/fas52.pdf, last accessed September 28, 2007, emphasis added.

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In the area of consolidation policy – which determines which investees should and should not be consolidated -- the FASB's attempt at implementing the effective control definition of subsidiaries (in place of the outmoded legal ownership test) has been gathering dust as an exposure draft since 1995. Meanwhile, issuers are busy under- and over-consolidating, misleading readers about the true scope of their economic entities while they grapple with the regulatory hodge-podge of ARB 51, FASB Interpretation 46, and EITF 96-16. Elsewhere in the world, beginning in 1983, the EU implemented the effective control test through the 7th Company Law Directive. IAS 27 has done the same since 1990.

In the area of joint venture accounting, as with revenue recognition, the FASB does not have a standard, leaving practitioners to use the equity method as a stop-gap. The IASB has had IAS 31 on the books since 1992 and, two weeks ago, issued a second-generation exposure draft on the subject.

In the FASB overkill department, Exhibit A must surely be SFAS No. 133, the derivatives leviathan, which sports 200+ pages and a user's guide that runs to 800. For the vast majority of mortals (including most accounting professors), derivatives accounting is a black box with no key. Hence, even if FASB 133 theoretically provides valuable information, its value is rarely realized because almost no one understands it.

Make no mistake, the IASB's standards are not perfect. But the mere fact that they are shorter and less complicated than their U.S. GAAP counterparts (where they exist) is not proof that IFRS, as a system of accounting, is of lower quality than U.S. GAAP. Complexity and sophistication are not virtues when the mission is to provide concise, actionable intelligence to people who lead actives lives away from financial statements.

Several commentators have suggested or stated outright that the reconciliation is not used by analysts. Who, if not analysts, would use it? Georges Ugeux noted in his letter, "Companies outside of the United States have . . . conformed their strategies and financial policies based on the IFRS principles and rules. That is the basis on which the market judges their performance. Financial analysts comment on those numbers." Arguably, few readers of 20-Fs (already a very small subset of the U.S. investment community) are paying attention to the reconciliations in making financial decisions. Thus, a serious materiality question arises.

In this connection, the U.S. Supreme Court stated, in *Basic, Inc. v. Levinson*:

> The role of the materiality requirement is not to "attribute to investors a child-like simplicity, and inability to grasp the probabilistic significance of negotiations, but to filter out essentially useless information that a reasonable investor would not consider significant, even as part of a larger "mix" of factors to consider in making his investment decision.

Basic, Inc. V. Levinson, 485 U.S. 224 (1988). Mr. Ugeux observes that the U.S. GAAP reconciliation arrives, normally, "several months after the IFRS numbers are published." During the interim, the market absorbs and adjusts to the IFRS numbers making the late-arriving reconciliation outdated and, therefore, insignificant in the minds of reasonable investors *in the*

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*context of the larger mix of available information*. In summary, while the IFRS-U.S. GAAP reconciliation is a great tool for teaching comparative accounting and financial analysis, its practical usefulness is questionable because the superiority of U.S. GAAP to IFRS is illusory and the reconciliation itself is immaterial. I believe the Proposed Rule should be implemented at the earliest possible date, with the modification recommended by PricewaterhouseCoopers and others expanding the scope of the waiver to FPIs that implement local IFRS variants with reconciliation to "pure" IASB IFRS.

Sincerely,

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