Brent Kobayashi
Masters of Accounting Candidate
University of Hawaii at Manoa
Shidler College of Business
2404 Maile Way
Honolulu, HI 96822

September 23, 2007

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

Comments related to SEC Proposed Rule: Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP

Re: File Number S7-13-07

Introduction

This paper is to comment on the positive and negative points regarding the SEC proposed rule to accept financial statements from foreign private issuers in accordance with International Financial Reporting Standards (IFRS) without reconciliation to US GAAP. After analyzing the above points, it is concluded that SEC proposed rule does not improve the quality of accounting standards or regulation, and should not be implemented.

Positive Points

One of the obvious benefits derived from this proposed rule is the increased opportunities for US investors to invest in foreign companies on domestic stock markets. SEC listed foreign companies currently incur the burden of reconciling their non-US GAAP financial statements to US GAAP, which discourages them from offering their securities on US stock markets. Eliminating this requirement would definitely encourage foreign companies to list their stocks on the US securities market, which would benefit the US investor in providing more opportunities to foreign companies.

The SEC states that the US investor would also benefit in an increase in comparability of domestic and foreign companies' financial statements.[1] The assumption to this statement is that IFRS is comparability similar to US GAAP, thus the investor can compare a US GAAP financial statement with IFRS based financial statements. This would reduce the investor's time and effort to analyze financial statements from various foreign GAAP; including translating the foreign language the statements are written in.

The foreign companies would also benefit similarly to the US investor as the proposed rule would decrease the additional costs to reconcile their financial statements to US GAAP. The SEC estimates that the decrease in paperwork burden would be

[1] SEC, pg 37964

approximately 3,861 hours of company time and approximately $4,600,720 for services of outside professional.[2] The required submittal of financial statements of acquired significant foreign businesses by a foreign or domestic company could also be in accordance to IFRS.[3] These economic benefits are the main incentive for foreign companies to not reconcile to US GAAP.

Another potential economic benefit is the reduction of learning time and resources to learn different types of GAAP. With a single GAAP, accountants would not have to maintain CPE credits for multiple CPA licenses held in other countries. Similarly investors and the academic community would save time learning and researching on the various types of GAAP.

All of the above economic benefits stated from this SEC proposed rule are based on the underlying assumption that IFRS will ultimately replace US GAAP as the global accounting standard and IASB will be the sole standard setter. Assuming this to be true, the potential benefits from a sole global accounting GAAP are endless. In additional to the economic benefits derived from the reduction of reconciliation work, the relevance of accounting information across country borders increases its comparability making it more useful for investment decision making. In the scenario where the global infrastructures and financial institutions are globally sound and the same, IFRS would definitely accomplish is objective as stated in its Framework in providing useful information for decision making for (all) users.

Negative Points

However, the realities of existing differences between countries' financial institutions and infrastructures presents potential risks associated with the acceptance of IFRS as a global standard.

Even if the quality of international accounting standards is high, the implementation of international auditing standards is still underdeveloped. Financial statements prepared under IFRS that are audited by foreign CPA firms, run the risk of low quality assurance statements. In such cases, it might in the better interests of the investor to have financial statements that are reconciled in US GAAP. The complementary auditing function to accounting standard is essential for accounting information to be useful.

Another underdeveloped function to IFRS is the idea of IASB as the sole standard setting organization. Financial funding for IASB is provided from contributions from private firms and organizations. In comparison with FASB which is now supported by a mandatory fee imposed by the PCAOB, there lies potential risk that the independence of IASB could be influenced. The consequences of a produced tainted standard would affect the entire global economy. The differences in each country's tax system provide incentive for companies and countries to influence international accounting standards. This could be influence not necessarily only through contribution funds but also through the board members from selected countries. Also, because there is a lack of a global securities exchange commission, IASB lacks the ability to act as a global authority to enforce its standards. The development and controls of the IASB as a global standard

---

[2] SEC, pg 37981

[3] SEC, pg 37977

setter is still not reassuring to be handed the enormous responsibility of establishing the standards of the entire global community.

Another related risk to the idea of IASB as the sole standard is the possibility of the dissolution of the US FASB and other national accounting standards organizations. These organizations exist because of the accounting differences between countries. According to Gary's extension of Hofstede's model, external and cultural influences ultimately determine through institution consequences the type of accounting systems. (Gary, 1988) Based on this assumption, true accounting harmonization is accomplished through the unification of accounting practices and not necessarily the unification of accounting standards. For example, accountants from different countries will interpret the same standard differently resulting in different implementation of the standard. Therefore, as long as there are cultural differences, the need for domestic standard setting organization will exist.

Having reconciliation to US GAAP provides a different view of a company's financial statement that may prove useful to different users. Banks and creditors may prefer the conservatism of US GAAP over IFRS. Eliminating these different perspectives causes certain types of users of financial statements to sacrifice their benefit to view from multiple financial perspectives for the economic benefits the stock investor and foreign company receive.

When analyzing the related users that benefit from this proposed rule, the losing party is the domestic US listed company. The US investor, US security exchanges and foreign companies all gain economic opportunities through this SEC proposed rule, but domestic US companies loses potential market capitalization to these foreign companies. The free flow of US capital across countries maybe a positive gain for investors, but at the cost of a potential negative loss for the country.

Finally, the SEC proposed rule leaves too much flexibility for the foreign company related to the type of GAAP to use. Financial earnings and assets could be reported differently under IFRS and US GAAP, which would give the foreign company the incentive to choose the GAAP to their preference. The SEC proposed rule states that some foreign companies are required under home country law to use their home country's GAAP and are not permitted to use IFRS financial statements. These companies can take advantage of this flexibility by choosing between the GAAP that produces the higher earnings because they would incur the costs of producing a different set of financial statement regardless.[4] Accounting standards that leave too much flexibility for the preparers to manipulate earnings are criticized for losing their relevance to the user. Likewise, this proposed rule loses its relevance if foreign companies are allowed this type of flexibility.

Conclusion

The SEC proposed rule focuses too much on the economic benefits obtained from international accounting standards, and too little on the objectives of accounting standards. If the SEC promotes IFRS as high quality accounting standards, then should they not also require IFRS of US companies as well? Requiring US domestic companies to still use US GAAP while promoting this SEC rule indirectly implies the SEC's preference for US GAAP over IFRS.

[4] SEC, pg 37983

I believe that international accounting standards definitely have its benefits in the long run, but the global community does not have the infrastructure or the necessary controls to successfully implement it. If an international authority organization like the United Nations existed for IFRS, and fully development and accepted international auditing standards existed, then international accounting standards would be a success.

In conclusion, I do encourage the harmonization and promotion of international accounting standards; however, the SEC proposed rule lacks sufficient reasoning on how promoting two types of GAAP would increase the quality accounting information. With proper implementation, like requiring domestic companies to use IFRS before allowing foreign companies, would make their arguments more sounded. Accounting standards and regulation are used to produce useful decision-making information for the users; not for the economic benefit of the companies.

Reference

Colson, R. (2007). *Comments on SEC Proposed rule on accepting foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP*. American Accounting Association. September 7, 2007. http://www.sec.gov/comments/s7-13-07/s71307-18.pdf

Doupnik, T., H. Perera, (2007). *International Accounting.* McGraw-Hill/Irwin; New York, NY.

Gary, S., (1998). *Towards a theory of cultural influence on the development of accounting systems internationally.* Abacus, March 1998, pp 1-15.

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. http://www.sec.gov/rules/proposed/2007/33-8818fr.pdf

White, J. (2007). *Speech by SEC Staff: Seeing Down the Road: IFRS and the U.S. Capital Markets.* U.S. Securities and Exchange Commission. NYSE/Brooklyn Law School Breakfast Roundtable; New York, NY. March 23, 2007. http://www.sec.gov/news/speech/2007/spch032307jww.htm