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

September 24, 2007

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

Ms. Morris,

I am writing in response to the Commission's proposal for acceptance of financial statements from foreign private issuers without reconciliation to U.S. generally accepted accounting principles. I comment as a former buy-side analyst and as current investor and accounting analyst who works closely with buy-side and sell-side institutions. I write a research service entitled The Analyst's Accounting Observer, details of which are available at www.accountingobserver.com.

I support the convergence plans which the FASB and IASB have developed and implemented ever since their commitment was announced with the Norwalk Agreement in 2002.Those plans contemplate a single set of high quality financial reporting standards by the International Accounting Standards Board and the FASB, and I believe that the two standard setters will reach reasonable convergence on their remaining issues in a reasonable time frame.

I do not support the Commission's proposal to eliminate the reconciliation, however - at least, not in its current form. While the two standard setters have not created substantial differences in their constructs *since* the Norwalk Agreement, there are still many areas that need to be resolved. As the Commission has noted in this proposal, the body of International Financial Reporting Standards (IFRS) still lacks comprehensive standards for insurance contracts and for activities in the extractive industries. Aside from that, many material differences remain between the two bodies of accounting literature that are exposed by the reconciliation. For instance, for just one filer, the reconciliation runs to thirteen pages, covering seventeen different adjustments - worth 924 million euros of profit.[1]

There are also what I call significant "legacy differences" between the standards as well, which are disclosed in the reconciliation; their effects would be ongoing after the reconciliation's elimination and investors would not be able to discern the continuing effects. For example, the manner in which business combinations are recorded has an effect on a firm's balance sheet and earnings long after the consummation of the deal. There are numerous instances of firms that accounted for such combinations under IFRS as a "uniting of interests" or pooling, which would not have met the criteria for a similar treatment under U.S. GAAP. These firms have had to account for their combinations as acquisitions in the reconciliation. Though it's no longer a difference in the two sets of standards, the effects of those *past* differences lingers in *current* reporting. Eliminate the reconciliation, and investors will not be able to discern how the different accounting standards governing transactions in the past continue to affect present performance reporting.

This can be quite common. Our research team has examined the reconciliations of 130 registrants using IFRS in their 2006 reports, and found "legacy differences" relating to goodwill and business combination accounting for 31 of them - about 24%. Investors will not be served well if the performance of some companies appears to be enhanced or harmed by the continuing effects of differences in accounting principles existing before convergence efforts began in earnest. If the Commission intends to eliminate the reconciliation, I suggest that the Commission review the areas where such legacy differences exist and require disclosures of their effects. This would not be the same as having a current reconciliation; rather, it would be a disclosure of the effects of past accounting decisions and policies on current results.

[1]The company is GlaxoSmithKline. See pp. 139 - 152 of the 2006 20-F at: http://www.sec.gov/Archives/edgar/data/1131399/000115697307000334/u52008-20f.htm

Our study of the reconciliations also showed that out of 130 companies, only 2 had earnings that were the same under both reporting regimes. For 84 of the firms, the IFRS earnings were higher than the GAAP earnings; and for 44 of the firms, the GAAP earnings were higher than the IFRS earnings. For the firms with IFRS earnings greater than GAAP earnings, the median earnings increase was 12.9%; for firms with GAAP earnings greater than IFRS earnings, the difference was 9.1%. Those measures depict a rather wide band for converged earnings - a wide band into which the Commission will be denying visibility for investors if it eliminates the reconciliation. It would seem to be "material" by the criteria the Commission considers such matters in Staff Accounting Bulletin No. 99: "The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item."[2]

I think investors would want to know if there was a 22% range of meaning for the word "earnings."

I have other concerns regarding the elimination of the reconciliation. The application of IFRS is still new to many filers, and the standards may not yet be properly applied in full. The Commission itself has noted differences in the application of IFRS: in its own review of IFRS filers, the SEC has noted "a range of accounting treatments for common control mergers, recapitalizations, reorganizations, acquisitions of minority interests, and similar transactions," along with presentation issues of cash flow statements.[3]

It is my understanding that the large public accounting firms often exercise quality control over their audits of foreign registrants by having different teams of experts in both sets of standards study the reconciliation, and that this practice has turned up instances of improper application of IFRS. That's a valuable service to investors, one that might be lost if the reconciliation was eliminated. Even with this level of quality control, the Commission still finds application problems, as noted above.

The proposal also effectively elevates the IASB to standard setter status in the United States. While I have great regard for the work of the IASB and its efforts to harmonize standards with the FASB, it does not have the same degree of independence in its funding machinery. The FASB has been funded by public fees since 2003 as required by the Sarbanes-Oxley Act, making it an adequately funded, independent standard-setter free of any potential influences that could occur if it had to fund operations from constituent contributions. The IASB does not enjoy this brand of independence: donors fund its operations. It is not outside the reach of political influence, and this could directly impact the standards that its constituents would be employing when they file in the United States. In the future, there could well be standards where the United States standards and the IASB standards differ due to such influence, and U.S. investors would be none the wiser about such differences if the reconciliation is eliminated. Furthermore, the SEC will not be in a strong position to supervise the work of the IASB because it is an international organization. The SEC does not have the same kind of working relationship with them as it has with the FASB, where the SEC's oversight is unassailable.

I believe that the current reconciliation provides practical education and training for investors who are learning about IFRS as they work - sort of an "on the job training program." Without that reconciliation, investors will have to work harder to understand differences in the applications of the two regimes. I do not believe that investors will ever have enough information to equalize the information themselves - nor should they have to do this. Firms should be reporting to their owners in a language they can understand. Until the two sets of standards are substantially converged, eliminating the reconciliation will be a hollow convergence.

Lastly, I believe that the reconciliation fosters a dynamic tension between the two standard setters to complete a substantive convergence of their standards instead of a hollow convergence. I believe that its presence gives the investing public visibility into the progress of the standard setters in getting the standards in line with each other. In fact, I believe that not only should the reconciliation be kept, I also would suggest that the Commission would serve investors better by working with the two standard setters to use the reconciliation of all IFRS filers to draw conclusions about the most critical differences between the two sets of standards and draw deadlines for resolving the differences in the accounting literature that generate them. Eliminate the reconciliation, and that opportunity for creating genuine convergence will be lost. In fact, I would question whether the IASB would have as much incentive to achieve convergence with the FASB in the future: if there's no reconciliation putting a public face on the differences between the two sets of standards there's less accountability. Even moreso, perhaps, for accounting standards setters, accountability matters.

I also do not believe that the reconciliation should only apply to certain classes of registrants, such as firms that meet

[2]See Staff Accounting Bulletin No. 99 - Materiality, at http://www.sec.gov/interps/account/sab99.htm

[3]"Staff Observations in the Review of IFRS Financial Statements", at http://www.sec.gov/divisions/corpfin/ifrs_staffobservations.htm

a certain level of market capitalization. The reconciliation provides important information about all companies, regardless of size or which exchange their securities may trade. Eliminating it for some companies would create a kind of artificial information shortage - one that would not improve the fairness of markets.

In closing, I urge the Commission to revise this proposal and to continue its support of the private sector process of the FASB and IASB in resolving their accounting differences. I believe their joint efforts are well on the way to improving the quality and consistency of financial accounting standards. The reconciliation currently provides investors with visibility into corporate earnings arising from the choice of accounting methods. As currently formulated, this proposal will turn investors' vision into blindness. It would run counter to the Commission's public policy mission.

If you have any questions, please feel free to contact me. Thank you.

Sincerely,

Jack Ciesielski

Jack Ciesielski