The McGraw-Hill Companies

STANDARD
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Credit Market Services

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September 24, 2007

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

Via Electronic Mail: rule-comments@sec.gov.

File No. S7-13-07

Re: A*cceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP*

Dear Ms. Morris:

Standard & Poor's Ratings Services (Standard & Poor's) appreciates the opportunity to provide the Securities and Exchange Commission (the Commission) our comments on the Proposed Rule — *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP* (the Proposed Rule). The views expressed in this letter represent those of Standard & Poor's, and do not address, nor are they intended to address, the views of The McGraw-Hill Companies. Further, our comments are intended to address the analytical needs and expectations of credit analysts.

Standard & Poor's has consistently supported global convergence of financial reporting standards. We view the prospects of a single comprehensive global financial reporting system, which would be consistently applied and enforced, as an important facet in maintaining and expanding efficient global financial markets. We appreciate and are encouraged by the Commission's efforts to promote convergence and improve the consistency and quality of information provided to users of financial reports.

Global convergence of accounting and disclosure standards will be of great value to our analysts, by improving data consistency and enabling enhanced global peer comparisons. This was evident by the recent adoption of International Financial Reporting Standards (IFRS) by many of our rated issuers in Europe and elsewhere, in lieu of the myriad of local standards previously in use. Further, we strongly believe global convergence will promote much needed improvements to the global financial reporting framework.

We believe elimination of the reconciliation would occur as a natural byproduct of the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB and, collectively, the Boards) on-going convergence process. As efforts to converge U.S. Generally Accepted Accounting Principles (U.S. GAAP) and IFRS continue, the differences between the models would be rationalized within the context of a comprehensive joint framework. As such, we are not conceptually opposed to eliminating the reconciliation.

Financial-statement analysis is central to Standard & Poor's rating methodology. The financial statements, including the accompanying footnotes and disclosures, provide our analysts with an abundance of information incorporated in the determination and surveillance of ratings. However, an issuer's financial statements (historical or projected) are not necessarily viewed as the optimal or ultimate depiction of the economic reality of the issuer's financial performance and position. We focus our credit analysis on the underlying economics of companies and the businesses in which they engage, and have a longstanding practice of making analytical adjustments to reported amounts that recast financial-statement information to better reflect our view of companies' underlying economic status. These adjustments facilitate peer analyses and help us better identify trends in period-over-period comparisons, as well as in making financial projections. Our adjusted financial measures also create a more transparent and consistent view of companies on a global basis, regardless of the accounting convention applied or the manner in which financial information is reported.

As more fully discussed below, the reconciliation, although perhaps not a vital input in our analysis, nonetheless serves a useful function in highlighting differences in accounting conventions, thereby supporting our analytical process and aiding us in making comparisons among global peers. This is particularly relevant because IFRS is still in its early days in terms of its application and interpretation[1].

Fundamentally, the reconciliation could be eliminated immediately if the informational and disclosure needs of our analysts are met. In addition to highlighting monetary amount differences in the tabular presentation, the underlying explanations and added disclosures that complement the reconciliation often highlight information, pertinent to our analysis that may otherwise not be available in the IFRS-based financial statements. For example, Bayer Aktiengesellschaft's 2006 year-end financial statements[2] include nearly 30 pages of reconciliation related disclosures, as well as additional analytically useful information (e.g., on legal proceedings, research and development arrangements, asset impairments, and self insurance arrangements, among others). Similarly, Prudential[3] provides well over 30 pages of additional information relating to the treatment of goodwill, consolidation, insurance contract and policy liabilities, and other topics, and UBS AG's[4] notes provide nearly 20 pages of information regarding consolidation differences (for VIEs and securitization vehicles) and on other presentational differences. It is questionable whether certain information and data (which we view as pertinent) would be retained, because some of the disclosure information is specific to the U.S. GAAP reconciliation process, and may not otherwise be provided. Indeed, for several of our rated financial institutions and corporate issuers, we have observed meaningful differences in consolidations, particularly when securitizations and joint ventures are present, because of the consequential on- or off-

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[1] See also SEC Staff Observations in the Review of IFRS Financial Statements, July 2, 2007 and "How IFRS Transition Affected The Financial Disclosure Of Major Western European Banks", published January 23, 2007 on RatingsDirect.com.

[2] See Bayer Aktiengesellschaft's (Bayer Corporation) Form 20-F, filed with the Commission on March 15, 2007.

[3] See Prudential Public Limited Company's Form 20-F filed with the Commission on June 28, 2007.

[4] See UBS AG's Form 20-F filed with the Commission on March 21, 2007.

balance sheet treatment. Consequently, no matter which accounting principles are applied, meaningful differences in the basis of presentation and the scope of entity may exist, affecting both reported amounts and the extent of disclosures provided. For example, Deutsche Bank recently adopted IFRS, converting from U.S. GAAP. In doing so, it consolidated more entities than it had under U.S. GAAP[5]. The broader scope of consolidation under IFRS provides more comprehensive data relative to these entities and the information about the change gives a sense of size which we view as useful in our analysis.

We recognize that many accounting differences and choices exist even within U.S. GAAP, and do not single out IFRS in this regard. We believe financial-statement users should be informed about material choices and how they may affect the reported numbers or the extent and type of information with which they have been provided. Although the reconciliation may not necessarily be the most optimal way to obtain this information, the information it provides is useful. An example of useful information that should be retained is the requirement to disaggregate consolidated numbers and provide more information about accounting choices made regarding on- and off-balance sheet arrangements.

Potential differences that might have been highlighted by the reconciliation likely will be less evident for some companies that have focused on selecting accounting policies consistent under both IFRS and U.S. GAAP. In these situations, the reconciliation may have helped mitigate differences as companies sought to avoid the need to explain different sets of numbers. Additionally, integrating U.S. GAAP disclosures within the applicable sections of the IFRS financial statements (an approach taken by many companies to improve the flow of their reports), makes it difficult to know what might no longer be disclosed, should the reconciliation and U.S. disclosure requirements be eliminated. Further, companies may have viewed the adoption of IFRS as an opportunity to revisit their entire set of financial statements and adopt accounting policies in a way that minimizes the differences between IFRS and U.S. GAAP. This calls into question what will happen if the need to disclose differences is eliminated – i.e., whether policies will become less similar over time, and whether the current disclosure environment is sufficiently robust to allow readers to understand the accounting choices made. The absolute number of the differences is not necessarily a clear indicator of whether the reconciliation can be eliminated, given the potential for even a single accounting difference to generate a meaningful variation in reported amounts. However, consistent with the aforementioned discussion, we believe the focus should not be on the reconciliation per se, or whether IFRS or U.S. GAAP are being used by a particular entity. Rather, it should be on providing analysts and other financial statements users with a clearer understanding of material accounting choices made by the issuer that could generate meaningful differences in reported results when contrasted with peers (both domestic and global). We believe this information clearly can reside within a reconciliation requirement or, more appropriately, elsewhere in the financial statements[6].

These issues highlight the need to enhance the quality and level of information provided in financial reports, a notion that is especially critical given the migration towards principles-based

[5] See Deutsche Bank Aktiengesellschaft – Transition Report: 2006 IFRS Comparatives filed with the Commission on April 20, 2007.
[6] See "The Road To Convergence: U.S. GAAP At The Crossroads" published on July 16, 2007 on RatingsDirect.com.

standards. To this end, and to aid the elimination of the reconciliation as well as support the on-going convergence process, we recommend that the Commission, in conjunction with its work with IOSCO, CESR, and other regulatory authorities, urge the Boards to focus greater attention on enhancing disclosure standards, possibly even developing a single disclosure standard applicable to IFRS and U.S. GAAP that would better meet analysts' and financial-statement users' information needs beyond the basic financial reports (including information provided by issuers in their MD&A section), and ensure that these are met in the absence of the information provided by the reconciliation.

In addition, despite convergence efforts and promulgation of many new international financial reporting standards and changes to U.S. GAAP over the past three years, many areas (and standards) remain divergent or lacking – yielding a varying degree of effects on entities' and industries' reported results. Given the current state of convergence, the significance of the remaining differences between the standards, and the usefulness of the reconciliation as a tool to highlight these, we believe an indiscriminate elimination of the reconciliation, although ultimately desirable, may be premature, particularly if further convergence efforts are jeopardized.

We do not express an opinion on the relative merits of U.S. GAAP compared with IFRS, but the existence of reconciliations has meant that U.S. GAAP traditionally provided an anchor for some of our analytical processes, particularly for issuers operating on a global platform. We are not best placed to comment on the cost/benefit of the reconciliation and associated disclosures, but understand from many issuers that the cost is a substantial burden for what they perceive to be of little user benefit from their perspective. Early removal of the reconciliation would be understandable in this respect, but may cause us to seek certain information from issuers on a confidential basis. In this regard, our analytical needs for financial-statement information are the same, regardless of whether a company applying IFRS is an SEC registrant.

Instead of an "unconditional" elimination of the reconciliation requirement, we recommend that the Commission consider a gradual process, by which the reconciliation may be eliminated at the discretion of issuers, if certain (principles-based) prerequisites relative to convergence and information content are met (and as concurred to by their auditors).

These prerequisites should include:

- A requirement that the financial statements be prepared using IFRS as published by the IASB, and
- The issuer's assessments that the U.S. GAAP/IFRS differences are not material to the financial statements or alternatively, that sufficient information is available in the financial statements (including accompanying disclosures) to enable users to discern significant accounting policy choices and accounting treatments.

This assessment would be agreed to by the auditors and exclude from its consideration the "legacy" differences (e.g., acquisition-basis differences), information which would be available in the last filed report that included a full reconciliation. This approach would allow for the elimination of the reconciliation in a rational, gradual fashion as convergence progresses. It would also allow, in the interim, retention of information on material differences for areas that remain substantially divergent, and for which convergence efforts may last longer (e.g., insurance, consolidation, and extractive industry accounting).

We also recommend that the Boards publish periodically (at least annually) a comparative study listing the remaining divergent standards, to assist companies in making their assessments. As convergence efforts continue, we likely will see fewer reconciliations, thus reducing compliance costs and efforts for companies where the marginal utility is considered insignificant.

We believe this approach will enable a more prudent migration to global accounting standards, appropriately balancing cost/benefits considerations, while retaining proactive pressure on the Boards to continue convergence efforts and to work out differences in an expeditious fashion.

Underpinning our views is the desire for global convergence and enhancements to the information provided to analysts, rather than a particular preference towards a specific set of standards. Our response in this letter also presumes that the Commission, together with other international financial-markets regulators, will continue to enforce high-quality audit and financial reporting oversight regardless of the method of accounting being used by issuers or whether reconciliation is provided. In summary, the quality and robustness of financial information should not diminish as a result of the elimination of the reconciliation.

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We thank you for the opportunity to provide our input on the Proposed Rule. We would be pleased to discuss our views with any member of the Commission's staff. If you have any questions, or require additional information, please contact Neri Bukspan, Managing Director and Chief Accountant at (212) 438-1792 (neri_bukspan@standardandpoors.com) or Ronald Joas, Director of Financial Reporting at (212) 438-3131 (ron_joas@standardandpoors.com).

Very Truly Yours,

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