CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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September 24, 2007

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

Re: File No. S7-13-07

Dear Ms. Morris:

The U.S. Chamber of Commerce is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region. We commend the U.S. Securities and Exchange Commission (SEC) on this proposal to accept financial statements from foreign private issuers under International Financial Reporting Standards (IFRS) without reconciling with U.S. Generally Accepted Accounting Principles (GAAP). We have been a strong advocate for the movement toward global accounting standards – as well as auditing standards – and are pleased to submit comments on the current proposal.

In recent years, all aspects of our capital markets have truly become global. Today, retail and institutional investors, small and large corporations, accounting firms, investment banking and brokerage firms, law firms and even stock exchanges all have an international presence. These changes have coincided with and helped fuel the rapid development of capital markets outside the U.S. At the same time, much of the legal and regulatory landscape in the U.S. – and the thinking behind it – has remained relatively constant, with generally only incremental change occurring. And, to the extent revolutionary changes have occurred, they have usually been in response to a crisis, which typically is not the most conducive impetus for visionary thinking. Unfortunately, the result is that the competitive position of the U.S. capital markets has and continues to decline quite dramatically.

As part of our effort to improve the competitiveness of the U.S. capital markets, we strongly support efforts and policies that move toward convergence of global accounting standards. We therefore support efforts to reduce unnecessary costs for foreign private issuers seeking to access the U.S. capital markets. Clearly, this will benefit our markets by encouraging foreign companies to access our markets and U.S. investors by providing access to a broader range of investment opportunities.

The current proposal strikes a proper balance between the dual statutory mandate of protecting investors and promoting capital formation.

The Chamber believes that the U.S. capital markets – as well as the global capital markets – would realize significant benefits from uniform, high-quality global accounting and auditing standards. Indeed, uniform standards would be a significant step forward in advancing the SEC's dual statutory mandate of investor protection and promoting capital formation. U.S. investors and market participants already heavily rely on IFRS. U.S. Department of Treasury data indicates that U.S. holdings of foreign securities nearly doubled from 2001 to 2005. Further, statistics and information from the World Federation of Exchanges and Deloitte & Touche – IAS Plus indicate that nearly 75% of the global market capitalization outside of the U.S. is currently subject to IFRS reporting to some degree, with many markets moving toward mandatory use in the coming years. Indeed, when considering those countries that – although not currently using IFRS – have adopted a fixed timetable to convert to this standard, the future of IFRS usage includes over 98% of the market capitalization outside the United States.

As stated during the SEC March 2007 Roundtable (March Roundtable), implementation and use of IFRS is already widespread. IFRS has been adopted by all members of the European Union (EU) – which comprises approximately 25% of the world's market capitalization of public companies – and has also been adopted by many other major financial centers including Canada, Australia, New Zealand, Israel, China and Hong Kong. Combined with the EU, this comprises approximately 39% of the world's market capitalization of public companies. Given the level of participation by U.S. investors in foreign markets, IFRS is already heavily relied upon by U.S. market participants, and this will only increase. This first step of formally incorporating IFRS into the U.S. system provides an excellent opportunity to further develop the filtering mechanisms relied upon by U.S. investors; for example, accountants, lawyers, brokers, analysts, credit rating agencies and other institutional intermediaries. Furthermore, formally recognizing IFRS will provide the SEC increased exposure to these rules and will give the SEC a stronger voice in the ongoing development of IFRS.

Although certain short-term adjustments will be necessary to facilitate this continued transition toward IFRS, the benefits of universal standards will continue to drive the convergence process. In the long-term, the proposed rule will benefit U.S. capital markets by providing greater comparability between companies than is possible with a multiplicity of national accounting standards. Further, the proposal will foster capital formation by making access to the U.S. capital markets easier for foreign issuers that previously may have been reluctant to bear the cost associated with reconciliation. Finally, this proposal is an important step in the continuing goal of global accounting standards convergence which serves the dual objective of investor protection and promoting capital formation.

The SEC should incorporate a reasonable degree of flexibility into the transition process by allowing foreign issuers to file under approved jurisdictional variants of IFRS.

To ensure meaningful progress toward convergence, there must be sufficient flexibility to accommodate reasonable degrees of jurisdictional variation from IFRS as published by the International Accounting Standards Board (IASB). If one accepts the notion – as we do – that IFRS standards as promulgated by IASB meet the high standards of quality that serve as the foundation of the U.S. securities laws, then reasonable variations away from the IASB version must too be acceptable.

Prohibiting any degree of jurisdictional variation from IFRS as published by the IASB will unnecessarily reinforce two fallacies. First, that the interpretation of accounting standards is an exact science where one approach is empirically superior to all others. And second, that U.S. market participants – including retail investors – are not already participating in the global financial markets and, therefore, currently rely on the jurisdictional variants of IFRS. Adopting this rigid stance would in effect be forcing foreign private issuers to transition from one reconciliation process (e.g., IFRS as adopted in the EU to U.S. GAAP) to another (e.g., IFRS as adopted in the EU to IFRS as published by the IASB).

Furthermore, there is an important long-term strategic consideration to which the SEC should give serious consideration. If the U.S. takes a rigid stance regarding foreign companies' application of IFRS when participating in the U.S. markets, then one should anticipate that the U.S. will be met with similar rigidity from foreign regulators when U.S. companies seek to access foreign capital markets using the U.S. variation of IFRS. We emphasize in this recommendation that flexibility should not come at the expense of reporting quality or efficiency and that only reasonable variations from approved jurisdictions should be accepted.

The rule proposal is a necessary and timely step toward accounting convergence.

Attaining accounting and auditing convergence has been, and continues to be, a critical initiative in the accounting profession, is important for American business, and is a vital step in the continuing development of the global markets. While significant progress has been made over the years, there is a need to increase the pace, and reduce as quickly as possible, the differences between U.S. GAAP and IFRS to a relatively small number of points. Having said this, we strongly agree with the SEC view expressed in the proposing release that reaching a higher degree of accounting convergence should not be a prerequisite to accepting IFRS financial statements from foreign issuers without reconciliation.

We recommend that the implementation of this proposal not be made contingent on additional industry exposure to IFRS. Indeed, over the years retail and institutional investors, as well as other market participants, have relied on IFRS, and are increasingly doing so. For example, there was a general consensus among panelists representing institutional investors at the March Roundtable that GAAP reconciliations have been relied on less frequently, if at all, and that IFRS is the obvious candidate for a global standard. An equally consistent point was made in support of the high quality information that investors will receive under IFRS. Despite the noted technical disparities that remain between the two standards, this phased introduction of IFRS will allow for – and in fact, will force – a reasoned transition to IFRS, which is far superior to a wholesale adoption of a new international standard in the future. In light of the need for quick action to advance this process, as well as the fact that U.S. market participants already rely indirectly on IFRS, we urge the SEC to approve this rule by December 15, 2007. This will ensure that foreign issuers will be able to file their 2008 IFRS financial reports without having to reconcile to U.S. GAAP.

The international regulatory infrastructure coupled with market dynamics will facilitate the implementation and growth of IFRS as the global standard.

Some have raised concern that acceptance of non-reconciled IFRS statements would diminish the current momentum behind the global effort to attain universally recognized accounting standards. The cooperative efforts of many regulators and policy makers, including the SEC, the Committee of European Securities Regulators (CESR), the IASB, the Financial Accounting Standards Board (FASB), the International Organization of Securities Commissions (IOSCO), and others have created a robust process for the joint development of high quality standards. The momentum from this strong support will ensure that progress toward convergence of accounting standards continues.

It has also been suggested that the differences between U.S. GAAP and IFRS will create investor confusion and market inefficiencies. This argument, however, fails to recognize that many market participants within the U.S. – including retail and institutional investors, analysts, investment bankers, accountants, auditors and public companies – already rely on and deal with IFRS on a regular basis and in many different contexts. Even if U.S. policymakers stand still on this issue, market forces are necessarily going to continue driving this reality – and at an accelerated rate.

Further, market dynamics will resolve, or greatly reduce, many of the issues that cause some to resist the acceptance of statements under IFRS. The filtering influence and resources of other market forces such as accountants, research analysts, and investment bankers can cope with different reporting models in the U.S. capital markets context. In fact, in a relatively short time these forces could provide greater understanding within the investor community than might be achievable through pursuit of accounting principles harmonization alone. This, in turn, would work to enhance the rate of progress toward full convergence.

There are also understandable concerns that IFRS is used in some countries with less matured accounting systems and weaker oversight than might be desirable for U.S. investors. The recently added members of the European Union are often cited as examples. However, those differences are as well understood by analysts and investment banks as they are by regulators, with the predictable consequence that the pricing of securities will be influenced by the relative quality of standards and regulation in a registrant's country of domicile. Market forces would not just ameliorate the problem, they would create the most immediate and effective incentives for standards and regulatory improvements in a country whose securities suffer in value from weak conditions.

The SEC must also act on the broader global convergence considerations parallel to IFRS implementation.

Accounting standards are not the only barrier to participation in our markets and the movement toward accounting convergence is only one step in creating an integrated and efficient global marketplace. While the Chamber does not view auditing as a barrier to the effective implementation of the current rule proposal, we urge the SEC to dedicate the resources and develop the infrastructure to support convergence of auditing standards. To this end, we also strongly encouraged the SEC to work with the Public Company Accounting Oversight Board (PCAOB), their international counterparts and the International Auditing and Assurance Standards Board (IAASB) toward global convergence of auditing standards. Indeed, the experience gained from this timely step toward accounting convergence will be useful in dealing with future auditing convergence efforts.

Conclusion

We believe that there has been significant progress made toward accounting convergence and that all parties supporting this objective will maintain the same incentive to reach an optimum level of convergence with the implementation of this rule proposal. This rule will remove the unnecessary cost of GAAP reconciliation for foreign private issuers and increase the efficiency with which this information reaches the marketplace. It will also encourage foreign participation in our markets and create new opportunities for U.S. investors. The cooperation of international standard setting bodies will be complimented by market dynamics to create the proper environment for incorporating IFRS statements into the U.S. capital markets.

We commend the SEC both on its continued support of the convergence goal and its recognition that acceptance of non-reconciled financial statements from foreign private issuers under IFRS is yet another significant milestone on the roadmap toward convergence. It is important that the U.S. increase its level of engagement in the development of global standards. Implementation of this proposal should be viewed as a necessary measure to ensure our effective participation in the development of these standards. However, the Chamber recommends that the SEC adopt a flexible approach to IFRS implementation by allowing foreign private issuers to file approved jurisdictional variants of IFRS as published by the IASB. Furthermore, we urge the SEC to maintain a vigorous approach in dealing with the issues of achieving global auditing convergence. It will take equal force and cooperation on these several fronts to realize the true benefits of global capital markets integration.

Thank you for your consideration.

Sincerely,

Michael J. Ryan, Jr.
Senior Vice President and Executive Director
Center for Capital Markets Competitiveness

cc: Christopher Cox, Chairman, U.S. Securities and Exchange Commission
Paul S. Atkins, Commissioner, U.S. Securities and Exchange Commission
Kathleen L. Casey, Commissioner, U.S. Securities and Exchange Commission
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