HYUNSUK KWAK
ACC 620
Global Accounting
Comment on SEC proposal

Positive points

According to Peter Martin, eliminating the U.S. GAAP reconciliation requirement not only makes financial statement preparers easier to work, but also 'maintained by academic research indicating that financial statement users' decisions are not noticeably affected by this information.' And in his comment, he also mentions that the increased use of single set of common standards without the U.S. GAAP conciliation gives users financial information which contain greater comparability.

He also mentioned that this proposal encourages users to incorporate IFRS into their accounting system globally, so it makes financial reporting faster.

I agree with his opinion that eliminating the U.S. GAAP reconciliation for IFRS financial statements foreign private issuers made one step towards the global GAAP convergence, and should be fully supported.

According to Greg Taylor, the use of IFRS financial statements without reconciliation to U.S. GAAP will successfully achieve two significant goals. First goal is helping to level the playing field between U.S. and non-U.S. issuers who would access the U.S. capital markets. And next goal is protecting U.S. and non-U.S. investors who will benefit from high-quality financial information that provides comparability through the companies.

I highly agree with his point of that using IFRS financials without U.S. GAAP reconciliation will protect investors who will enjoy the comparability.

According to Robert H. Colson, allowing foreign companies to use IFRS without reconciliations to U.S. GAAP is likely to 'provide useful feedback to U.S. accounting standards setters about the efficacy of their standards.' And make U.S. stock exchanges even more competitive.

He also mentions in his comment, allowing U.S. companies to use IFSR will help shift U.S. accounting education towards 'considering basic principles and differences in approaches and away from rote memorization and application of rules' as well as it benefits investors.

The comparability of financial statements worldwide is necessary for the globalization of capital markets, and it is supported by this proposal and many accounting professionals agree with that. Financial statement comparability will help investors evaluate potential investments in foreign securities so it can reduce the risk which is resulted by international diversification.

According to Dr. Chungwoo Suh, who is chairman of International Financial Reporting Standards Review Committee, IFRS is principle-based, so it is easier to adopt for many countries which have diverse accounting practices under each different regulatory environment. A lot of foreign companies are currently preparing their financial statements under IFRS. So comparability among companies will be supported accordingly provided IFRS are applied consistently.

Reducing costs for financial reporting and auditing is another major positive point of this proposal. Dr. Chunwoo Shh also pointed out in his comment that many investors and users of financial statements for foreign companies are generally institutional, the cost they should pay for comparability on a global basis will be reduced if reconciliation is eliminated.

<u>Negative points</u>

Jack Ciesielski, member of Investors Technical Advisory Committee, is strongly disagrees with this proposal.

According to Jack Ciesielski, still there are many material differences and problems as a result of differences of the two systems. He argues that without the reconciliation requirement, those material differences cannot be reasonably estimated.

He points out that it is not the right moment yet to eliminate the U.S. GAAP reconciliation. If so, he says it will achieve GAAP convergence 'with the exception of items bearing inconsequential significance to investors.' He argues that GAAP convergence is not done yet completely, so removing the reconciliation requirement might further delay to reaching 'a genuinely converged conceptual framework.' Without a reconciliation requirement the IASB, and those who participate and oversee its process, might not act 'with a sense of urgency on convergence issues.' He thinks it is premature to consider U.S. GAAP reconciliation removal since it is still critical information for investors to oversee material variances between the accounting systems, and the data in the reconciliation have even greater significance to investors during a period of frequent underlying changes to the respective GAAPs. If the reconciliation is eliminated at the present state of IFRS evolution and convergence, investors will have to work harder to gain an understanding of IFRS reporting. And attempting to compensate for the major gaps in IFRS at present, such as accounting for insurance liabilities and extractive industries.

He concerns about enforcement of the application of IFRS and consistent auditing and. So he recommends that the Commission should commit an evaluation of the differences in the auditing and enforcement disciplines of IFRS to U.S. GAAP and it is should be clearly addressed how those differences may influence 'the comparability and credibility of the resulting financial reports before concluding that the reconciliation may be omitted.'

He also notes that the funding system for the IASB could have a negative effect on 'the quality and timeless of the standards it produces and may jeopardize its independence.' He says reconciliation provides investors with awareness of international standards. Therefore removal of reconciliation during the still early stages of convergence would withdraw valuable information from investors.

According to Jane Soper, in her comment, she addresses that the stock screening tools in investment web sites still are affected and concluded commonly used metrics, such as Net income or ROI, could be affected by the difference between U.S. GAAP and IFRS. And not return comparable results for all companies. Users may make mistakes or errors in decision making just because of the difference in accounting systems.

She also points out that whether literature will be available to help investors understand IFRS financials. And she questioned if the overall university system be encourage introducing IFRS at an earlier stage in undergraduate courses.

As Jack Ciesielski mentions in his comment, IFRS reporting is not widely educated in U.S. college courses currently. Self education is even more costly.

Removal of reconciliation could cause a weakening of the existing quality control practices of the Big Four' accounting firms that audit foreign company filers that use IFRS.

Conclusion

I support the commission's proposal: Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP.

The proposal supports that the comparability of financial statements worldwide is necessary for the globalization of capital markets. Financial statement comparability will help investors evaluate potential investments in foreign securities and their decision making, therefore would reduce the risk which resulted by international diversification.

The proposal supports reducing financial reporting costs for companies that seek to list their shares on foreign stock exchanges. Especially costs less for compliance and disclosure requirements. Cross-listing of securities can make companies to get an access to less expensive capital in other countries and so make it easier for foreign investors to get the company's stock. Corporate reporting differences in different countries may cause loss of investor confidence.

One set of universally accepted accounting standards would reduce the cost of preparing worldwide consolidated financial statements and simplify their auditing. For global companies it is easier to transfer accounting people to other countries as well as auditing firms.

The proposal also supports that moving towards IFRS and pursuing GAAP convergence helps raise of the quality level of accounting practices internationally, thereby increasing the credibility of financial information.

In conclusion, I support the commission's proposal: Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP.

Reference:

Peter Martin, Comments on proposed rule, Canadian Accounting Standards Board, September 20, 2007

Jane Soper, Comments on proposal rule, Jacksonville, Florida, August 5, 2007.

Greg Taylor, Comments on proposal rule, Fairfax financial holdings limited, Toronto, Canada, July 16, 2007

Dr. Chungwoo Suh, Comment on proposal rule, International Financial Reporting Standards Review Committee, September 14, 2007

Jack Ciesielski, Comment on proposal rule, Investors Technical Advisory Committee, August 31, 2007.

Robert H. Colson, Comment on proposal rule, Financial Accounting Standards Committee, AAA, September 7, 2007