

2 October 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
***Proposed Rule: Acceptance from Foreign Private Issuers of Financial Statements
Prepared in Accordance with International Financial Reporting Standards without
Reconciliation to U.S. GAAP (Proposed Rule)***

Dear Ms. Morris:

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre) of CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (CDPC)², appreciates the opportunity to comment on the Proposed Rule issued by the U.S. Securities and Exchange Commission (SEC or Commission).

The CFA Institute Centre represents the views of investment professionals, including portfolio managers, investment analysts and advisors located in over 130 countries worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct*.

¹ The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With headquarters in Charlottesville, VA, and regional offices in New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 95,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 80,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council comprises individuals, who are investment professionals with extensive expertise and experience in the global capital markets, as well as CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures which meet the needs of investors.

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Introduction

Investors increasingly make their investment decisions in a global context of comparing investments in companies located in many countries that use different accounting, auditing, and other business practices. Making such comparisons is difficult, time-consuming, complex, and risky, even for seasoned professionals.

The current SEC reconciliation requirement is an important tool that allows them to compare companies in different countries on an apples-to-apples basis. To the extent accounting standards have not yet converged (or new differences develop) investment professionals rely on the reconciliation as an efficient and cost effective way of bringing to their attention the material differences in accounting.

For that reason, CFA Institute has long supported, as well as actively engaged in, the development of global accounting standards.³ Our objective has always been to encourage the IASB in developing financial reporting standards that meet the needs of investors, investment professionals, and other users. We also support the memorandum of understanding between the IASB and FASB to work together on converging IFRS and U.S. GAAP. Although the Boards' joint effort to converge is moving forward and building momentum, a substantial set of work is still not completed.

The current reconciliation requirement for IFRS to U.S. GAAP serves as a primary tool for identifying the material differences in practice as well as in principle. We believe that the removal of that requirement would severely impede the Boards' efforts to converge and improve financial reporting standards. We believe that the elimination of the reconciliation requirement could be expedited when the IASB and FASB complete their work on key projects, such as the conceptual framework, financial statement presentation, revenue recognition, and financial instruments.

Current Position and Recommendation

Although we share the goals that motivate the Commission's proposal, we do not support its adoption at this time, for the reasons discussed in the balance of this letter. We believe that the elimination is premature and that the Commission should defer action on this proposed rule until the following have been achieved and/or have substantially moved towards being achieved:

³ Beginning in 1991, CFA Institute analyst/investor delegates participated directly in the standard-setting activities of the International Accounting Standards Committee (IASC). When the IASC was restructured to form the International Accounting Standards Board (IASB), we continued our support in a variety of ways. A member of CFA Institute, Anthony Cope, CFA, served as a founding member of the IASB Board. In addition, the Institute's Corporate Disclosure Policy Council responds to many IASB proposals, participates (through its members) in advisory committees, and meets with members of the Board and its staff periodically, including most recently in March 2007.

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1. The IASB makes substantial progress on its current work plan by adopting standards that
 - a. fill the major gaps in IFRS standards, and
 - b. eliminate most of the major differences between IFRS and US standards.
2. The IASB ends its moratorium on the application of new IFRS.
3. Financial statement preparers gain more experience in the use of IFRS standards, including those standards whose implementation has been or will be delayed.
4. Auditors gain more experience in auditing IFRS standards, including those standards whose implementation has been or will be delayed.
5. Regulators have put into place and adequately tested a method of assuring that IFRS standards are applied uniformly in all jurisdictions.
6. The IASB's ability to develop appropriate financial reporting standards is enhanced by
 - a. establishing a funding plan that makes it financially independent; and
 - b. aligning its membership with the needs of investors;

In our view, having a goal to eliminate of the reconciliation requirement is a powerful incentive driving convergence and the development of sound international standards. We believe that premature action by the SEC would likely reduce progress in this area by removing that incentive.

While completion of the IASB work plan (including such difficult and contentious issues as revenue recognition) is likely to take many years, we believe that significant progress could be made within a three to five year time frame. Changes in IASB funding and membership, and establishment of an effective regulatory framework would increase the likelihood that the IASB would continue to develop new standards that serve the needs of investors worldwide.

We elaborate on our views in the remainder of the main body of this letter.

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Actions Needed for Enhancing IFRS and Their Application

IASB Fills Remaining Major Gaps

Currently, the IASB's set of financial reporting standards remains incomplete, with major gaps for significant classes of information, including accounting for insurance contracts and extractive activities involving minerals, oil and gas. Like the FASB, the IASB has yet to tackle such important areas as revenue recognition, pension plans, and leasing. The SEC staff noted major reporting deficiencies as part of their review of foreign private issuers in addition to the other areas where IFRS remain incomplete.

Some IASB projects, such as insurance contracts, have been underway since the 1990s and are still in preliminary stages of setting final standards. As such, it will be a minimum of two or three years and likely longer, before final standards are issued and at least another year before the application of the new standards is required.

IASB and FASB Work Further to Converge Standards

In October 2002, the IASB and the FASB agreed to jointly pursue convergence of their respective sets of standards, a commitment expressed in the issuance of their memorandum of understanding known as the "Norwalk Agreement." This commitment was reaffirmed in February 2006, recognizing the Boards' shared objective of developing high quality, common accounting standards for use in the world's capital markets. The Board's agreement is supported by regulators and investors both in Europe and the US. In some respects, work involving key projects, e.g., conceptual framework and financial statement presentation, is in the early stages and much work remains to be done. Although the IASB has continued to work on these joint projects, it has agreed to suspend the required adoption date of new standards until at least 2009, a matter discussed more fully below.

The Commission's proposal calls for the elimination of the 20-F reconciliation requirement for those who claim compliance with the "English language version of IFRS as published by the IASB." If the Commission decides to adopt the proposed rule, we believe that it is essential that this provision be maintained. Allowing registrants to report using anything less than full IFRS would exacerbate the concerns discussed in our letter.

IASB Lifts the Moratorium on the Application of New Standards

We have discussed the arrangement between the FASB and the IASB above and the importance of this commitment to achieving convergence of US GAAP and IFRS. Based on the IASB's original commitment in 2002, a SEC "Roadmap" for accepting IFRS financial statements was

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drafted in 2005 by the then SEC chief accountant, Donald Nicolaisen, and his staff. This roadmap outlined the necessary steps for acceptance of IFRS, including the achievement of sufficient convergence along with consistent application of IFRS by countries adopting these standards. In early 2006, SEC Chairman Cox and EU Commissioner McCreevy met in Washington and affirmed their joint commitment to convergence and achieving the steps necessary to eliminating the 20-F Reconciliation. The report of their meeting states:

The SEC is working diligently toward the goal of eliminating the existing IFRS to US GAAP reconciliation requirement. Achieving that goal depends on various factors, as discussed in the April 2005 roadmap, including the effective implementation of IFRS in practice. The ultimate success of IFRS for the benefit of the global capital markets depends on the contributions of many parties, including investors, regulators, auditors, issuers and standard setters. [Emphasis added]

In July 2006, subsequent to the IASB and FASB reaffirming their commitment on convergence, the IASB agreed to a moratorium on the application of new standards until 2009. We are concerned that the current moratorium could be extended even further. As investment professionals that rely on financial reports, we are troubled by the IASB's action, and the likelihood of future moratoriums, as deferred application of new standards delays improving the quality of financial statements and disclosures.

Many of these new standards were issued as part of the IASB and FASB joint convergence efforts. Consequently, before the SEC can consider eliminating the 20-F reconciliation for IFRS financial statements, we believe that the moratorium needs to be lifted. Also, sufficient time should be allowed for SEC staff to evaluate companies' effectiveness in implementing the new and/or amended standards.

Consistent Application of Full IFRS

SEC staff comment letters to foreign private issuers (including some of the largest companies) indicate that IFRS financial statements were not in full compliance with IFRS as issued by the IASB.⁴ The fact that some of the largest companies, with presumably the most skilled and experienced accounting staff, did not comply raises even greater concerns with those registrants who do not have such depth of knowledge and highly-skilled staff. Put simply, it is difficult for investors to have great confidence that those claiming full compliance with IFRS are, in fact, compliant without further evidence to demonstrate this capacity. Given that consistent

⁴Large international audit firms have noted that companies face considerable challenges implementing IFRS into their reporting processes as well as finding and training personnel to properly adopt the standards. As a result, these challenges have caused many companies on first adoption to adhere closely as possible with the previously used national GAAP. For example, please refer to Ernst & Young's webcast on 28 August 2007, "IFRS: an Option for U.S. Issuers?" and its study of over 60 European Union-based companies that adopted IFRS in 2005.

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application is a condition needed for eliminating the 20-F reconciliation, we believe that additional time is necessary for preparers to gain sufficient familiarity with IFRS as issued by the IASB and to comply with the provisions on a consistent basis.

This situation is affected further by the IASB's moratorium on required application of new and/or amended IFRS until 2009. The new standards will not have been adopted by issuers until at least *after* the date that the SEC has proposed to eliminate the reconciliation. Also, preparers will not have been in a position to revise their reporting systems to accommodate the changes and to implement properly the standards until at least 2008.

Quality Audits of Full IFRS Compliance

For nearly eight decades, independent and expert audits of financial statements have been recognized as one of the critical elements in assuring that high-quality information is provided to investors and other users in making financial decisions. As such, we are concerned by the level of diversity in IFRS-based financial reports noted by SEC staff in reviewing the Form 20-Fs filed for 2005 fiscal year ends. Auditors' opinions, contained within these filings, showed that a significant number of opinions were not on full IFRS compliance but rather on: (1) IFRS as adopted by a particular national jurisdiction or (2) some combination of IFRS as adopted by the national jurisdiction and the accounting practices in place in the jurisdiction before the IFRS adoption (national GAAP).

A closely related issue is the current state of IFRS-based educational programs - academic preparation and audit firm training. Our understanding, based on review of reports and materials provided by academia and audit firms, is that these programs are not developed and/or implemented sufficiently at this time. Given this current state, we are concerned that quality audits of full IFRS compliance would be difficult to achieve, and would likely be a long-term problem.⁵

Enforcement of Full IFRS Compliance

We consider regulators' to have an essential role in assuring that IFRS standards are applied consistently in the jurisdictions adopting full IFRS as issued by the IASB. Efforts are being coordinated by members of the International Organization of Securities Commissions (IOSCO), including European securities regulators and the SEC, to achieve this regulatory oversight of IFRS. However, this coordinated effort and related processes are still being implemented and as

⁵ Some audit regulators in the EU have called for a moratorium until 2011 or later on required full IFRS audits. The basis for this action is due partly to the IASB's current moratorium until 2009 as well as on the need to develop and deploy effective training and educational tools and programs, both in audit firms and universities.

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such, the overall effectiveness of their regulatory oversight has not been fully demonstrated, i.e., that the interpretation and enforcement of IFRS is consistent.

Based on our review of SEC staff comment letters to foreign private issuers addressing their 2005 financial statements, there appears to be a high level of inconsistent application of IFRS and/or US GAAP. Also, it is our understanding that SEC staff's review and examination of periodic reports filed by all registrants – both domestic and foreign – is unique among national securities regulators. As such, we believe that the Commission and its staff play an important role in ensuring that registrants filing IFRS financial statements are in compliance with full IFRS as issued by the IASB. If the Commission is to give up this role, there must be assurance that there will be an effective replacement.

Other Areas of Concern

Establish a Funding Plan for IASB's Independence

We view the current funding structure of the IASB, which is primarily dependent on private constituents – corporations and audit firms – to be a major issue that needs to be addressed. Without independent funding, both the standard-setter and the global standards it produces will be subject to the considerable influence and pressures that major suppliers of funding can apply. Such influence can take many forms, including the decisions about which agenda projects to pursue, how new standards are developed and promulgated, and how adequately the standards meet the needs of investors, the ultimate bearers of risk.

This issue is recognized not only by the IASC Foundation, the IASB's parent body, but by regulators.⁶ Despite the continuing discussions, the Foundation has not identified sustainable funding sources that would allow it to be financially independent and thus, free from undue pressures from constituents who fund its operations.

For the IASB's standard-setting process to be viable long-term, and the standards it produces to meet the needs of investors, including those in the US, it is imperative that the independence of the IASB be assured. The IASB should be provided with a permanent source of funding to assure that its work serves those whom it is committed to serving.⁷

⁶ In 2004, IOSCO's Standing Committee No. 1 comment letter to the IASC Foundation, responding to the Foundation's review of its Constitution, "It is important to protect the independence of the IASB." IOSCO noted that "To further ensure the continued independence of the Board, the Trustees should seek to identify and maintain one or more sources of financing that **free the Board from concerns that financial pressure could compromise the IASB's ability to complete its work or the independence of its decision making.**" [Emphasis added.]

⁷ Since its founding in 2001, CFA Institute has supported the IASB and its activities by serving as a financial sponsor. Similarly, we provided financial support to the FASB prior to the passage of the Sarbanes-Oxley Act of 2002 and the implementation of its provisions mandating independent funding for the FASB. Nonetheless, we firmly believe that it is in the best interests of

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Aligning the IASB's Membership with the Needs of Investors

IASB's primary objective as a standard setter is to promulgate financial reporting standards that result in financial statements that meet the needs of users who rely on the information provided. This objective is explicit in, and discussed throughout, the IASB's *Framework for the Preparation and Presentation of Financial Statements*. In particular, we highlight a section that pertains to investors as follows:

Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold, or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends.
[F-9(a)]

At present, the IASB has minimal investor representation based on the prior experience and professional background of the Board's members. We find this current situation troublesome and one that has worsened since the IASB was restructured in 2001.⁸ The auditor, preparer, academic and regulator communities are all well-represented on the 14-member board, while the investor and investment professional community is conspicuously underrepresented with only one part-time member.

We are not questioning the abilities of the current board members, as we believe they are highly competent professionals. Our concern is centered on the natural perspectives and biases that develop during an individual's professional career. Just as the other disciplines bring special contributions to the IASB, investment professionals have unique and valuable experiences and perspectives as users of financial statements that can only be gained from a career as an investment professional. The addition of more investment professionals on the IASB would improve the quality of the board's discussions and decision-making process by ensuring that the investor, auditor, preparer, academic and regulator communities all have an active role in this important process.

We believe that inadequate investor representation on the IASB and the IASC Foundation currently handicaps their ability to achieve their objectives for investors. Therefore, the IASB's membership should be reoriented to increase the representation of investors who are the ultimate

investors and all others who rely on financial reporting in making financial decisions that the standard-setters have fully independent sources of funding.

⁸ At inception, the IASB had at least two full-time members who represented users. The current membership of the IASB is set at 14 members, 12 full-time and 2 part-time. Only a single part time member could be said to represent the interests of investors who provide risk capital to companies and who must rely upon the financial statements. While we believe that investor representation on the FASB is also inadequate, one of its seven full time members was formerly an investment analyst, it is a significantly higher ratio than the IASB.

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bearers of risk and thus, rely on financial statements for making decisions regarding the allocation of financial capital.

Conclusion

We agree that the Form 20-F reconciliation requirement for foreign private issuers should be eliminated eventually for those registrants, who are fully compliant with the “English language version as published by the IASB.” For reasons we have discussed, we believe that it is premature to eliminate this requirement at this time.

We believe that it is important to allow more time to address such significant issues as allowing for: (1) preparers, auditors, and regulators to gain additional experience with IFRS standards in order to provide consistent application and quality information and (2) substantial work to be completed to address current gaps in IFRS and differences between U.S. GAAP and IFRS. To this end, the current requirement to reconcile IFRS financial statements to U.S. GAAP provides a necessary tool for assessing the progress in achieving convergence both in principle and in practice.

We appreciate the opportunity to provide comments to the Commission and its staff regarding the Proposed Rule. If the Commissioners or their staff have questions or seek further elaboration of our views, please contact Georgene B. Palacky, by phone at 434.951.5326 or by e-mail at georgene.palacky@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht

/s/ Gerald I. White

Kurt N. Schacht, CFA
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