

May 23, 2000

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Re: File No. S7-04-00 -- International Accounting Standards

Dear Mr. Katz:

The Securities Industry Association ("SIA")¹ appreciates the opportunity to comment on the Securities and Exchange Commission's (the "SEC" or the "Commission") Concept Release on International Accounting Standards ("the Concept Release").² SIA would like to take the opportunity to congratulate the SEC, the International Accounting Standards Committee ("IASC") and the International Organization of Securities Commissions ("IOSCO") on their efforts to promote the development of a set of high quality international accounting standards. These efforts have led to the core standards developed by the IASC that are discussed in the Concept Release.³

INTRODUCTION

SIA has long supported the goal of achieving fair, liquid and efficient capital markets on a worldwide scale, and measures that would increase the access of U.S. investors, both institutional and retail, to foreign securities. SIA has a significant interest in measures that would facilitate

¹ SIA brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans. The industry generates more than \$300 billion of revenues yearly in the U.S. economy and employs more than 700,000 individuals.

² Securities and Exchange Commission Release Nos. 33-7801, 34-42430; International Series Release No. 1215.

³ In the final communiqué of its recent annual meeting "IOSCO encouraged the IASC to continue to develop its body of accounting standards and expressed its desire to continue to work with the IASC. IOSCO congratulates and thanks the IASC for its work and contribution to raising the quality of financial reporting worldwide." IOSCO's Presidents Committee also approved a resolution recommending that IOSCO members permit the use of 30 IASC standards for cross-border offerings and listings, supplemented where necessary by reconciliation, disclosure and interpretation. *Final Communiqué of the 25th Annual Conference of the International Organization of Securities Commissions*; Sydney, Australia; May 19, 2000.

cross-border listings and the seamless flow of capital, albeit within a framework that provides high standards of investor protection and market integrity.

The members of SIA are intermediaries and direct participants in the capital markets and rely on the quality of financial statements, whether acting as underwriters, market makers, or in other capacities. In their role as advisers with respect to the purchase or sale of securities they are particularly reliant upon accurate and current disclosures regarding issuers. As the quality of the capital markets is directly tied to the quality of the information in the market place, securities firms have a significant interest in ensuring the promulgation of high quality, reliable accounting standards. For these reasons, SIA appreciates the opportunity to comment on international accounting standards and the work of the IASC.

DISCUSSION

A. Domestic Standards versus IAS

U.S. capital markets are the envy of the world, in part because of the continuous effort to balance the desire for a vigorous, dynamic market, with the need for appropriate rules, enforced in a transparent, fair and non-discriminatory manner. Indeed, given that the U.S. markets are the largest, deepest, and most liquid in the world, many nations have tried to model their markets on many of the facets of U.S. capital and securities markets. It is axiomatic that a marketplace encumbered with antiquated rules will not be competitive with more nimble markets. By the same token, investors are hesitant to commit capital to markets with standards that fail to deliver clear and meaningful measures with which to analyze companies, the net result being a barrier to the efficient flow of capital.

Carefully designed and high quality accounting standards, properly enforced, are an integral part of ensuring the integrity of markets. Financial markets and investors require high quality information for decision making, and comprehensive financial statements are a cornerstone of this information flow. Financial statements use the language of business – accounting – to portray a picture of a company's health, history and relative standing among similar enterprises. However, as markets have become increasingly global and investors have labored to compare a firm not merely with its domestic competitors but also with foreign firms, it has become increasingly difficult to obtain a clear insight into how a given firm matches up with its rivals. A uniform set of standards would greatly facilitate meaningful comparisons of competing businesses across borders, and is critical to making informed investment decisions.

U.S. corporations and borrowers routinely look to foreign markets for raising capital and an increasing number of foreign companies routinely tap the U.S. capital markets for their financing needs. SIA's members are actively engaged in these transactions both as intermediaries and, in some cases, as issuers themselves. Still, the number of foreign issuers that choose to meet U.S. standards for raising capital in the U.S. is a mere fraction of frequent foreign issuers. And while the number of foreign companies listed on U.S. securities exchanges has risen sharply in recent years, the total is still only a fraction of the foreign companies that are listed on exchanges outside their home country. This is due, in part, to the burden imposed by multi-jurisdictional listing

and reporting requirements, which increase the cost of accessing multiple capital markets, create inefficiencies, and impede cross-border capital flows.

SIA strongly supports measures that would reduce for both U.S. and foreign issuers the costs and inefficiencies that now exist for accessing multiple capital markets. Such measures, however, must maintain the high standards and investor protections that the U.S. capital and securities markets afford today. A balance needs to be struck between the goal of attaining high quality accounting standards and the goal of a uniform and harmonized set of global standards.

One global business language, *i.e.*, one international accounting standard, would go a long way in reducing the current burdens that face issuers and investors engaging in cross-border capital raising or investing. Nonetheless, SIA believes that any proposed international accounting standard must avoid a “lowest common denominator” fix and instead strive for a very high quality set of standards that mirror those currently reflected in U.S. Generally Accepted Accounting Principles (“GAAP”).

SIA believes that the International Accounting Standards (“IAS”) developed by the IASC are an excellent first step in achieving that goal. SIA has been among those urging rapid progress in developing the IAS. We eagerly look forward to the day when an issuer can choose to list its shares in a variety of marketplaces and only need meet a common set of high quality accounting standards. An investor would be able to invest in a foreign company, listed on an exchange in any subscribing jurisdiction, with complete confidence that the issuer’s financial statements would be comparable to those in the investor’s home market. Such a world would enjoy lower capital costs, provide greater choice for investors, and enjoy greater mobility of capital.

We also appreciate that the United States does not have a monopoly on accounting standards. Other jurisdictions may have accounting practices that differ from ours but which may actually be superior. The mere fact that an accounting standard is American is no guarantee that it is better than a competing practice in another jurisdiction.

B. More Experience Needed

Notwithstanding our desire for an international accounting standard, SIA does not believe that the current IAS should be used in cross-border filings in the United States without reconciliation to U.S. GAAP. Important differences still exist between the standards. In addition, as there has been only limited use of IASC standards to date, we believe that it would be prudent to allow more experience with such standards before proposing listing in the U.S. without reconciliation.⁴ For the moment, we believe that it is premature and potentially too risky for American investors for the SEC to embrace IAS in full. We believe that a period of evaluation is required to determine whether the differences between IAS and U.S. GAAP result in lesser

⁴ Since the acceptability of any set of standards depends in part on its interpretation and application, SIA would like to reserve further comment on IAS standards until such time as their use in the global markets has been further tested.

quality financial reporting, and whether IAS standards will be rigorously interpreted and applied before IAS is sanctioned for uniform adoption in U.S. markets.

Further, we take note of Commissioner Hunt's comments on the Concept Release concerning the infrastructure of accounting policy and practice:⁵

if the Commission were to conclude that IASC standards were comprehensive, required transparent reporting, and could be rigorously interpreted and applied, it would still be uncertain as to the quality of reporting that would result from the use of those standards. Ensuring that high quality of financial information is provided to capital markets does not depend solely on the body of accounting standards used. The quality of financial reporting is influenced by more than the standards themselves – it is also influenced by the business conditions and regulatory systems of the jurisdictions in which the standards are applied.

We think that strikes precisely the right note. In the absence of a proven international track record (including observation of the “accounting infrastructure” that develops for IAS) it is premature for the U.S. to adopt IAS standards without qualification. Until such time as this infrastructure develops, we are concerned that the benefits offered by the IAS might prove more illusory than real.

C. *Interim Steps*

SIA does see considerable virtue in encouraging wider use of IAS. We believe other countries may find such standards advantageous. For example, some countries may have domestic accounting standards that have not kept pace with evolving accounting practices, or are otherwise of lesser quality than the IAS. Further, some jurisdictions may judge that because of the limited size of their domestic market it may be preferable to use an international accounting standard rather than a domestic one. The core standards developed by the IASC provide a sufficiently comprehensive accounting framework to serve such a purpose admirably. In many cases adoption of the IAS would elevate home country standards.

Over time, we are hopeful that the IAS will become a global standard that many other countries will find useful and which will make the process of reconciliation under various standards easier and more uniform. As a consequence, we think it important that IASC, FASB, and the SEC continue their efforts with respect to easing reconciliation with U.S. GAAP.

The Financial Accounting Standards Board (FASB) has provided a comprehensive analysis of the similarities and differences between IAS and U.S. GAAP.⁶ That document should prove a useful roadmap in achieving a reconciliation between the two standards. While in our

⁵ Remarks of the Honorable Isaac C. Hunt, Jr., *Financial Reporting and the Global Capital Markets*, at the Second European FASB-SEC Financial Reporting Conference, Frankfurt, Germany, March 23, 2000, <http://www.sec.gov/news/speeches/spch360.htm>.

⁶ 2nd Edition; *The IASC-U.S. Comparison Project: A Report on the Similarities and Differences between IASC Standards and U.S. GAAP*; Financial Accounting Standards Board.

view it is not necessary to eliminate all differences, efforts to promote convergence of standards should focus on those differences -- such as those in recognition and measurement -- which are difficult to compensate for in making comparisons. FASB's analysis also points out other concerns, such as the lack of an international enforcement mechanism and standard setting entity to ensure high quality accounting and auditing standards and their consistent application.⁷

CONCLUSION

SIA believes that there is a need for a set of high-quality international accounting standards and that the IAS is an important first step towards achieving that goal. SIA believes that the IAS meets most of the general criteria set out for the development of these core standards, specifically insofar as they provide comprehensive standards that require comparable, transparent reporting with full disclosure. However, a significant number of not inconsequential differences exist between IAS and U.S. GAAP, including some that inhibit reconciliation between the two standards. In addition, SIA believes that a period of evaluation is required to determine whether the IAS can and will be rigorously interpreted and applied, particularly given the absence of an international enforcement mechanism and standard setting body. Thus, until that period of evaluation is completed, we do not believe that IASC standards should be used without reconciliation to U.S. GAAP in cross-border filings in the United States.

If we can provide any further information or clarification of the points made in this letter, please contact the undersigned at 212-618-0517.

Sincerely,

Frank Fernandez, Senior Vice President,
Chief Economist and Director of Research
Securities Industry Association

cc: The Honorable Arthur Levitt, Chairman
The Honorable Norman S. Johnson, Commissioner
The Honorable Isaac C. Hunt, Jr., Commissioner
The Honorable Laura S. Unger, Commissioner

⁷ We think it essential that a body be entrusted with global standard setting and enforcement powers. As a practical matter, the existence of such an entity is a *sine qua non* to the development of a truly global code of accounting standards. In this connection, we note the announcement yesterday of an IASC Board of Trustees that has been empowered to nominate a new Committee for the IASC. *New York Times*, page C2, May 23, 2000. SIA will be interested in monitoring the evolution of the IASC with a view to ascertaining its suitability to fulfill that role.

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The Honorable Paul R. Carey, Commissioner

Sandra Folsom Kinsey, Senior International Counsel, Division of Corporation Finance

D.J. Gannon, Professional Accounting Fellow, Office of the Chief Accountant