

**MEMO# 21907**

October 31, 2007

## **Draft Institute Comment Letter on SEC Concept Release on Financial Statements Prepared Under IFRS**

[21907]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 20-07  
INTERNATIONAL COMMITTEE No. 27-07 RE: DRAFT INSTITUTE COMMENT LETTER ON SEC  
CONCEPT RELEASE ON FINANCIAL STATEMENTS PREPARED UNDER IFRS

As you know, the Securities and Exchange Commission recently issued a concept release seeking comment on allowing U.S. issuers, including investment companies, to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"). [\[1\]](#) The Institute's draft comment letter on the SEC's concept release is attached and briefly summarized below.

The Institute's draft letter indicates that GAAP for investment companies is an industry-specific reporting model that reflects the unique characteristics of pooled investment vehicles. In contrast, IFRS does not provide accounting standards or guidance specific to the investment company industry. As a result, funds would follow the same financial reporting standards followed by general corporate enterprises and their financial statements would appear very similar to those issued by corporate entities.

The Institute's draft letter describes differences in presentation of financial statement information relating to the schedule of investments, the financial highlights, the income statement, the statement of cash flows, and comparative information. The draft letter also describes differences in accounting policy relating to brokerage commissions, valuation of investment securities, consolidation, and classification of fund shares.

The Institute's draft letter argues that these differences in financial statement presentation and accounting policy would limit the comparability of financial statements prepared under the two regimes. Further, that fund financial statements prepared under IFRS are less transparent and less meaningful than those prepared under investment company GAAP.

The Institute's draft letter recommends that the Commission ensure that there is

substantial convergence relating specifically to investment company financial reporting before it provides investment companies with the option to prepare their financial statements under IFRS. Also, that the convergence process should recognize that an industry specific accounting model that reflects the unique characteristics of pooled investment vehicles better serves the interests of fund shareholders.

Comments on the concept release are due to the SEC by November 13. Please provide any comments on the Institute's draft comment letter to the undersigned by November 9.

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Director - Operations/Compliance & Fund Accounting

[Attachment](#)

**endnotes**

[1] See Institute [Memorandum](#) to Accounting/Treasurers Committee No. 18-07 and International Committee No. 24-07 [21506], dated August 29, 2007.

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