

MEMO# 21366

July 17, 2007

SEC Proposes Elimination of GAAP Reconciliation Requirement for Foreign Private Issuers

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 16-07
INTERNATIONAL COMMITTEE No. 19-07 RE: SEC PROPOSES ELIMINATION OF GAAP
RECONCILIATION REQUIREMENT FOR FOREIGN PRIVATE ISSUERS

The Securities and Exchange Commission recently released a proposal that would eliminate the requirement for foreign private issuers that prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) to provide a reconciliation to generally accepted accounting principles (GAAP). [\[1\]](#) Foreign private issuers that prepare financial statements under other sets of accounting standards, or that are not in full compliance with IFRS as published by the International Accounting Standards Board would continue to be subject to the GAAP reconciliation requirement in their filings with the SEC.

If you have comments you would like the Institute to consider in a possible comment letter, please contact the undersigned at 202/326-5851 or smith@ici.org by August 24. Because the Proposal raises issues related primarily to investment decisions regarding foreign securities, it would be particularly helpful to receive input from members' investment personnel.

The Proposal identifies the elimination of the GAAP reconciliation requirement as a step towards a single set of globally accepted accounting standards. The Commission has encouraged movement towards a single set of high-quality globally accepted accounting standards as an important goal both for the protection of investors and the efficiency of capital markets. The Proposal indicates that development of globally accepted accounting standards will help investors understand investment opportunities more clearly and with

greater comparability than if they had to gain familiarity with multiple national accounting standards.

GAAP Reconciliation

Foreign private issuers that prepare their financial statements in accordance with a basis of accounting other than GAAP are currently required to provide a reconciliation that identifies and quantifies the material differences from the requirements of GAAP and Regulation S-X. This reconciliation includes a narrative discussion of reconciling differences, a reconciliation of net income for each year and any interim periods presented, a reconciliation of major balance sheet captions for each year and any interim periods, and a reconciliation of cash flows for each year and any interim periods. The reconciliation requirement is intended to protect investors by ensuring that they have access to the same type of information when making investment decisions regardless of whether the issuer is foreign or domestic. The Commission has proposed to amend Item 17(c)(2) of Form 20-F to eliminate the reconciliation requirement for issuers using IFRS as published by the IASB.

Questions for Investors

The Release asks a series of questions intended to assess investor acceptance of IFRS:

1. Should convergence between GAAP and IFRS be a consideration in the SEC's acceptance of financial statements prepared under IFRS without a GAAP reconciliation? If so, has such convergence been adequate? Are investors comfortable with the convergence to date, and the ongoing process for convergence?
2. Is there sufficient comparability among companies using IFRS to allow investors to use and understand the financial statements of foreign private issuers prepared in accordance with IFRS without a GAAP reconciliation?
3. Should the timing of the SEC's acceptance of IFRS without a GAAP reconciliation depend upon foreign issuers, audit firms, and other constituencies having more experience with IFRS financial statements?
4. Is the development of a single globally accepted set of accounting standards important to investors?
5. To what degree are investors able to understand and use financial statements prepared in accordance with IFRS without a GAAP reconciliation? Will the ability of an investor to understand and use IFRS financial statements vary with the size and nature of the investor, the value of the investment, the market capitalization of the issuer, or the industry to which the issuer belongs?
6. Should the six-month deadline for filing annual reports on Form 20-F be shortened? Should the deadline be the same as the deadline for annual reports on Form 10-K?

Comments on the Proposal are due to the SEC by September 24, 2007.

Gregory M. Smith
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endnotes

[\[1\]](#) See Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without a Reconciliation to

U.S. GAAP, Release Nos. 33-8818, 34-55998 (July 2, 2007) (the “Proposal”). The Proposal is available on the SEC’s website at <http://www.sec.gov/rules/proposed/2007/33-8818.pdf>.

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