

## COMMENT LETTER

May 25, 2000

# Comment Letter on SEC Concept Release on International Financial Reporting, May 2000

May 22, 2000

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

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

Dear Mr. Katz:

The Investment Company Institute<sup>1</sup> appreciates the opportunity to comment on the Securities and Exchange Commission's initiative to formulate a globally accepted, high quality financial reporting framework,<sup>2</sup> as exemplified by the body of accounting standards developed by the International Accounting Standards Committee ("IASC"). In its Concept Release, the Commission expressed a willingness to accept financial statements of foreign private issuers offering securities in the United States that are prepared in accordance with the standards promulgated by the IASC. Accordingly, the Commission has requested comment on the proposed IASC international accounting standards and on the elements essential to a high quality global financial reporting framework for use in such filings.

High quality financial reporting is essential to Institute members, who, in the past ten years, have dramatically increased their ownership of securities of foreign issuers.<sup>1</sup> Uniform accounting standards likely would contribute to an increase in the number of foreign companies that publicly offer or list their securities in the U.S., which would benefit investors through greater access, reduced commission costs, reduced exchange rate risks, application of exchange listing standards, and greater price transparency. In addition, adoption of the IASC standards by regulators outside the U.S. will have the effect of strengthening financial reporting standards in many countries of the world. This will be of great benefit to U.S. mutual funds investing abroad that acquire foreign securities in the local markets. Accordingly, the Institute supports the development of a high quality, comprehensive set of generally accepted international accounting standards, provided, however, that such standards do not in any significant way diminish fundamental investor

protections in the U.S.

The proposed IASC standards and the initiative they represent could be of great significance to a wide range of participants in capital markets throughout the world. A high quality, global standardized set of accounting principles would benefit investors and others making capital allocation decisions by providing consistent, relevant and reliable information, thereby facilitating comparisons between similar companies without regard to their domicile or location. Global accounting standards also would promote worldwide the goal of full disclosure and would improve upon existing accounting and disclosure standards in those countries where existing standards are not as developed. In addition, issuers and investors alike could benefit from the increased ability of foreign issuers to access U.S. capital markets. To date, some foreign issuers have shown reluctance to list their securities on U.S. exchanges due to differences in accounting practices. The ability to use global accounting standards would eliminate this concern and relieve these issuers of the burden of preparing multiple versions of their financial information in order to comply with the accounting regimes of different jurisdictions. Investors, in turn, would benefit by having a wider variety of investment opportunities.

In the Concept Release, the Commission specifically solicited views on whether the proposed IASC standards: 1) constitute a comprehensive, generally accepted basis of accounting; 2) are of high quality; and 3) can be rigorously interpreted and applied. We agree with the Commission's position that any standards to be approved must satisfy each of these criteria. We also would like to take the opportunity to make a few general points for the Commission's consideration.

First, while global accounting standards offer many potential advantages to all participants in the global capital markets, the Commission should proceed cautiously until it is clear that the standards are of high quality, sufficiently comprehensive, and rigorously interpreted. Until that time, reconciliation to U.S. GAAP may be necessary. When the Commission is satisfied that the standards are of high quality, sufficiently comprehensive, and rigorously interpreted, it should accept the international accounting standards domestically, although it may be appropriate to continue to require reconciliation for specific industries.

Second, a single global interpretive body needs to be in place to ensure consistent guidance. Treating similar issuers and transactions similarly for accounting purposes will facilitate financial statement comparisons of companies in the same industry, regardless of the domicile of the company.

Third, international auditing standards should be made a part of the Core Standards Project, as created by the IASC and the International Organization of Securities Commissions ("IOSCO") to develop internationally accepted accounting standards. Auditing standards in certain countries may not be sufficiently developed to ensure the level of reliability that U.S. investors have to come to expect. High quality, comprehensive international accounting standards, however, must be accompanied by high quality auditing standards to ensure rigorous application.

Finally, we note that even high quality standards are of little use to investors without an effective enforcement program. To this end, we encourage the Commission to use its membership in IOSCO to develop a global enforcement mechanism. Inconsistent enforcement, whether by the same or different countries, could threaten the stability of a global financial reporting framework.

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We appreciate the opportunity to express our views on the Commission's Concept Release on international accounting standards. If you have any questions regarding our comments, or would like additional information, please contact the undersigned at (202) 326-5826, Greg Smith at (202) 326-5851, or Barry E. Simmons at (202) 326-5923.

Sincerely,

Mary S. Podesta  
Senior Counsel

cc: Marisa Lago, Director  
Office of International Affairs

Lynn E. Turner, Chief Accountant  
Office of the Chief Accountant

Paul F. Roye, Director  
Division of Investment Management  
U.S. Securities and Exchange Commission

#### **ENDNOTES**

1 The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,036 open-end investment companies ("mutual funds"), 496 closed-end investment companies, and 8 sponsors of unit investment trusts. Its mutual fund members have assets of about \$7.264 trillion, accounting for approximately 95% of total industry assets, and over 78.7 million individual shareholders.

2 See International Accounting Standards, Securities Act Release No. 7801, Exchange Act Release No. 42430, International Series No. 1215 (Feb. 16, 2000), 65 Fed. Reg. 8896 (Feb. 23, 2000) (the "Concept Release").

3 According to Institute data, assets of international and global equity funds have increased from \$27.7 billion in 1990 to \$585.2 billion at the end of December, 1999.

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