



Via Email

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
U.S.A.

16 Park Crescent
London W1B 1AH
United Kingdom

Tel.: +44 207 612 7098
Fax: +44 207 612 7034

rule-comments@sec.gov

Email: secretariat@icgn.org
Web: www.icgn.org

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File Number S7-20-07 Concept Release - Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards (IFRS)

Dear Ms. Morris,

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 38 countries with capital under management in excess of U.S. \$10 trillion. The aim of the ICGN is to contribute to raising standards of corporate governance through the exchange of ideas and information across borders and development of best practices. Information about the ICGN, its members and its activities is available on our website: www.icgn.org.

The purpose of the Accounting and Auditing Practices Committee is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world. http://www.icgn.org/organisation/committee_membership.php?name=AAP

Thank you for the opportunity to comment on the concept release, which would allow U.S. issuers, the choice to prepare financial statements in accordance with IFRS. The ICGN and its members have an interest in maintaining the efficiency of the capital markets and the integrity of financial statements. We believe that all investors would benefit from having a single set of high quality financial reporting standards and support the ultimate goal of convergence by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Being of global membership, many of our European members are very familiar with financial statements using the various country versions of the International Financial Reporting Standards (IFRS).

The development of a single set of high quality globally accepted accounting standards, which enhance comparability and provide needed transparency is an important aspirational goal for all investors. However, at this time, material differences remain between IFRS and U.S. GAAP. In addition, there are a number of areas where IFRS either does not have comprehensive standards or standards do not exist in such areas as common control mergers, recapitalizations, reorganisations, acquisitions of minority

interests, insurance contracts and exploration activities by the extractives industries, to name a few. IFRS also does not require a standardized format for the presentation of the income statement, which is not investor friendly and likely to lead to a reduction in comprehension of information.

ICGN believes the development of a single set of high quality globally accepted accounting standards, which would enhance comparability and provide needed transparency would facilitate cross-border capital accessibility and formation. However, we believe that standards must ensure adequate disclosure and enforcement for the protection of investors and believe there are *a number of key issues that need to be addressed prior to giving U.S. issuers the option to file financial statements using IFRS rather than U.S. GAAP*. In addition, investors have had concerns about the accountability and independence of the IASB. They welcome recent steps to address this but would like to be sure that they are effective before moving to the stage of allowing U.S. issuers to file using IFRS.

The Effect of IFRS on the U.S. Public Capital Markets

ICGN believes maintaining high quality financial reporting is important to the competitiveness of the U.S. markets. ICGN supports convergence to a single set of high quality international financial reporting and disclosure standards provided these standards command robust international consensus. We believe the cost of capital is related to the quality of a company's financial reporting. However, we believe there is no competitive disadvantage to U.S. issuers or the U.S. public capital markets if the SEC maintains the current regulatory regime at this time and continue for the present to require U.S. issuers to report in accordance with U.S. GAAP. ICGN appreciates the fact that some U.S. multi-nationals with a majority of operations in countries that require IFRS may find it beneficial to prepare financial statements using only IFRS.

Convergence of IFRS and U.S. GAAP

ICGN supports the convergence process and agrees with the Commission's premise that if there is a robust and active process in place for converging IFRS and U.S. GAAP, then it is likely that the current differences between the two standards will be minimized over the long term. The 2006 Memorandum of Understanding between the FASB and IASB indicated that a common set of high quality global standards remains the long-term strategic priority and set out a work plan with specific long- and short-term projects. Achievement of this ambition will, however, also mean a critical examination of both FASB standards and IFRS to ensure that convergence involves moving to the higher standard. Our members are also looking for standards, which enable them to exercise their stewardship responsibilities as co-owners of companies in which they invest. ICGN does not therefore believe that convergence should occur with a premature, artificial completion date. We do, however, believe that setting a realistic target date with specific milestones may provide the impetus to address and resolve the many issues that still exist to date that have investors concerned with whether the convergence process is robust, effective, and enforceable. However, we do not agree that a moratorium on the issuance of new accounting standards at this time is in the best interest of investors and shareowners.

Enforcement Infrastructure

ICGN believes that an enforcement infrastructure that is applicable and acceptable to investors is important to ensure consistent compliance with international standards. Further work is needed to ensure consistent enforcement at the international level.

Education and Training

ICGN agrees that significant training will need to take place to ensure U.S. investors, accountants, auditors, students and all users of financial reporting are fully trained and understand IFRS. We believe this is a major challenge and believe significant progress needs to be achieved in order to establish a sound foundation for successful adoption of IFRS in the U.S.

Since sufficient resources and incentives are key to training, it may be appropriate for the Commission to address how this would be accomplished. The costs could include: hiring additional competent people trained in IFRS, training existing people, making necessary modifications to companies' information technology systems to address the significant differences in accounting conventions, funding major changes in accounting education, and recruiting and training IFRS accounting professors and public company auditors. It is difficult to assess the overall costs, but even under a best case scenario the costs related to the transition from U.S. GAAP to IFRS would be sizeable. Will future accounting students and auditors learn only IFRS, and in effect force all U.S. companies to make expensive changes based on adoption of IFRS over U.S. GAAP within a short time frame?

Auditing

Auditors play a vital role in the integrity of financial reporting and it is this role that provides investors with confidence in the efficiency of capital markets. U.S. auditors would need to be as well versed in IFRS as they are currently in U.S. GAAP. It is important to ensure that an independence standard for auditors is defined and consistently applied. The independence of the auditor is critical to the gate keeping/investor protection role of auditors.

Auditors by the nature of their responsibilities should be able to facilitate global consistency in the application of IFRS. However, in practice, with various jurisdiction-based IFRS standards, unless reconciliation to one global set of standards is required, then global consistency will be difficult if not impossible to achieve.

Regulation

ICGN agrees that joint regulatory bodies, such as the International Organization of Securities Commissions (IOSCO) developing an information-sharing infrastructure among securities regulators through both multilateral and bilateral platforms will improve securities regulators' ability to identify and address inconsistent and inaccurate application of IFRS.

Transition and Timing

The Commission's concept release focuses on many issues that need to be studied, vetted and addressed before allowing U.S. issuers to adopt filing its financial statements using only IFRS. Imperative to this process is the need for shareowner and investor input as the Commission determines what would be necessary to reach an appropriate level of acceptance and understanding to allow U.S. issuers the choice to prepare its financial statements in accordance with IFRS as published by the IASB.

ICGN would encourage the SEC to consider these comments prior to the proposed transition.

We appreciate the opportunity to comment. If you would like to discuss any of these points, please do not hesitate to contact Anne Simpson our Executive Director at +44 207 612 7098 or execdirector@icgn.org. Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



Christianna Wood
Chair, ICGN Accounting
and Auditing Practices Committee

pp. Peter Montagnon
Chair, ICGN Board of Governors

cc: ICGN Board of Governors
ICGN Accounting & Auditing Practices Committee