

From: Natalia Bailey
Sent: Monday, March 10, 2014 3:44 PM
To: OFM Performance and Planning
Cc: David Schraa; Kevin Nixon; Andres Portilla
Subject: Strategic Plan, U.S. Securities and Exchange Commission, Fiscal Years 2014 – 2018,

To the Securities and Exchange Commission:

Attached is a comment letter being submitted by the Institute of International Finance on the SEC's draft Strategic Plan.

Should you have any comments or questions on this letter, please contact the undersigned

FINANCE

The Honorable Mary Jo White
Chair
U.S. Securities and Exchange Commission
100 F St. NE
Washington, DC
20549

Via e-mail: performanceplanning@sec.gov

Re: Strategic Plan, U.S. Securities and Exchange Commission, Fiscal Years 2014 – 2018, Draft for Comment

Dear Ms. White:

The Institute of International Finance (IIF) is grateful for the opportunity to comment on the Commission's draft *Strategic Plan* and hope our observations will contribute to a final plan that will ensure sound achievement of the Commission's goals.

Our general comment is that, despite the points of attention already paid to international matters in the current draft, the priority of and focus on the international dimension need to be enhanced and emphasized. As David Wright, Secretary General of the International Organization of Securities Commissioners (IOSCO), has emphasized, global markets can only become more international, more interconnected, and more multipolar over the next five to 15 years.¹ It would be well if the SEC did more to focus on its vision of those coming developments. The Commission's discussion under "Environmental

Perspective & Outlook” evokes some of these themes, albeit in very general terms and without elevating international-market issues to the status of clear priorities.

The Institute advocates a global level playing field, international regulatory consistency, and mutual recognition to avoid competitive distortions and regulatory arbitrage. The Institute published in June 2013 an extensive report on *Promoting Greater International Regulatory Consistency*, which is attached to, and should be considered part of, these comments.

¹ See David Wright, Secretary General of IOSCO, Remarks at The Atlantic Council (Dec. 10, 2012) (available at <http://www.iosco.org/library/speeches/pdf/20121210-Wright-David.pdf>). Note that, by citing Mr. Wright’s speech, we do not necessarily endorse all his ideas for present purposes; but it is important to be cognizant of the direction of development that he has, correctly in our view, identified.

The following comments refer to the specific sections of the draft Strategic Plan identified (terms used in the draft Strategic Plan are used as defined therein).

Overview Comments

Vision. While the SEC's fundamental mission is defined by the Securities Exchange Act of 1934, the Commission's vision should include furthering its fundamental mission of transparency and investor protection in a world vastly more internationalized and interconnected than the world of 1934. It is important to the appropriate fulfillment of the vision points already identified that they be complemented by a strong commitment to international cooperation and coordination in the definition and execution of policies to achieve that vision.

Values. Similarly, all of the values appropriately identified in the draft Strategic Plan would be strengthened and reinforced by a complementary statement of the value and importance of international cooperation and coordination.

Strategic Goals and Strategic Objectives. Most or all of the goals and objectives contribute to and would be reinforced by a statement of the contextual need to take into account international cooperation and coordination. We will not comment on the point separately for each of them, but it is nevertheless important (and would be covered to some extent by inclusion of the international dimension in the Commission's statement of its Vision and Values).

A "Strategic Goal" of international cooperation and coordination is conspicuous by its absence. The Commission would emphasize the forward-looking and dynamic nature of its Strategic Plan and foster the confidence of the international regulators it will need to work with in the coming years if it includes an international Strategic Goal in its final Strategic Plan. We note with appreciation the international reference in Strategic Objective 1.4, but consider that it is much too limited and in fact suggests a low priority to international concerns as currently phrased, which we are sure, is not the Commission's intent.

The Commission's "Cross-Border Proposal" for application of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act was an important step forward on substituted compliance and international interaction of regulations generally. Ms. White's testimony of February 6, 2014, before the Senate Committee on Banking, Housing and Urban Affairs appropriately underscored the importance of the "Cross-Border Proposal."²

The Institute commented at some length on the very positive advances in international effectiveness and efficiency possible through substituted compliance in a letter related to the Commission's proposed rules and interpretive guidance on cross-border security-based swap

activities under the “Cross-Border Proposal.” The discussion of the advantages and efficiency gains possible through substituted compliance of that letter are incorporated in these comments.³

As part of this enhancement of focus on international cooperation and coordination, the final version of the Strategic Plan should discuss with some emphasis the uses that the Commission can make in the next five years of “substituted compliance” (in a broad sense, not necessarily relying on the technical details of the Cross-Border Proposal, which is still to be finalized in light of public comment).

Similarly, it is important that avoidance of any unnecessary extraterritorial effects of regulations that may be developed over the next five years be a priority, given the complexities, confusion, inefficiencies and ill-feeling among international regulators and market participants alike that arise when there is a perception of extraterritorial overreach. Sufficient investment in international cooperation and coordination in the definition of policy and regulations should avoid problems of extraterritoriality.⁴

Continuing Risks. This section might add a point about the risks of regulatory fragmentation if international cooperation and coordination do not rise to the necessary level, as envisioned by the G20.

Comments on Specific Sections

Strategic Objective 1.1, bullet one: Improve the quality and usefulness of disclosure. Disclosure issues raise two points of great importance to the international market.

- First: disclosure requirements are proliferating in various areas of regulation; while many of these new requirements are appropriate and will contribute to better-functioning capital markets, if uncoordinated, they risk contributing to disclosure overload. The volume of new disclosure requirements, and the potential for inconsistencies between these different requirements, may lead to reduced transparency and clarity. In the financial-services industry, there are many such new requirements, including Basel III Pillar 3, which is being reconsidered by the Basel Committee this year and may be expanded; specific disclosure requirements for the Basel Liquidity Ratios and Leverage Ratio; special disclosures for determination of Globally Systemically Important designations; and many other specific disclosures. In addition, the Financial Stability Board (FSB) has inspired banks, investors, analysts, and rating agencies to come together in the Enhanced Disclosure Task Force (EDTF) to define an extensive set of

recommended voluntary disclosures, which are likely to be expanded as time goes on. In addition the International Accounting Standards Board (IASB) and FASB are revising their disclosure requirements. All this creates an obvious need for there to be more coordination among standard-setters, prudential regulators, and securities regulators to focus on making all this disclosure coherent and useful to the market.

- Second: there is a frequently mentioned but rarely acted-upon need to consider the full panoply of existing disclosures to determine whether there are requirements that have become outdated by market or technological developments and could be deleted or downsized, again in the interest of making disclosures more useful to stakeholders and less burdensome to preparers, reducing if possible disclosure overload that helps no one. This point is mentioned on page 27 but could be given more prominence.

Strategic Objective 1.1, bullet three: Analyze new trends. The objectives set out here would be furthered by a stated commitment to work with the international community, the FSB and the Office of Financial Research (OFR) to assure that data is made as consistent and broadly useful as possible, and that the burdens of multiple, overlapping, but inconsistent data demands on the industry are avoided as much as possible.

Strategic Objective 1.1, bullet 8: Promote high-quality accounting standards. This is critical. It is well that the SEC states that it will “work to promote higher quality financial reporting worldwide”, but the qualification that it will “consider, among other things, whether a single set of high-quality global accounting standards is achievable” is concerning and is already being interpreted in the press and internationally as a retreat from a broader commitment to international accounting standards.⁵

The IIF has for many years advocated international accounting convergence, and has participated in a “three-way dialogue” three times a year among the standard-setters, the prudential and other regulators, and the financial services industry, in which Commission staff have participated. The three-way dialogue is, intended to increase understanding of international accounting issues affecting the industry. In that regard, the Institute has welcomed the emphasis that the G20 and FSB have placed on international accounting convergence.⁶

At the end of 2012, the IIF Senior Accounting Group issued a position paper in response to the *Final Staff Report, Work Plan for the Consideration of International Financial Reporting Standards into Financial Reporting for U.S. Issuers (October, 2012)*. A copy of that position paper is attached hereto and constitutes an integral part of this response to the draft Strategic

⁵ See, e.g., Emily Chasan, *SEC's New Strategic Plan Backs Away From IFRS*, The Wall Street Journal, Feb. 4, 2014, <http://blogs.wsj.com/cfo/2014/02/04/secs-new-strategic-plan-backs-away-from-ifs/?cb=logged0.8439878723584116>.

⁶ See Summit Declaration, G20, G20 Leaders' Declaration: Saint Petersburg Summit (Sept. 5-6, 2013) at 18; and Press Release, FSB, Meeting of the Financial Stability Board in Moscow on 8 November (Nov. 8, 2013) (available at http://www.financialstabilityboard.org/press/pr_131108.pdf).

Plan. It suggests a set of principles for maintaining appropriate perspective on the broad need for internationally consistent accounting standards, emphasizing that all standard-setters should continue to have a directional goal of international convergence toward consistency of standards.

While it seems not to have been possible to achieve at this stage the goal of full convergence of international standards that the G20 set and many hoped for, it remains highly important that all concerned keep international consistency a goal insofar as possible. Thus, even if full convergence is not possible, convergence on accounting definitions, data definitions, and elements of standards would both avoid confusion and help users understand points of similarity and difference between standards. This is especially important in the financial-services industry, where comparisons of firms across global market are unavoidable but yet have been muddied or confused by accounting differences. The IIF Senior Accounting Group recently issued a letter to the concerned authorities to reiterate these points (attached).

The Commission has already shown visionary and very constructive leadership in the international sphere by recognizing the International Financial Reporting Standards (IFRS) for international issuers that file in the US, and should continue to look for opportunities to expand and enhance creative ways in which international standards and US Generally Accepted Accounting Principles (GAAP) can be brought closer together, or mutually recognized. All other significant jurisdiction use, or will soon use, IFRS, and the Commission's policy in this respect helps IFRS to become a truly global, single standard.

Finally, it is important to challenge the assertion of the current draft that it needs to be determined "whether a single set of high-quality global accounting standards is *achievable*" (emphasis added). In our view, that goal is highly achievable. IFRS and US GAAP have come substantially closer together in recent years. There is no obvious difference of quality of standards or independence or quality of governance between the IASB and the FASB. The shoals on which full convergence has foundered are highly technical points of relative detail, which may be overcome or got around in future development.

The SEC's statement in the final version of Strategic Objective 1.1 should be much more positive; much more forward looking; and much more focused on continuing to enhance international standardization and coordination as much as possible, even if full convergence is not practical as a short-term goal.

Strategic Objective 1.1, bullet 9: Foster high-quality audits through the oversight of the accounting profession. Reference should be made to the efforts toward international convergence and coordination already being made by the International Forum of International

Audit Regulators, the International Audit and Assurance Standards Board, and other international bodies on audit issues.

Strategic Objective 1.1, bullet 11: Monitor disclosures related to asset-backed securities.

A great deal of work is being done internationally in this field by the Basel Committee, IOSCO,

the European Commission and others: the SEC should work not only with the other federal regulators but with the international community to achieve effective yet efficient regulation of securitization.

Strategic Objective 1.4: the SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally. As noted above, international cooperation and coordination should get much more specific focus. With respect to engagement of stakeholders, the third paragraph under this Strategic Objective is important and appropriate. It might be well to note that occasions will arise when consultation will be important with international as well as domestic stakeholders such as investors, industry representatives, technical experts, and other market participants (as in the following, domestic paragraph).

Strategic Objective 1.4, Initiatives, second bullet: It is of course essential that the SEC continue to work closely with its counterparts abroad. The SEC might add a reference to international accounting convergence in this context, as well as referring to promotion of high-quality, global securities regulation.

Strategic Objective 1.4: Performance Goals. These goals are important and appropriate in their focus on supervisory cooperation and training of non-US regulators; however, the lack of a “Performance Goal” of enhanced participation in international processes aimed at definition of consistent international policies and standards, whether through the FSB, IOSCO, or otherwise, appears to be a major gap.

Strategic Objective 3.1: disclosures. As noted above, more attention should be paid to the need to coordinate all the many new disclosure requirements being developed across prudential regulation, accounting, and practice, as well as securities regulation.

Strategic Objective 3.1, Initiatives, first bullet: Paying attention to the full panoply of developing disclosure requirements would help a great deal in achieving the very important goal identified here of modernizing disclosure requirements and eliminating redundant reporting requirements.

Strategic Objective 3.1, Initiatives, third bullet: Design and implementation of new disclosure regimes for specialized categories of issuers should in appropriate cases be coordinated internationally, especially for products such as securitizations and derivatives where markets are highly international.

Strategic Objective 3.1: Performance Goals. The performance goals should include reference to the goal identified above of modernizing disclosure and minimizing redundant reporting requirements.

Strategic Objective 3.2, The SEC works to understand investor needs and educate investors ..., *Initiatives, fourth bullet*: The “collaborative partnerships” enumerated should include the international dimension.

Strategic Objective 4.2, The SEC encourages a collaborative environment ... Initiatives, second bullet: The goal of making disclosure information more useful for analysts is highly important but, as noted above, any data developments should be carefully coordinated with the OFR, the prudential regulators (both domestically and internationally), the FSB (which has made substantial progress on its data gaps project), the EDTF and IOSCO. The great gains of efficiency and effectiveness of disclosure that technology may be able to develop can be much enhanced if they take into account international efforts to develop data definitions and standards. If the international dimension is ignored, the risk is that there will be duplication and waste of resources. Firms are spending huge amounts on responding to the data demands of the post-crisis regulatory environment. International coordination is essential to make sure that those investments are as well-spent and effective as possible.

Strategic Objective 4.3, The SEC maximizes the use of agency resources ...: These discussions should be expanded to recognize the substantial increases in effectiveness that can be achieved through substituted compliance and other forms of international cooperation, and the fact that international cooperation is an essential means of conserving resources for both the SEC and its international counterpart agencies. (The same point is relevant to the second bullet under Initiatives under 4.3.)

The IIF welcomes the opportunity to comment on the Commission’s draft *Strategic Plan*. Should you have any comments or questions on this letter, please contact the undersigned.

Very truly yours,

Attachments:

1. IIF, *Promoting Greater International Regulatory Consistency*, June 2012.
- 2 and 3. IIF Senior Accounting Group, *Position on International Consistency of Accounting Standards*, Feb. 26, 2014; and IIF Senior Accounting Group, *Position on the Goal of International Consistency of Accounting Standards*, Dec. 14, 2012.
4. Memorandum from the IIF to the Financial Stability Board, *Containing Extraterritoriality to Promote Financial Stability*, Oct. 2012.