

Testimony Concerning International Accounting Standards

Jack T. Ciesielski, President, R.G. Associates, Inc.

Before the Subcommittee on Securities, Insurance, and Investment
of the U.S. Senate Committee on Banking, Housing, and Urban Affairs

October 24, 2007

Chairman Reed, Ranking Member Allard and Members of the Subcommittee:

Thank you for the opportunity to testify today. My remarks are based on my experiences as a former buy-side analyst and current investor and accounting analyst who works closely with buy-side and sell-side institutions through a research service called The Analyst's Accounting Observer. I also represent investor views as a member of the Emerging Issues Task Force. I would like to address four main areas of concern regarding international accounting standards and their convergence with U.S. accounting standards.

1. Opportunities and challenges as the U.S. and international countries move towards convergence of IFRS with U.S. GAAP

As convergence of International Financial Reporting Standards (IFRS) with U.S. Generally Accepted Accounting Principles (GAAP) moves forward, the opportunities are apparent. As long as the converged reporting system is consistent and understandable to U.S. investors, there will more companies speaking the same language. That will open up more investment choices to U.S. investors - choices which may have been previously available only to investors with far greater resources and specialized knowledge of foreign country financial reporting.

At the same time, those opportunities won't present themselves without genuine convergence between the international accounting standards and U.S. GAAP standards. That's the most serious challenge at this time. Convergence between the two systems is worth striving for, but it's not clear that the two systems of reporting have been satisfactorily converged at this time .

In my opinion, the SEC's proposal to eliminate the reconciliation is premature. In its proposal, the Commission relies heavily on the fact that there is a process in place for converging the standards of the International Accounting Standards Board and the Financial Accounting Standards Board. It's true that the two standard setters have agreed to work on convergence of their standards since the Norwalk Agreement was reached

in 2002. In fact, the two standard setters have worked jointly on all major projects since that time. The presence of a mechanism to achieve convergence is not the same thing as actually achieving convergence, however. Eliminating the reconciliation before genuine convergence is achieved simply because there's a process in place to reach the goal is like choosing to smoke a pack of cigarettes a day because there's a process in place to find a cure for lung cancer. You might be right, but the timing might not save your life. It's not a choice a rational person would make.

Deciding on whether or not convergence is satisfactory at present is an exercise that can be done far more objectively than the Commission has done in its proposal. Instead of relying on a prospective process, quantitative information is available for assessing the similarity of the results under the two systems. The differences between existing IFRS and U.S. GAAP standards can be isolated from the reconciliations found in U.S. filings, and the degree of materiality caused by those differences can be assessed by applying the SEC's own criteria for materiality as expressed in Staff Accounting Bulletin No. 99. After reviewing the state of the information produced by the two systems, a decision can be made as to whether or not the differences between the two systems would affect the investment decisions of reasonable investors. If the differences are of such a magnitude that they would affect investors' decisions, then dropping the reconciliation requirement should be postponed until the Commission is satisfied that convergence on the standards causing the differences has been reached.

If the Commission has done this kind of objective, quantitative assessment, it has not mentioned it in its proposal.

2. Potential issues with the proposal to accept, in the filings of foreign private issuers, financial statements prepared using IFRS without reconciliation to U.S. GAAP

The most far-reaching issue is obvious: if the two systems of financial reporting are not sufficiently alike, investors may not be confident that there are genuine similarities in the financial results of foreign private issuers and domestic registrants. Without the reconciliation to highlight differences, investors will not be able to easily -

if at all - quantify or reasonably estimate such differences. There could be a loss of confidence in the reporting of foreign private issuers, which might be reflected as a discount in the prices of their securities.

There are other issues. It is not clear that there is consistent auditing and enforcement of IFRS at this stage. The SEC's own study of the application of IFRS in their first year of application showed inconsistent application of the standards.¹ While there is effective oversight of the U.S. auditing profession and its involvement with the financial reporting under U.S. GAAP through the Public Company Accounting Oversight Board, there is nothing quite comparable regarding the application of IFRS.

Another issue raised by the elimination of the reconciliation: the future of convergence efforts. As long as the reconciliation is present in filings, it presents a real-world scorecard on how well convergence efforts are progressing. Eliminate the reconciliation, and there's less accountability on the part of the IASB and the FASB for their efforts to develop a single set of high quality accounting standards. In fact, if the reconciliation is eliminated, one might question why the International Accounting Standards Board would have to care about convergence: the elimination puts their standards on the same level as those of the FASB, in the eyes of the Commission. If the reconciliation goes away entirely, so might the cooperative spirit that has marked convergence efforts to date.

If the IASB standards are going to be given the same level of authority by the SEC as FASB standards, one would hope that they are developed with the same level of objectivity and independence. While I respect the work of the IASB, their funding mechanism is not as independent as the FASB's. The FASB has been funded by public fees since 2003 under the Sarbanes-Oxley Act. It is free of the potential influences that might occur in seeking contributions from constituents to fund its operations. The IASB's operations are funded by donor contributions; its trustees are currently searching for a funding program for 2008.² At this time, the new funding program has not been announced.

¹See SEC Staff Observations in the Review of IFRS Financial Statements 2 (July 2, 2007), available at http://www.sec.gov/divisions/corpfin/ifrs_staffobservations.htm (indicating inconsistent application of International Financial Reporting Standards in a number of areas including statement of cash flows, common control mergers, recapitalizations, reorganizations, acquisitions, and minority interests).

² International Accounting Standards Board, Future Funding, available at <http://www.iasb.org/About+Us/About+the+Foundation/Future+Funding.htm>.

3. The impact of these proposed efforts on stakeholders, including regulators, investors, auditors, and companies

If the reconciliation is eliminated, there will certainly be more choices for U.S. investors: this is a move that should spur more listings from overseas on U.S. exchanges. Furthermore, it might tempt even more firms to adopt IFRS in their reporting, so they might be able to more freely trade their securities in our markets. At the same time, if investors are not comfortable with the equivalence of the IFRS reporting to U.S. reporting, they may have to incur costs to satisfy themselves. While investor choices may increase, they may have to work much harder to compensate for gaps in IFRS that currently exist. For instance, as the Commission acknowledges in the proposal, there are no standards in IFRS for the extractive industries or for insurance accounting.

To the degree that convergence is not yet reached, investors will have to invest in directly building their knowledge of IFRS. That won't be easy for them: IFRS is scarcely taught in the American education system, and investors likely learn about IFRS through on-the-job experience. Ironically, that on-the-job experience might very well include the reconciliation that the SEC seeks to eliminate.

The SEC might have problems of its own if it eliminates the reconciliation. The Commission's staff is still more versed in U.S. GAAP than in IFRS, and is still gaining familiarity³ with the proper application of IFRS through its review of filings. Eliminating reconciliation could trigger a wave of IFRS-reported filings. The Commission's mission of investor protection could be jeopardized if it's forced to deal with more IFRS filings than it can handle while still trying to gain IFRS application skills. Accounting talent has been extremely scarce in recent years and there is no apparent surplus of accountants in the U.S. with IFRS expertise. It is unlikely that the Commission could quickly obtain the staff it would need to handle a major rise in IFRS-reporting volumes.

As for auditors, the Big Four might be able to adapt better than the SEC in the event that elimination of the reconciliation increases the amount of IFRS-based filings from other countries. If there are companies overseas that

³ Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP, Securities Act Release No. 33-8818, page 29.

now reporting on an IFRS basis but not filing in the U.S. because they wish to avoid the reconciliation, and they decide now to register securities here, there's no difference in their workload or the workload of their auditors. If there are companies overseas now deciding to move to IFRS for the first time so they can register securities here, they may need to involve their auditors more. If auditing firms need to acquire more talent to cope with a rush of work, it will likely take place overseas, and not directly affect the pool of IFRS accounting talent in the United States. If the large auditing firms find themselves dueling with the SEC for IFRS talent in any market, they will usually be able to best the Commission on compensation.

Concerns have been raised about the concentration of power among the Big Four auditing firms in the past few years. If the reconciliation is eliminated, any increase in IFRS-related activity will only strengthen the competitive position of those firms.

Domestic companies may find themselves competing with firms that don't have the same depth of financial reporting or level of disclosure - not because IFRS reporting is inherently inferior, but simply because they're still being newly applied by many companies and there isn't the same kind of regulatory enforcement of IFRS as compared to the United States application of GAAP. That may cause firms to consider moving offshore to take advantage of perceived benefits of IFRS application, unless the SEC grants them the opportunity to choose between U.S. accounting standards or IFRS in their filings with the Commission.

4. Differences that exist in the financial reporting results produced by U.S. GAAP compared to IFRS

As the Commission notes in its proposal, there are still two major differences in the International Financial Reporting Standards and U.S. GAAP standards: there are no comprehensive IFRS standards for insurance contracts and for activities in the extractive industries. So there are at least two gaps in common results that will occur.

Many other material differences remain between the two sets of standards which are exposed by the reconciliation. Our research team has examined the IFRS to GAAP reconciliations contained in the 2006 filings of 130 foreign registrants. Some of our findings:

- Out of the 130 companies, only 2 had earnings that were the same under both reporting regimes.

- For 84 of the firms, the IFRS earnings were higher than the GAAP earnings; and for 44 of the firms, the GAAP earnings were higher than the IFRS earnings.

- For the firms with IFRS earnings greater GAAP earnings, the median earnings increase was 12.9%; for firms with GAAP earnings greater than IFRS earnings, the difference was 9.1%.

Those measures make for a wide band for converged earnings - a rather “material” band, by the criteria the Commission considers such matters in Staff Accounting Bulletin No. 99: “The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.”⁴

It seems likely that the judgment of a reasonable person could be affected by a 22% range of meaning for the word “earnings.”

The reconciliation exposes what could be called “legacy differences” between the standards. These reconciling items arise from transactions that firms completed long before convergence was achieved on a particular set of accounting standards. The effects of these differences in accounting standards would linger after the reconciliation’s elimination and investors would not be able to discern the continuing effects. For example, the recording of business combinations affects a firm’s balance sheet and earnings long after the consummation of a deal. There are numerous instances of firms that accounted for such combinations under IFRS as a “uniting of interests,” which would not have met the criteria for a similar treatment (pooling) under U.S. GAAP. These firms have had to account for their combinations as acquisitions in the reconciliation, the way they would have had to report them if they were reporting in United States GAAP at the time of the acquisition. Though it’s no longer a difference in the two sets of standards, the effects of those *past* differences lingers in *current* reporting. Eliminate the reconciliation, and investors will not be able to discern how the different accounting standards governing transactions in the past continue to affect present performance reporting.

⁴See Staff Accounting Bulletin No. 99 - Materiality, at <http://www.sec.gov/interp/account/sab99.htm>

These do not appear to be isolated instances. Of the 130 reconciliations examined, “legacy differences” relating to goodwill and business combination accounting appeared in 48 of them - about 37%. Investors will not be served well if the performance of some companies appears to be enhanced or harmed by the continuing effects of differences in accounting principles existing before convergence efforts began in earnest only five years ago.

If the Commission intends to eliminate the reconciliation, I suggest that the Commission review the areas where such legacy differences exist and require continued disclosures of their effects. This would not be the same as having a current reconciliation; rather, it would be a disclosure of the effects of past accounting decisions and policies on current results. It would help investors understand why the financial performance of IFRS-reporting companies may still be very different from that of firms reporting under U.S. GAAP, even though convergence has been assumed to exist.

For the 130 firms’ reconciliations examined by us, the table on the following page presents the differences between IFRS earnings and U.S. GAAP earnings as shown in the reconciliations, sorted from greatest positive difference (IFRS greater than U.S. GAAP) to the greatest negative difference (IFRS less than U.S. GAAP).

From The 2006 Reconciliations: Earnings Differences For 130 Filers

(All figures in millions of native currencies)	IFRS	GAAP	% Diff.		IFRS	GAAP	% Diff.
OCE NV	72.9	7.9	826.4%	Corporate Express	123.0	117.0	5.1%
Head NV	4.4	0.6	666.5%	Smith & Nephew	745.0	709.0	5.1%
Cityview Corporation Limited	(5.3)	(0.8)	570.5%	Westpac Banking Corp.	3,071.0	2,936.0	4.6%
Bayer AG	1,695.0	269.0	530.1%	British Sky Broadcasting Group	499.0	479.0	4.2%
Rhodia	66.0	15.0	340.0%	BASF AG	3,215.2	3,094.3	3.9%
Global Crossing	13.5	5.8	131.7%	National Australia Bank Ltd	4,392.0	4,232.0	3.8%
Fiat SPA	1,519.0	719.0	111.3%	Telefonica SA	6579	6341	3.8%
Abbey National PLC	313.0	173.0	80.9%	Veolia Environment	758.7	732.1	3.6%
Telecom Italia	3,003.0	1,862.0	61.3%	Invesco /London	490.1	474.5	3.3%
Reed Elsevier PLC	625.0	399.0	56.6%	Total SA	11,768.0	11,400.0	3.2%
Lloyds TSB Group	2,803.0	1,815.0	54.4%	Petrochina Co.	19,143.0	18,719.0	2.3%
Lihir Gold	53.8	36.3	48.4%	Novo Nordisk	6,452.0	6,310.0	2.3%
Credicorp	247.3	175.0	41.3%	Groupe Danone	1,353.0	1,326.0	2.0%
WPP Group	482.6	347.0	39.1%	TNT NV	670.0	657.0	2.0%
Astrazeneca	6,043.0	4,392.0	37.6%	Koninklijke KPN	1,583.0	1,569.0	0.9%
Aegon NV	2,789.0	2,046.0	36.3%	Australia and NZ Banking	3,688.0	3,657.0	0.8%
Suez	3,606.3	2,683.0	34.4%	Nokia	4,306.0	4,275.0	0.7%
Novartis	7,019.0	5,264.0	33.3%	Ericsson LM Telephone	26,251.0	26,080.0	0.7%
Sodexo Alliance SA	333.0	250.0	33.2%	Swisscom	1,599.0	1,589.0	0.6%
Pearson PLC	446.0	341.0	30.8%	Pfeiffer Vacuum Technology	29.6	29.4	0.6%
Coles Group	1,163.6	892.3	30.4%	Publicis Group	443.0	441.0	0.5%
Endesa	3,798.0	2,916.0	30.2%	Guangshen Railway Co	98.9	98.5	0.4%
Portugal Telecom	954.1	734.7	29.9%	National Telephone - VZ	1,130,375.0	1,129,351.0	0.1%
Metal Storm	(14.2)	(11.1)	28.3%	Randgold Resources	47.6	47.6	0.0%
CGG Veritas	157.1	123.9	26.8%	Atlas South Sea Pearl	3.2	3.2	0.0%
Syngenta	634.0	504.0	25.8%	Banco Bilbao Vizcaya Argentaria	4,971.0	4,971.7	-0.0%
Benetton Group	124.9	99.8	25.2%	Governor & Company - Ireland	1,651.0	1,655.0	-0.2%
Prudential	874.0	705.0	24.0%	Reuters Group PLC	305.0	306.0	-0.3%
Glaxo Smith Kline	5,498.0	4,465.0	23.1%	Tenaris	1,945.3	1,957.3	-0.6%
China Telecom Corporation	27,142.0	22,046.0	23.1%	Sinopec Shanghai Petrochemical	844.4	850.0	-0.7%
Vodafone Group	(10,427.0)	(8,514.0)	22.5%	Sanofi-Aventis	4,006.0	4,034.0	-0.7%
LaFarge	1,589.0	1,299.0	22.3%	Yanzhou Coal Mining	2,373.0	2,405.8	-1.4%
National Grid PLC	1,394.0	1,146.0	21.6%	AS Steamship	234.5	238.1	-1.5%
Rio Tinto PLC	7,867.0	6,649.0	18.3%	Deutsche Telekom	3,165.0	3,219.0	-1.7%
Electrolux AB	3,847.0	3,264.0	17.9%	China Petroleum & Chemical	53,912.0	54,862.0	-1.7%
Aktiebolaget Electrolux	3,847.0	3,264.0	17.9%	HSBC Holdings PLC	15,789.0	16,358.0	-3.5%
ING Group	8,033.0	6,827.0	17.7%	Euro Disney SCA	(88.6)	(92.9)	-4.6%
AXA	5,085.0	4,330.0	17.4%	Ternium	795.4	841.0	-5.4%
CRH plc	1,224.2	1,060.7	15.4%	China Eastern Airlines	(3,452.8)	(3,661.0)	-5.7%
Akzo Nobel	1,153.0	1,000.0	15.3%	Royal Ahold	915.0	973.0	-6.0%
Unilever	5,015.0	4,385.0	14.4%	Delhaize Group	351.9	374.9	-6.1%
Aktiebolaget Volvo	16,318.0	14,309.0	14.0%	Grupo TMM SAB	69.9	75.6	-7.5%
Royal Bank of Scotland	6,202.0	5,440.0	14.0%	Eni SPA	9,217.0	10,005.0	-7.9%
Aixtron AG	5.9	5.2	13.1%	Stora Enso	585.0	637.5	-8.2%
Cadbury Schweppes	1,165.0	1,034.0	12.7%	Alumina	511.1	559.8	-8.7%
Repsol	3,348.0	2,972.0	12.7%	Telekom Austria AG	561.8	620.8	-9.5%
Mittal Steel Company	6,086.0	5,405.0	12.6%	France Telecom	6,292.0	6,970.0	-9.7%
Banco Santander	8,245.8	7,414.6	11.2%	Inmarsat Group	128.0	142.0	-9.9%
Hanson PLC	401.5	363.4	10.5%	Technip	200.1	224.2	-10.7%
Allied Irish Banks	2,185.0	1,986.0	10.0%	BG Group	1,824.0	2,102.0	-13.2%
Imperial Tobacco	851.0	778.0	9.4%	Intercontinental Hotels Group	405.0	486.0	-16.7%
Air France	891.0	817.0	9.1%	Arcadis	44.9	54.1	-16.9%
Allianz	7,021.0	6,517.0	7.7%	Turkcell Iletisim	832.9	1,015.6	-18.0%
Huaneng Power	6,889.1	6,394.7	7.7%	Enel SPA	4,007.0	4,907.0	-18.3%
Metso	409.0	380.0	7.6%	UPM Kymmene Corp	338.0	424.0	-20.3%
National Westminster Bank	2,586.0	2,423.0	6.7%	Millicom Intl.	168.9	230.7	-26.8%
UBS AG	12,257.0	11,486.0	6.7%	SGL Carbon Aktienges	53.6	77.2	-30.6%
Royal Dutch Shell	26,311.0	24,797.0	6.1%	Cruceel NV	(87.6)	(138.4)	-36.7%
Barclays Bank	4,571.0	4,318.0	5.9%	China Southern Airlines	126.0	216.0	-41.7%
ABN Amro	4,715.0	4,461.0	5.7%	Alcatel Lucent	(176.0)	(590.0)	-70.2%
BP	22,315.0	21,116.0	5.7%	Protherics PLC	(3.4)	(20.3)	-83.5%
Magyar Telekom	75,453.0	71,481.0	5.6%	Sappi Ltd	(4.0)	(116.0)	-96.6%
Telkom	1,214.0	1,151.0	5.5%	Thomson	55.0	(199.0)	-127.6%
Wolseley PLC	537.0	510.0	5.3%	Trinity Biotech	3.3	(1.9)	-268.3%
Signet Group PLC	141.5	134.4	5.3%	Calcitech	(0.6)	0.3	-336.6%

In the study of the 130 companies, there were 20 firms whose IFRS reporting could be termed “IFRS as published by the IASB” - the same basis as the SEC is requiring companies to use in order to waive the reconciliation. These 20 firms are presented in the table below and on the next page, sorted by the number of times a particular adjustment appeared in the twenty reconciliations. There is a wide range of difference between the earnings on an IFRS basis and a U.S. GAAP basis - between 33% and -337%.

“Pure IFRS” Filers: Earnings Reconciliation To GAAP (Part 1)

(All figures in millions of native currencies)	Count	Novartis	UBS AG	Syngenta	Sappi	Telkom	Swiss-com	Huaneng Power	China Southern Airlines	China Petr. & Chem.	China Eastern Airlines
Net tax effect of GAAP adjustments	12	--	(146.0)	46.0	(19.0)	(14.0)	--	(96.4)	(18.0)	(421.0)	(23.9)
Deferred taxes methodology	10	125.0	--	27.0	(12.0)	(47.0)	--	--	(10.0)	--	--
Other	9	(68.0)	130.0	9.0	(25.0)	(12.0)	--	(26.2)	--	--	27.0
PP&E/Long-term assets	8	58.0	--	--	4.0	--	--	--	--	1,420.0	210.4
Pensions/OPEBs	8	(198.0)	165.0	(48.0)	(44.0)	7.0	(16.0)	--	--	--	--
Minority Interests on adjustments	7	(27.0)	--	--	--	(28.0)	--	--	--	(93.0)	--
Capitalization of interest	6	--	--	--	--	--	20.0	8.8	(35.0)	(40.0)	--
Purchase price accounting	5	(58.0)	(31.0)	(56.0)	--	--	--	315.3	74.0	--	--
Asset impairment	5	--	--	2.0	(43.0)	1.0	--	(30.1)	--	38.0	--
Goodwill and business combinations	4	64.0	3.0	--	18.0	--	--	152.1	--	--	--
IFRS Minority Interests	4	--	--	--	--	--	--	(817.9)	--	--	139.3
Securities and investments	4	(114.0)	(107.0)	--	--	--	--	--	--	--	--
Inventory	4	103.0	--	(13.0)	(1.0)	(1.0)	--	--	--	--	--
Derivatives	4	--	372.0	--	7.0	14.0	--	--	--	--	--
Leases	4	--	--	--	1.0	--	32.0	--	93.0	--	(126.5)
Compensation costs: share based	3	(5.0)	(475.0)	--	(2.0)	--	--	--	--	--	--
Derivatives on own shares	3	--	6.0	(60.0)	--	17.0	--	--	--	--	--
Equity method investments	3	--	--	--	--	--	--	--	(14.0)	--	--
Foreign exchange gains/losses	2	--	--	--	--	--	--	--	--	46.0	--
Restructuring provisions	2	--	--	(9.0)	4.0	--	--	--	--	--	--
Revenue recognition	2	--	--	(1.0)	--	--	18.0	--	--	--	--
Fair value of securities	1	--	(682.0)	--	--	--	--	--	--	--	--
Translation of financial statements	1	--	--	--	--	--	--	--	--	--	--
Start-up costs	1	--	--	--	--	--	(40.0)	--	--	--	--
Real estate investments	1	--	(4.0)	--	--	--	--	--	--	--	--
Consolidation/deconsolidation of VIEs	1	--	(2.0)	--	--	--	--	--	--	--	--
Other intangible assets	1	(441.0)	--	--	--	--	--	--	--	--	--
GAAP Disc. Ops	1	114.0	--	--	--	--	--	--	--	--	--
Debt restructuring	1	--	--	--	--	--	--	--	--	--	--
Assets held for disposal	1	--	--	--	--	--	--	--	--	--	(434.6)
Onerous contracts	1	--	--	--	--	--	(5.0)	--	--	--	--
Environmental provisions	1	--	--	(27.0)	--	--	--	--	--	--	--
Mining rights	1	--	--	--	--	--	--	--	--	--	--
In-process R&D	1	(1,308.0)	--	--	--	--	--	--	--	--	--
Asset retirement obligations	1	--	--	--	--	--	(2.0)	--	--	--	--
Share buyback:- treasury shares	1	--	--	--	--	--	(17.0)	--	--	--	--
Convertible debt	1	--	--	--	--	--	--	--	--	--	--
Total reconciling items		(1,755.0)	(771.0)	(130.0)	(112.0)	(63.0)	(10.0)	(494.4)	90.0	950.0	(208.2)
IFRS Earnings		<u>7,019.0</u>	<u>12,257.0</u>	<u>634.0</u>	<u>(4.0)</u>	<u>1,214.0</u>	<u>1,599.0</u>	<u>6,889.1</u>	<u>126.0</u>	<u>53,912.0</u>	<u>(3,452.8)</u>
US GAAP Earnings		<u>5,264.0</u>	<u>11,486.0</u>	<u>504.0</u>	<u>(116.0)</u>	<u>1,151.0</u>	<u>1,589.0</u>	<u>6,394.7</u>	<u>216.0</u>	<u>54,862.0</u>	<u>(3,661.0)</u>
Difference in earnings		<u>33%</u>	<u>7%</u>	<u>26%</u>	<u>-97%</u>	<u>5%</u>	<u>1%</u>	<u>8%</u>	<u>-42%</u>	<u>-2%</u>	<u>-6%</u>
	Avg.										
Positive adjustments	2.5	5	5	4	5	4	3	3	2	3	3
Negative adjustments	3.8	8	7	7	6	5	5	4	4	3	3
Total adjustments	6.2	13	12	11	11	9	8	7	6	6	6

“Pure IFRS” Filers: Earnings Reconciliation To GAAP (Part 2)

<i>(All figures in millions of native currencies)</i>	Turkcell Iletisim	Grupo TMM	Petro-china	Nat'l Telephone Venezuela	Yanzhou Coal Mining	Sinopec Shanghai Petrochem.	Credicorp	China Telecom Corp.	Calcitech	Guangshen Railway
Net tax effect of GAAP adjustments.	--	--	(174.0)	--	--	(1.0)	(5.1)	1,737.0	--	--
Other	--	--	--	--	(97.8)	--	--	--	--	(0.4)
Deferred taxes methodology	(93.9)	(0.4)	--	(994.0)	(64.3)	--	--	(17.0)	--	--
PP&E/Long-term assets	--	--	528.0	--	187.9	15.9	--	(6,816.0)	--	--
Pensions/OPEBs	--	(3.6)	--	9,588.0	--	--	--	--	--	--
Minority Interests on adjustments	--	(0.0)	(1,128.0)	(2,955.0)	--	--	(12.0)	--	--	--
Capitalization of interest	--	--	--	(6,663.0)	--	(9.3)	--	--	--	--
Purchase price accounting	--	--	--	--	--	--	--	--	--	--
Asset impairment	--	--	--	--	--	--	--	--	--	--
Goodwill and business combinations	--	--	--	--	--	--	--	--	--	--
IFRS Minority Interests	42.6	--	--	--	--	--	--	--	--	(0.0)
Securities and investments	(4.6)	--	--	--	--	--	(55.2)	--	--	--
Inventory	--	--	--	--	--	--	--	--	--	--
Derivatives	--	--	--	--	--	--	--	--	0.9	--
Leases	--	--	--	--	--	--	--	--	--	--
Compensation costs: share based	--	--	--	--	--	--	--	--	--	--
Derivatives on own shares	--	--	--	--	--	--	--	--	--	--
Equity method investments	(1.6)	--	350.0	--	--	--	--	--	--	--
Foreign exchange gains/losses	--	1.2	--	--	--	--	--	--	--	--
Restructuring provisions	--	--	--	--	--	--	--	--	--	--
Revenue recognition	--	--	--	--	--	--	--	--	--	--
Fair value of securities	--	--	--	--	--	--	--	--	--	--
Translation of financial statements	240.2	--	--	--	--	--	--	--	--	--
Start-up costs	--	--	--	--	--	--	--	--	--	--
Real estate investments	--	--	--	--	--	--	--	--	--	--
Consolidation/deconsolidation of VIEs	--	--	--	--	--	--	--	--	--	--
Other intangible assets	--	--	--	--	--	--	--	--	--	--
GAAP Disc. Ops	--	--	--	--	--	--	--	--	--	--
Debt restructuring	--	8.4	--	--	--	--	--	--	--	--
Assets held for disposal	--	--	--	--	--	--	--	--	--	--
Onerous contracts	--	--	--	--	--	--	--	--	--	--
Environmental provisions	--	--	--	--	--	--	--	--	--	--
Mining rights	--	--	--	--	7.0	--	--	--	--	--
In-process R&D	--	--	--	--	--	--	--	--	--	--
Asset retirement obligations	--	--	--	--	--	--	--	--	--	--
Share buyback: treasury shares	--	--	--	--	--	--	--	--	--	--
Convertible debt	--	--	--	--	--	--	--	--	(0.1)	--
Total reconciling items	182.7	5.6	(424.0)	(1,024.0)	32.8	5.6	(72.2)	(5,096.0)	0.9	(0.4)
IFRS Earnings	<u>832.9</u>	<u>69.9</u>	<u>19,143.0</u>	<u>1,130,375.0</u>	<u>2,373.0</u>	<u>844.4</u>	<u>247.3</u>	<u>27,142.0</u>	<u>(0.6)</u>	<u>98.9</u>
US GAAP Earnings	<u>1,015.6</u>	<u>75.6</u>	<u>18,719.0</u>	<u>1,129,351.0</u>	<u>2,405.8</u>	<u>850.0</u>	<u>175.0</u>	<u>22,046.0</u>	<u>0.3</u>	<u>98.5</u>
Difference in earnings	<u>-18%</u>	<u>-7%</u>	<u>2%</u>	<u>0%</u>	<u>-1%</u>	<u>-1%</u>	<u>41%</u>	<u>23%</u>	<u>-337%</u>	<u>0%</u>
Positive adjustments	2	2	2	1	2	1	0	1	1	0
Negative adjustments	3	3	2	3	2	2	3	2	1	2
Total adjustments	5	5	4	4	4	3	3	3	2	2

Conclusion

The Commission has long championed clarity in financial reporting by international firms and foreign registrants and it is to be commended for its efforts to stimulate convergence of accounting standards by eliminating the reconciliation requirement for firms reporting using IASB standards. The idea is sound, but premature: instead of eliminating the reconciliation, the Commission should use the information in them to isolate the differences produced by the two standard setters and to develop a sound timetable with the IASB and the FASB for achieving truly converged standards. Any premature elimination of the reconciliation will force investors to pay a price in terms of greater effort to understand the differences between companies in their basis of reporting.

In addition to using the reconciliation information to develop a reasoned path to convergence, the Commission should also consider the necessary disclosure regime for the “evergreen” legacy differences that will never be fully converged. This is information that investors would find useful, but would never be able to estimate or compile for themselves in any effective fashion.

Thank you for the opportunity to appear today. I would be happy to take your questions.