STATEMENT OF SIR DAVID TWEEDIE
CHAIRMAN, INTERNATIONAL ACCOUNTING STANDARDS BOARD,
BEFORE THE
SUBCOMMITTEE ON SECURITIES, INSURANCE AND INVESTMENT
OF THE
UNITED STATES SENATE

Washington, DC, USA—24 October 2007

Mr Chairman and Members of the Subcommittee

I welcome this opportunity to appear before the Subcommittee to discuss the progress of the International Accounting Standards Board (IASB) and the relevance of International Financial Reporting Standards (IFRSs) to the United States and international capital markets more generally. The hearing is particularly timely. The IASB and the Financial Accounting Standards Board (FASB) just concluded their second joint meeting of the year yesterday, when we had the opportunity to review the progress of our convergence efforts. We at the IASB are also closely following the SEC's deliberations on its Proposed Rule and Concept Release regarding the use of IFRSs in the United States.

I am delighted that Conrad Hewitt, John White, and Bob Herz are here with me today, because the SEC and the FASB have been important partners in the effort to develop a single set of high quality international standards. Indeed, the SEC and the FASB were deeply involved in the establishment of the restructured IASB, and the structure, governance and independence of the IASB are largely modelled on the FASB's.

While it is my first time before this particular subcommittee, I have appeared three times previously before the Senate Banking Committee. The IASB greatly appreciates the continued support that the Senate Banking Committee has offered to the cause of convergence of accounting standards and the development of IFRSs. It was in the aftermath of Enron in

February 2002 when the Chairman of the Trustees at that time, Paul Volcker, and I first met the Committee. In the development of the Sarbanes-Oxley Act, the Committee acknowledged the potential benefits of international convergence and principle-based accounting standards. I am pleased to report that much progress has been made in those areas since that first meeting with the Committee.

A long way in a short time

At the time of my first appearance before the Banking Committee in 2002, the IASB had been in existence for less than a year. At our outset, we were established as a private sector, independent accounting standard-setter, based in London and comprising 14 members with a straightforward objective—to develop a set of high quality accounting standards that could be used in the world's capital markets.

Before the IASC Foundation was reconstituted in 2000 from a part-time body to the structure existing today, only a handful of countries throughout the world were using international standards. We have come a long way in a short time.

A lot of attention has been given to the European Union's adoption of IFRSs, and rightly so. The European Union's decision to adopt an internationally recognised set of standards, rather than create a uniquely European accounting system, provided the necessary encouragement for other countries to adopt a similar approach. The rationale behind the EU's decision was simple. Europe wanted to create a common capital market, and there were more than 25 different methods of accounting in today's EU Member States. In a world where business depends on capital from private and institutional investors, the lack of a common, well-respected financial reporting language in Europe was an impediment to economic growth and the development of capital markets to rival other areas of the world.

The movement towards IFRSs is truly global and extends well beyond Europe's borders. More than 100 countries throughout the world—108 according to the latest Deloitte IASPlus survey—require or permit the use of IFRSs. From our discussions with regulators and standard-setters, we expect this number to rise substantially within a relatively short time. As I said, the EU's adoption served as a catalyst. Australia, Hong Kong, New Zealand, and South Africa all joined Europe as early adopters. The major emerging and transition economies of the world—Brazil, China, India, and Russia—are adopting or considering the adoption of IFRSs, not US GAAP, in an effort to become integrated in the world's capital markets and attract the investment necessary to finance their development. Similarly, Canada, Chile, Israel and Korea, economies with significant ties with the United States, have all recently announced their planned abandonment of national standards for IFRSs. Recently, I was in Japan where the Accounting Standards Board of Japan announced its convergence programme with a target date of 2011.

There is clear momentum towards accepting IFRSs as a common financial reporting language throughout the world. But our success is incomplete, and there are a number of countries that are still notably absent from the list of IFRS-applicants, including the United States.

The United States and IFRSs

Wherever I go, I am always asked whether the United States will accept IFRSs. It is understandable that the United States is not among the first wave of IFRS adopters. The United

States has a well-established and respected standard-setting body in the FASB. US GAAP has served US capital markets well and is a system of accounting that provides a high degree of transparency, has been tested over a long period of time, and has had a high degree of acceptance internationally.

However, the world is changing. New centres of international capital formation are emerging, and companies and investors have a broader range of options. The realities of globalisation, the integration of the world's capital markets, and the emergence of IFRSs as a viable and high quality set of international standards are changing the policy equation. A number of studies, including the report commissioned by Senator Schumer and Mayor Bloomberg, have documented these trends.

As members of the Subcommittee know, the US requirement for non-US companies to reconcile to US GAAP has caused resentment among non-US companies forced to go through the reconciliation exercise. The hope of many foreign registrants is that their use of IFRSs will serve as a passport to markets throughout the world, including the United States. At the same time, US companies operating in multiple jurisdictions are now facing the costs associated with complying with both US GAAP and IFRSs in jurisdictions that have local filing requirements.

It is here that I must confess a bias on the topic of IFRS use in the United States. As I mentioned earlier, the objective of the IASB is to have a single set of high quality, principle-based standards used worldwide. Clearly, a system will not be truly global if the United States does not participate. It is for this reason the IASB has placed such high priority on convergence with US GAAP.

Nevertheless, I do not want to pass judgement on the value of the reconciliation or the likelihood of the United States accepting IFRSs as an alternative to US GAAP. I will leave that to the SEC. I will, however, attempt to provide some insights on how I view the convergence process and its potential benefits to the United States and to answer any questions that you may have regarding the IASB's operations.

The benefits for US companies are very similar to those already achieved in Europe. US multinational companies are now complying with different accounting standards in the jurisdictions in which they operate. As the use of IFRSs spreads, the accounts of those foreign subsidiaries are more often based on IFRSs. Permitting the use of IFRSs in the United States would reduce the compliance costs associated with consolidating the accounts of foreign subsidiaries and the potential for error associated with the conversion and consolidation exercise.

US investors are increasingly seeking investment opportunities overseas. A common financial language, applied consistently, will enable investors to compare more easily the financial results of companies operating in different jurisdictions and provide more opportunity for investment and diversification. The removal of a major investment risk—the concern that the nuances of different national accounting regimes have not been fully understood—should open new opportunities for diversification and improved investment returns. This point is particularly relevant at a time when companies, countries and individuals are increasingly dependent upon capital markets to provide a secure retirement for employees.

For auditors, a single set of accounting standards should enable international audit firms to standardise training and provide better assurance of the quality of their work on a global basis. An international approach for accounting should also permit international capital to flow more freely, enabling audit firms and their clients to develop consistent global practice to accounting problems and thus further enhance consistency. Finally, for regulators such as the SEC, the time and cost associated with needing to understand various reporting regimes would be reduced.

It is in this context that I believe that IFRSs and the process of international convergence offer an opportunity for the United States. The risk of any discussion of competition when it gets into regulatory issues is always the potential for a race to the bottom. However, the convergence process is aimed at avoiding such a situation, and early evidence suggests that countries that have adopted IFRSs from existing national standards have benefited.[1] Accounting standard-setting is a field of international co-operation in which the United States, through the FASB and the SEC, is encouraging a 'best of breed' approach to regulation and is improving the development of international capital markets.

Pursuing the joint work programme with the FASB

As I suggested, both the FASB and the SEC have been actively engaged in our work from the very beginning, and the FASB and the IASB have established joint work programmes. At the IASB, irrespective of any SEC decision on the future of the reconciliation requirement or the adoption of IFRS for some companies in the United States, we are committed to continuing working on our joint work programme with the FASB, which was most recently set out in our February 2006 Memorandum of Understanding (MOU).

[1] See Armstrong, Barth, Jagolinzer, and Riedel, "Market Reaction to IFRS Adoption in Europe," January 2007.

Our joint work represents an effort that began five years ago with the Norwalk Agreement. Our goal from the outset has been more ambitious than just eliminating differences in existing standards. Our aim is to improve quality of financial reporting worldwide by developing new solutions to accounting issues when standards have failed to provide sufficient transparency to make informed economic judgements. This strategy has yielded results, and both boards have made changes in their standards, bringing them closer into line.

I believe that our early progress following the Norwalk Agreement gave the SEC confidence in our processes that encouraged it to lay out the ‘roadmap’, which set out steps required to eliminate the need for companies using IFRSs to reconcile to US GAAP by no later than 2009 and is now in the form of a proposed rule.

From the standard-setting standpoint the SEC roadmap was significant. The IASB and the FASB would no longer need to concentrate on a possibly endless series of changes to get the reconciliation removed. In consultation with the SEC and the European Commission, the IASB and the FASB agreed that trying to eliminate differences between two standards that are both in need of significant improvement is not the best use of the FASB’s and the IASB’s resources—instead a new common standard should be developed that improves the financial information reported to investors.

It was in this context that in February 2006 the FASB and the IASB agreed on the new MoU that described their joint work programme for the coming years. (The MoU is attached as an appendix.) The FASB and the IASB agreed that convergence work should proceed on the following two tracks:

- First, the boards will reach a conclusion about whether major differences in focused areas should be eliminated through one or more short-term standard-setting projects, and, if so, the goal is to complete or substantially complete work in those areas by 2008.

- Second, the FASB and the IASB will seek to make continued progress in other areas identified by both boards where accounting practices under US GAAP and IFRSs are regarded as candidates for improvement, culminating in common standards.

The majority of topics in the first area are now either completed or near to completion. The eleven topics on our longer-term joint work programme—the second track of the MoU—include items identified as part of SEC report on off balance sheet items and as part of a recent study by the Committee of European Securities Regulators, such as consolidations, post-retirement benefits, leasing and financial instruments, including dereognition. We also have joint projects on financial statement presentation and the accounting for revenue recognition, fair value measurement, derecognition, and intangible assets. We have just completed a joint project on business combinations.

Importantly, the topics in the second track would have been the ones that both boards would address independently of convergence. They are the challenging conceptual issues of the day. Our joint efforts could therefore signal a double win—improved accounting in important areas and the elimination of differences between US GAAP and IFRSs. It is in these areas that we have the ability to shape the financial reporting landscape to one that can cope with the complexity of today's financial markets.

The result of the convergence process, as outlined by the MoU, should lead to a situation where US GAAP and IFRSs have broadly converged by 2011 or 2012. This time frame makes allowance for the due processes of the IASB and the FASB, which are similar and require extensive public consultation and transparency.

I should say that the convergence programme with the US FASB will not produce totally identical financial statements in the short term. But it will result in close alignment of the accounting for the same transactions and those that are in essence the same.

It is understandable that those affected by the standard-setting process will want to know how the future will look. My hope is that the standards emerging from the FASB-IASB work programme will be very different from the style of many existing IFRSs and US standards. The IASB is firmly wedded to a principle-based approach to standard-setting, and I personally believe that the convergence programme will be useful in driving US GAAP away from the body of prescriptive rules that constituents have requested from the FASB. While it is a misnomer to say that US GAAP is rule-based, few would deny that the level of guidance in its accounting standards and the multiplicity of additional interpretations of that guidance have proliferated under US GAAP.

This is where convergence with IFRSs can help. As part of our MoU work, the FASB and the IASB are seeking another way forward—future joint standards have not only to be principle-based but should contain only a minimum of additional guidance. Going forward, we will demand that a good principle-based standard must pass four tests:

(i) Is the standard written in plain English? (This is also important to allow easy translation of our standards.)

(ii) Can the standard be explained simply in a matter of a minute or so? If not, why does it take longer? (Put another way, can only specialists understand it or can most accountants use it?)

(iii) Does it make intuitive sense?

(iv) Do managements believe that it helps them to understand and describe the underlying economic activity?

The use of principles should eliminate the need for anti-abuse provisions. It is harder to defeat a well-crafted principle than a specific rule that financial engineers can by-pass. A principle followed by an example can defeat the 'tell me where it says I can't do this mentality'. If the example is a rule then the financial engineers can soon structure a way round it. For example, if the rule is that, if A, B and C happens, the answer is X, the experts would restructure the transaction so that it involved events B, C and D and would then claim that the transaction was not covered by the standard.

A principle-based standard relies on judgements. Disclosure of the choices made and the rationale for these choices would be essential. If in doubt about how to deal with a particular issue, preparers and auditors should relate back to the core principles. The basis for conclusions (the rationale underlying a particular standard and published with it) should also include, in particular, the question of whether there is only a single view to tackle the economics of the situation. Often there are competing views—is one regarded as more relevant? If so, the reasons for choosing that particular view should be explained in the basis for conclusions and the reasons for rejecting the others clearly outlined.

All application guidance and examples to understand the principles have to be questioned. Would anything be missed if they were deleted? If guidance is necessary, is the principle sufficiently clearly stated? Does the standard include bright lines and arbitrary limits? Why are these necessary? Does the transition to the new standard follow the normal pattern? If not, why is a change proposed?

This is the vision that I have for the convergence of US GAAP and IFRSs, one that is achievable in a relatively short time.

I know that several commentators have voiced their concern that the elimination of the reconciliation requirement by the SEC would remove an important incentive for future convergence. I disagree. The IASB's objective is to have a single set of accounting standards used through out the world. The strategy laid out in the MoU provides a sensible approach for doing so, and my colleagues and I are committed to continuing these efforts. It is my personal opinion that the elimination of the reconciliation requirement would be a demonstration of the United States' commitment to IFRSs and will help solidify support for our work on the MoU internationally.

Ensuring consistent implementation of IFRSs

As you can tell, I am optimistic about the prospects for convergence and the implementation of IFRSs throughout the world. The implementation of IFRSs in Europe and elsewhere has gone relatively smoothly, and a new wave of countries are now adopting IFRSs. Adding a growing commitment from the United States towards IFRSs is an important element of the IASB's strategy, and the SEC's proposals have caught the imagination of those who doubted the motivations of the United States in the standard-setting process.

Of course, there are a number of challenges before we can state with confidence that a single set of common, high quality accounting standards is being used worldwide. Clearly, the implementation and enforcement of our standards will be important in determining our success. Commentators on the SEC's proposed rule on the reconciliation requirement have rightly understood the need for consistent application of IFRSs. Helping ensure the consistency and protecting the IFRS brand is a leading priority of the organisation. First and foremost, we are encouraging countries to resist the temptation of creating national flavours to IFRSs. As you know, the IASB cannot force anyone to take its standards; they have to be accepted by jurisdictions the world over. It is our job to convince national bodies that our consultation process is robust and that the outcomes merit the respect of the markets. We seek to do so through a rigorous due process. We are also engaging in our work policymakers, such as members of this subcommittee, and those parties affected by accounting standard-setting.

Second, the IASB has an interpretative body, the International Financial Reporting Interpretations Committee (IFRIC), which is similar to the FASB's Emerging Issues Task Force in structure. Overseen by the IASB, the IFRIC should remain the venue to resolve questions regarding the interpretation of standards.

Third, the IASB is working with securities regulators at the International Organization of Securities Commissions (IOSCO) and audit regulators, such as the International Audit and Assurance Standards Board (IAASB), to require clear statements regarding the implementation of IFRSs. We are in the process of proposing an amendment to the existing standards to help clarify such statements. This is not necessarily our preferred approach to the problem, but we wished to raise the profile of the issue. We will continue to be open to input on this important issue.

Lastly, I believe that the enforcement of standards will be an important key to the ultimate success of IFRSs, and securities regulators will therefore play a leading role. This role for the regulator will not go away if the SEC chooses to eliminate the reconciliation requirement, and to some extent the SEC might be better positioned to encourage consistent practices among US foreign registrants using IFRSs, and to co-operate with IOSCO and other regulatory groupings on consistent policy related to IFRS application, if IFRSs were accepted in the United States.

Work to be done

We are at a crucial point in the development of IFRSs. The United States has played an important role in encouraging the adoption of IFRSs throughout the world. More than 100 countries and growing are using IFRSs and are working hard to ensure their consistent application. The world's fastest growing emerging economies are converging with IFRSs.

This is no time for the IASB to rest on its laurels. We are certainly not complacent. The IASB recognises the relevance of its work to the world's economy and the wide range of interests at stake. It is up to us to make sure that we operate in a transparent and accountable manner, engage with and inform the main stakeholders on a timely basis, and develop standards that are of high quality, reflect economic reality, and are broadly respected.

It is understandable that the US policymakers are now considering the options for US markets regarding IFRSs. We appreciate this subcommittee's continued interest in IFRSs and international convergence, and the IASB is committed to working closely with the FASB to complete the work programme described in the MoU. At the same time, the IASB and our oversight Trustees are discussing ways in which we can strengthen our ties with the regulatory community.

We are close to creating a financial reporting infrastructure appropriate for the global modern economy. Let's work together to finish what has been started.

I look forward to hearing your views and answering any questions that you may have.

APPENDIX – Memorandum of Understanding

A Roadmap for Convergence between IFRSs and US GAAP—2006-2008

Memorandum of Understanding between the FASB and the IASB

27 February 2006

After their joint meeting in September 2002, the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued their Norwalk Agreement in which they 'each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and the IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained.'

At their meetings in April and October 2005, the FASB and the IASB reaffirmed their commitment to the convergence of US generally accepted accounting principles (US GAAP) and International Financial Reporting Standards (IFRSs). A common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB.

The FASB and the IASB recognise the relevance of the roadmap for the removal of the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It has been noted that the removal of this reconciliation requirement would depend on, among other things, the effective implementation of IFRSs in financial statements across companies and jurisdictions, and measurable progress in addressing priority issues on the IASB-FASB convergence programme. Therefore, the ability to meet the objective set out by the roadmap depends upon the efforts and actions of many parties—including companies, auditors, investors, standard-setters and regulators.

The FASB and the IASB recognise that their contribution to achieving the objective regarding reconciliation requirements is continued and measurable progress on the FASB-IASB convergence programme. Both boards have affirmed their commitment to making such progress. Recent discussions by the FASB and the IASB regarding their approach to the convergence programme indicated agreement on the following guidelines:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB's and the IASB's resources—instead, a new common standard should be developed that improves the financial information reported to investors.
- Serving the needs of investors means that the boards should seek to converge by replacing weaker standards with stronger standards.

Consistently with those guidelines, and after discussions with representatives of the European Commission and the SEC staff, the FASB and the IASB have agreed to work towards the following goals for the IASB-FASB convergence programme by 2008:

Short-term convergence

The goal by 2008 is to reach a conclusion about whether major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas.

Topics for **<u>short-term convergence</u>** include:

To be examined by the FASB	To be examined by the IASB
Fair value option*	Borrowing costs
Impairment (jointly with the IASB)	Impairment (jointly with the FASB)
Income tax (jointly with the IASB)	Income tax (jointly with the FASB)
Investment properties**	Government grants
Research and development	Joint ventures
Subsequent events	Segment reporting
FASB Note: *On the active agenda at 1 July 2005 ** To be considered by the FASB as part of the fair value option project	*IASB Note:* Topics are part of or to be added to the IASB's short-term convergence project, which is already on the agenda.

Limiting the number of short-term convergence projects enables the boards to focus on major areas for which the current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

Other joint projects

The goal by 2008 is to have made significant progress on joint projects in areas identified by both boards where current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

The FASB and the IASB also note that it is impractical, when factoring in the need for research, deliberation, consultation and due process, to complete many of the other **joint projects** by 2008. The two boards understand that during this time frame measurable progress on such projects, rather than their completion, would fulfil their contribution to meeting the objective set forth in the roadmap.

Furthermore, it is noted that the strategy regarding other joint projects and the goals described below should be consistent with one of the IASB's objectives of providing stability of its standards for users and preparers in the near term.

After consultations with representatives of the European Commission and the SEC staff and consistently with existing priorities and resources, the FASB and the IASB have expressed the progress they expect to achieve on their convergence project in the form of a list of 11 areas of focus. It is noted that these projects will occur in the context of the ongoing joint work of the FASB and the IASB on their respective Conceptual Frameworks. As part of their Conceptual Framework project, the FASB and the IASB will be addressing issues relating to the range of measurement attributes (including cost and fair value) to enable a public discussion on these topics to begin in 2006.

After considering the complexity of those topics and consultation requirements, the boards set the following goals for 2008 for convergence topics already on either their active agendas or the research programmes:

Topics already on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Business combinations	On agenda – deliberations in process	On agenda – deliberations in process	To have issued converged standards (projected for 2007), the contents and effective dates of which to be determined after taking full account of comments received in response to the Exposure Drafts.
2. Consolidations	On agenda – currently inactive	On agenda – no publication yet	To implement work aimed at the completed development of converged standards as a matter of high priority.
3. Fair value measurement guidance	Completed standard expected in the first half of 2006	On agenda – deliberations in process	To have issued converged guidance aimed at providing consistency in the application of existing fair value requirements.[2]
4. Liabilities and equity distinctions	On agenda – no publication yet	On agenda (will follow FASB's lead)	To have issued one or more due process documents relating to a proposed standard.
5. Performance reporting	On agenda – no publication yet	Exposure draft on a first phase	To have issued one or more due process documents on the full range of topics in this project.
6. Post-retirement benefits (including pensions)	On agenda – deliberations underway on the first phase of multi-phase project	Not yet on the agenda	To have issued one or more due process documents relating to a proposed standard.
7. Revenue recognition	On agenda – no publication yet	On agenda – no publication yet	To have issued one or more due process documents relating to a proposed comprehensive standard.

The objective of the goals set out above is to provide a time frame for convergence efforts in the context of both the objective of removing the need for IFRS reconciliation requirements by 2009 and the existing agendas of the FASB and the IASB. The FASB and the IASB will follow their normal due process when adding items to the agenda. Items designated as convergence topics among the existing research programmes of the boards include:

Topics already being researched, but not yet on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Derecognition	Currently in the pre-agenda research phase	On research agenda	To have issued a due process document relating to the results of staff research efforts.
2. Financial instruments (replacement of existing standards)	On research agenda and working group established	On research agenda and working group established	To have issued one or more due process documents relating to the accounting for financial instruments.

[2] The fair value guidance measurement project will not extend requirements for the use of fair value measurements, and any proposals regarding increasing the use of fair value accounting will be addressed in the context of the Conceptual Framework and other projects on the FASB's and IASB's respective agendas.

3. Intangible assets	Not yet on agenda	On research agenda (led by a national standard-setter)	To have considered the results of the IASB's research project and made a decision about the scope and timing of a potential agenda project.
4. Leases	Pre-agenda research underway	On research agenda (led by a national standard-setter)	To have considered and made a decision about the scope and timing of a potential agenda project.

In setting out the projects for both the short-term convergence topics and the major joint topics, the FASB and the IASB recognise that with respect to its foreign registrants the SEC staff will undertake an analysis of their 2005 IFRS financial statements across companies and jurisdictions. This analysis may reveal the need for additional standard-setting actions by one of the boards or both. Furthermore, the FASB and the IASB note that their work programmes are not limited to the items listed above, but remain committed to fulfilling their contribution to meeting the objectives set out by the roadmap.

The FASB and the IASB also recognise the need to undertake this work in a manner that is consistent with their established due process, including consultation with interested parties on their ongoing joint efforts before reaching conclusions.

Statement
Robert H. Herz
Chairman
Financial Accounting Standards Board
Before the Subcommittee on Securities, Insurance and Investment
Committee on Banking, Housing, and Urban Affairs
United States Senate

On
International Accounting Standards: Opportunities, Challenges, and Global Convergence Issues."

October 24, 2007

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

I am Robert Herz, chairman of the Financial Accounting Standards Board. I am very pleased to participate in this very timely hearing. Thank you for the opportunity to discuss our progress on international convergence of accounting standards.

I am pleased to be joined today by Sir David Tweedie of the IASB and our colleagues from the SEC, Conrad Hewitt and John White.

I would also like to take this opportunity to commend the Banking Committee for its steadfast support of FASB, independent standard setting, and our international convergence activities. Your support has been very important in our efforts to develop and improve standards in a manner that best serves investors in capital markets around the globe.

The FASB

I would like to preface my remarks with some brief background on the FASB. Our mission is to establish and improve standards of financial accounting and reporting for both public and private enterprises, including small businesses and not-for-profit organizations. Those standards are essential to the efficient functioning and operation of the capital markets and the United States' economy because investors, creditors, and other consumers of financial reports rely heavily on sound, honest, and unbiased financial information to make rational resource allocation decisions.

The FASB employs an exhaustive due process for establishing standards, which involves extensive consultation with all key participants in the financial reporting system. As part of this due process, we listen carefully to the views expressed by investors and other capital providers, the companies that prepare financial statements, the firms that audit those financial statements, and governmental bodies. In addition, our funding and governance mechanisms provide us the independence that is essential to ensuring the integrity of the standards we produce and the neutrality of the financial information that companies provide to investors. Again, we thank the subcommittee for its long-standing support of this system.

FASB's Mission and International Convergence

The FASB's views on financial reporting and international convergence are shaped primarily by our perceptions of the costs and benefits of providing financial information to investors and the capital markets. We give priority consideration to the needs of investors because, in our view, the principal reason for developing high-quality accounting and external financial reporting standards for public companies is to enhance the efficiency of the capital markets by giving potential investors the information and the confidence to buy and sell securities.

Recent years have been marked by a continuing and rapid globalization of capital markets, cross-border investing, and international capital-raising. In light of this rapid change, we agree with the Securities and Exchange Commission that a widely used single set of high quality international accounting standards for listed companies would benefit the global capital markets and investors. The ultimate goal, we believe, is a common, high-quality global financial reporting system that can be used for decision-making purposes across the capital markets of the world.

However, achieving the ideal system requires improvements and convergence in various elements of the infrastructure supporting the international capital markets, including a single set of common, high-quality accounting standards, a well-funded, global standard-setting organization, and a global interpretive body to handle guidance and implementation issues. Improvements are also needed in disclosure requirements; regulatory, enforcement and corporate governance regimes; auditing standards and practices; and education of capital market participants.

We believe reaching this ideal financial reporting system would significantly improve the overall usefulness and comparability of reported financial information, increase investor confidence, and reduce the complexity and costs investors and companies face, resulting in global capital markets that function more efficiently.

There are many challenges involved in developing the ideal financial reporting system, including differences in institutional, regulatory, business, and cultural environments; the inevitable resistance to change; differing priorities among jurisdictions; and the existing U.S. demand for detailed guidance and specialized industry standards. We believe the benefits the ideal system offers, however, well justify the cost and effort of confronting these many challenges.

The Current State of Convergence of Accounting Standards

The FASB, with the IASB other national standard setting bodies, has been working for many years to improve and converge accounting standards. The pace of these convergence activities has increased since the formation of the IASB in 2001 and there has been a clear movement in many parts of the world toward International Financial Reporting Standards established by the IASB. Many jurisdictions around the world have mandated or permit the use of IFRS and many others are planning to move in this direction. However, in some of these jurisdictions, the standards issued by the IASB have been modified, resulting in so-called "as adopted" versions of IFRS. Also, differences in interpretation have resulted in "national variants" of IFRS.

In the U.S., the FASB and IASB committed in 2002 to the goal of developing a set of high-quality, compatible standards. The 2002 Norwalk Agreement describes the plans for achieving that goal, such as coordinating the agendas of both Boards so major projects are undertaken jointly, and eliminating narrow differences in other areas through short term convergence projects. The 2006 Memorandum of Understanding sets specific milestones to be achieved by 2008.

Since 2002, we have made steady progress toward convergence. Standards have been issued by both Boards that improve financial reporting by eliminating differences between IFRS and U.S. GAAP, including improved standards concerning inventory, nonmonetary transactions, share-based payments, segment reporting, and the use of a fair value option to simply financial instrument accounting. Both Boards will soon issue a common standard that converges the accounting for business combinations. In upcoming months, both Boards will issue discussion documents relating to major improvement initiatives on financial statement presentation, liabilities and equity, revenue recognition, and an improved and a converged conceptual framework.

Although the FASB and IASB have made significant progress in improving and converging IFRS and U.S. GAAP, that work is incomplete. Improvements are needed in a number of key areas. In addition, many differences between U.S. GAAP and IFRS remain, which can result in significant differences in the reported numbers under the two sets of standards. Thus, while we have been making steady progress in our convergence program, it will take many more years to reach the goal of full convergence using our current approach. Accordingly, and in light of the growing use of IFRS in many other parts of the world, we believe that now may be the appropriate time to consider ways to accelerate the convergence effort and the movement in the U.S. toward IFRS. For to be truly international, any set of standards would need to be adopted and used in the world’s largest capital market, the United States.

Thus, we believe that planning for a transition of U.S. public companies to an improved version of IFRS would be an effective and logical way forward to achieving the goal of a set of common global standards.

Managing the Complex Process of Moving U.S. Public Companies to an IFRS-based System

However, moving all U.S. public companies to an improved version of IFRS will be a complex process. A smooth transition will not occur by accident, and to manage this change, we suggest that a blueprint for coordinating and completing the transition should be developed and agreed to by all major stakeholders in the process. The blueprint should identify the most orderly, least disruptive, and least costly approach to transitioning to an improved version of IFRS and should set a target date or dates for U.S. registrants to move to IFRS that allows adequate time for making the many necessary changes.

Changes Needed Internationally

The blueprint should identify the changes considered necessary both in the U.S. and internationally to reach the goal of a single set of common, high-quality standards. My written statement enumerates these in some detail, but let me touch upon some key issues. First, the blueprint should address a range of institutional issues, including examining the post-issuance endorsement processes currently in place in many jurisdictions to reduce or eliminate the "as-adopted" versions of IFRS, which we think are inconsistent with the goal of a single set of high quality standards. The blueprint should also address strengthening the IASB as an independent, global standard setter by establishing mechanisms to ensure the sufficiency and stability of its funding and staffing.

Changes Needed Within the U.S.

In regard to the U.S., the blueprint should identify and establish timetables to accomplish changes to the financial reporting infrastructure necessary to support the move to an improved version of IFRS, including training and educating issuers, auditors, investors, and other users of financial statements about IFRS; how a transition to IFRS will affect audit firms and audit standards; how a move to IFRS would change regulatory agency policies, contractual arrangements, or state legal requirements that are currently based on U.S. GAAP financial reports; the impact of this transition on private companies and not-for-profit enterprises, which currently use U.S. GAAP; and how to enable the use of more principles-based accounting standards and less specialized industry accounting requirements.

Similarly, the blueprint should enumerate the steps U.S. public companies would need to implement significant changes to align to IFRS, including training, system changes, internal control changes, and various contractual matters.

We expect that the myriad changes to the U.S. financial reporting infrastructure would take a number of years to complete. During that time, the FASB and IASB should continue our cooperative efforts to develop common, high-quality standards in key areas where neither existing U.S. GAAP nor IFRS provides relevant information for investors. Those common standards, issued by both the FASB and IASB, would be adopted by companies in the U.S. and internationally when issued. In other areas that are not the subject of those joint improvement projects, we envision that U.S. public companies would adopt the IFRS standards "as is" over a period of years. The adoption of those IFRS standards by U.S. companies would complete the migration to an improved version of IFRS.

We believe there are many advantages to employing such an "improve and adopt" approach in transitioning to IFRS. Financial statement users both domestically and internationally will benefit from the continued, cooperative efforts by the FASB and IASB to improve, simplify, and converge financial reporting in those areas of existing U.S. GAAP and IFRS that are clearly deficient. Under this approach, new standards or existing IFRS will be gradually adopted over a period of several years, smoothing the transition process and avoiding the capacity constraints that might develop in an abrupt mandated switch to IFRS. Moreover, this approach permits the Boards to focus their resources on improving standards in areas important to investors, rather than on eliminating narrow differences among our many existing standards.

FASB Views on SEC Proposing and Concept Releases

Let me turn to the two recent SEC Releases relating to the reconciliation requirement and the possible use of IFRS in the U.S. I commend the SEC for bringing these forward for discussion. Clearly, the issues raised by them are important and timely and have significant implications for the efforts to achieve an improved global financial reporting system.

The SEC Concept Release seeks comments on whether U.S. issuers should be allowed to prepare financial statements in accordance with IFRS, and envisions allowing individual U.S. public companies a choice of adopting IFRS or continuing to use U.S. GAAP. We are generally opposed to allowing companies to elect different accounting standards for economically similar transactions, because of the added cost and complexity such choices create for investors and others trying to use financial information, and the added cost and complexity involved in developing a U.S. financial reporting and educational infrastructure to support a two-GAAP system for U.S. public companies.

Accordingly, we do not support permitting U.S. companies a choice between IFRS and U.S. GAAP ***for any extended period of time***. Rather, we believe it would be preferable to move all U.S. public companies to an improved IFRS over a transition period of several years following the blueprint we are advocating be developed.

The Proposing Release—Whether to Remove the Existing U.S. GAAP Reconciliation Requirement

Finally, on the more imminent question of whether the SEC should remove the reconciliation requirement for foreign private issuers that use IFRS as issued by the IASB, we are aware of a variety of differing views on this issue. Foreign preparers and regulators, not surprisingly, support the elimination. Some U.S. companies support removal because reconciliations are costly, and they are concerned that they may face retaliatory reconciliation requirements in some foreign capital markets. Some financial statement users contend the reconciliation arrives too late to affect their decisions, while others say they find it useful in their analysis of financial statements. We also note academic studies showing that reconciling items between IFRS and U.S. GAAP are often material, and the differences could get larger once the reconciliation is removed. Of concern is evidence of low-quality application and enforcement of IFRS in certain countries.

We believe that either way, the decision ***in the near future*** whether or not to eliminate the reconciliation requirement may well have important implications for the continued development of the global reporting system. On the one hand, we acknowledge the concerns of those who believe it would be premature and would result in a loss of information that some investors and other users find important and useful. On the other hand, this change only relates to relatively small number of SEC registrants in relation to the overall size of our capital market. And maintaining the current reconciliation requirement could be viewed by some parties outside this country as a clear signal that the U.S. is not truly interested in participating in an international reporting system. In turn, that could negatively impact the willingness of these parties to support continued convergence between IFRS and U.S. GAAP.

Conversely, we believe there are real risks that once the reconciliation requirement is eliminated, some parties who have viewed the convergence effort between the IASB and the FASB as the price of getting the SEC to eliminate the reconciliation may see no further benefit in continued convergence between IFRS and U.S. GAAP. In that regard, recent comments made in the public press and in public forums give reason to believe that eliminating the reconciliation requirement will result in calls by some from abroad for a cessation of any further improvements to IFRS, especially any improvements designed to achieve convergence with U.S. GAAP.

Ultimately, the decision whether, when, and how to remove the reconciliation requirement rests with the SEC. However, in doing so, we feel that it would be very important to make it clear that getting to a single set of high quality international standards remains the ultimate goal and that further convergence and improvement of standards is necessary to achieve that goal. In addition, we strongly agree with the SEC proposal that the reconciliation requirement only be eliminated for those foreign private issuers that fully apply IFRS as issued by the IASB and not for those who use an “as adopted” version of IFRS. To do otherwise would be inconsistent with the goal of getting to a single set of global accounting standards.

Conclusion

We are firmly committed to continuing to work with the IASB, the SEC, and others to achieve a single set of high-quality international accounting standards that benefit investors and the capital markets domestically and across the world.

Thank you again, Chairman Reed. I would welcome the opportunity to respond to any questions.

Testimony Concerning Globally Accepted Accounting Standards

Conrad W. Hewitt, Chief Accountant
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U.S. Securities and Exchange Commission

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 on behalf of the Securities and Exchange Commission (Commission) concerning ongoing efforts to foster development and use of high quality globally accepted accounting standards. This testimony is presented jointly on behalf of the Office of the Chief Accountant, which advises the Commission on accounting and auditing matters, and of the Division of Corporation Finance, which is responsible for overseeing disclosures by domestic and foreign issuers of securities.

This testimony highlights the Commission's long history of supporting the goal of high quality globally accepted accounting standards. Global accounting standards help investors to understand investment opportunities more clearly and increase access to foreign investment opportunities. They reduce costs for issuers, who no longer have to incur the expense of preparing financial statements using differing sets of accounting standards. And lower costs facilitate cross-border capital formation as well as benefit shareholders, who ultimately bear the burden of the entire cost of the financial reporting system.

This summer, the Commission began a process to determine whether it is appropriate and timely to allow foreign and domestic registrants the alternative to submit for SEC filing purposes financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). Under the Commission's current filing requirements, foreign registrants have two alternatives for the preparation of financial statements, either (1) prepare them under U.S. GAAP or (2) prepare them under IFRS or a national GAAP and provide reconciling information to U.S. Generally Accepted Accounting Principles (U.S. GAAP). So, the Commission's proposal would allow foreign registrants to file IFRS financial statements without a required reconciliation to U.S. GAAP. The Commission has also asked questions about whether it would be appropriate to give domestic registrants the option of preparing their financial statements using IFRS in contrast to the current requirement that domestic registrants prepare their financial statements only under U.S. GAAP.

A Long History of Promoting Robust Global Accounting Standards

The Commission has long advocated reducing the disparity between the accounting and disclosure practices of the United States and other countries as a means to facilitate cross-border capital formation while ensuring adequate disclosure for the protection of investors and the promotion of fair, orderly and efficient markets.

- In 1981, the Commission encouraged the efforts of standard setters and other market participants to do the same.

- In 1988, the Commission explicitly supported the establishment of mutually acceptable international accounting standards as a critical goal to reduce regulatory impediments that result from disparate national accounting standards without compromising investor protection.

- In 1996, in the National Capital Markets Efficiency Act, Congress directed the SEC to respond to the growing internationalization of securities markets by giving "vigorous support" to the development of "high-quality international accounting standards as soon as practicable."

- In a 1997 report to Congress, the Commission encouraged the efforts of the International Accounting Standards Committee, the part-time volunteer international accounting standard setting body at the time, to develop a core set of accounting standards that could serve as a framework for financial reporting in cross-border offerings, and indicated the Commission's intent to remain active in the development of those standards. Those standards have now become part of IFRS, which we discuss further below.

- In 2000, the Commission issued a concept release seeking input on convergence to a high quality global financial reporting framework while upholding the quality of financial reporting domestically.

- In 2002, when Enron and the wave of accounting scandals called into question the intensely rule-based approach of U.S. GAAP, Congress, in section 108(d)(1) of the Sarbanes-Oxley Act, directed the SEC to undertake a study on the "adoption by the United States … of a principles-based accounting system." SOX expressly required that we examine the length of time that would be necessary to change from a rules-based to a principles-based financial reporting system. Also that year, the Commission supported the announcement by the Financial Accounting Standards Board (FASB) and the IASB of a memorandum of understanding—referred to as the Norwalk Agreement—to formalize their commitment to the convergence of U.S. and international accounting standards.

- In 2005, as the European Union (EU) and others first adopted IFRS, the Commission adopted an accommodation to allow foreign first-time adopters of IFRS to file two years rather than three years of IFRS financial statements in their Commission filings.

- In February 2006, Chairman Cox endorsed a previously published "roadmap" containing the SEC staff's evaluative work plan. This "roadmap" makes the case for high-quality, globally accepted accounting standards and suggests several considerations that the SEC staff would include in evaluating the appropriateness of permitting foreign private issuers to use IFRS for purposes of the U.S. capital markets without a U.S. GAAP reconciliation.

- In March 2007, the Commission hosted a roundtable regarding IFRS reporting by foreign private issuers.

- In July 2007, the SEC staff published a review of the 2005 filings of the foreign private issuers who currently submit IFRS financial statements that are reconciled to U.S. GAAP.

Throughout this process, the SEC has pursued these goals through a variety of international multilateral and bilateral fora, including the International Organization of Securities Commissions (IOSCO), a bilateral dialogue with the Committee of European Securities Regulators, and with fellow securities regulators from countries that have moved to or are moving to IFRS reporting. The SEC's staff has also participated, in some cases on behalf of IOSCO, as an Observer to the IASB's Advisory Council, its Interpretations Committee, and certain of its Working Groups.

International Financial Reporting Standards

For many years there has been a dedicated group of practitioners, standard setters, business leaders and others from around the world who have worked to establish a single set of globally accepted accounting standards for the benefit of the capital markets. In 2001, these efforts were transformed from part-time voluntary efforts to full-time paid efforts with the establishment of the London-based International Accounting Standards Committee Foundation (IASC Foundation), which is a Delaware non-profit corporation whose core operation is the activities of its standard setting board, the IASB, which develops and maintains the body of IFRS.

The IASC Foundation is governed by a Board composed of twenty-two Trustees, six of whom constitutionally are from North America. Five of the North American Trustees currently serving are from the United States, with the other from Canada. Constitutionally, an additional six Trustees are from Europe; six are from Asia/Oceania; and four are "at large." The founding Chairman of the Board of Trustees was Paul Volcker. Having completed his term as Chairman, Mr. Volcker now chairs the Trustee Appointments Advisory Group, which is composed of nine individuals from international public sector banking, finance, and securities regulatory organizations who are consulted on new Trustee appointments. The incoming Chairman of the Board of Trustees is Gerrit Zalm, a former Netherlands Deputy Prime Minister and Minister of Finance. Because the IASC Foundation lacks the power to require contributions, it is currently funded through voluntary contributions, although it has an objective of establishing a permanent and independent funding structure. Some countries have or are instituting a local levy system to fund contributions.

The IASB is composed of fourteen members: twelve full-time and two part-time. The IASB members are appointed by the IASC Foundation Trustees. IASB member seats are not geographically driven; rather, members are chosen based upon an objective of assembling a group with the best available combination of technical skills and background experience of relevant international business and market conditions. Currently, three of the Board members are from the United States: two full-time and one part-time. In addition to the Board members, approximately thirty technical staff members from around the world are employed by the IASC Foundation to support the IASB's work.

Almost 100 countries now either require or permit the use of IFRS for the preparation of financial statements by their domestic listed companies. Under a regulation adopted in 2002, the EU required its listed companies to report using endorsed IFRS beginning in 2005. Japan's accounting standard setter and the IASB have agreed to work to accelerate convergence between Japanese accounting standards and IFRS, with certain interim target dates in 2008 and 2011. Other countries, such as China, Israel and India, have either begun to move toward use of IFRS (China and Israel) or have announced plans to do so (India). Closer to home, Canada has announced plans to move to IFRS reporting around 2011, while we understand Mexico is working to incorporate IFRS aligned content into Mexican accounting standards. The incentives and reasons for these national IFRS policy decisions, as well as the method and timing of the transition to IFRS reporting for companies in a particular country, are as varied as the profiles of the countries involved.

The Financial Accounting Standards Board and the Convergence Process Between U.S. GAAP and IFRS

The FASB is the independent, private-sector body whose pronouncements establishing and amending accounting principles the Commission has, since 1973, recognized as "authoritative" and "generally accepted" for purposes of the federal securities laws, absent any contrary determination by the Commission. Consistent with the FASB's objective to increase the quality of standards used in the United States and international comparability, the FASB is engaged in international accounting standard setter activities. This objective is consistent with the FASB's obligation to its domestic constituents, who benefit from comparability of information across national borders. In pursuit of this objective, the FASB as noted above entered into the Norwalk Agreement with the IASB in 2002, which marked a significant step towards formalizing their commitment to the convergence of U.S. GAAP and IFRS. In the Norwalk Agreement, the two bodies acknowledged their joint commitment to the development, "as soon as practicable," of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting.

In a further 2006 memorandum of understanding, the FASB and the IASB indicated that a common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB and set out a work plan covering the next two years for convergence with specific long- and short-term projects. The FASB and the IASB continue to work to align the content of U.S. GAAP and IFRS – an effort that has now been underway for five years. The better part of the two standard setters' current agendas (fourteen projects on the active agenda and four projects on the research agenda) are part of this effort. Areas of this work include addressing the manner in which information is displayed and presented in the financial statements as well as the accounting for revenue and leases.

The Commission's Current Efforts Regarding Globally Accepted Accounting Standards

The most recent and significant aspect of this current phase of the Commission's work involves the issuance of two releases regarding the potential use of IFRS in the U.S. capital markets. The first is the publication of a proposal in June to allow foreign private issuers to report using IFRS financial statements without a U.S. GAAP reconciliation. The comment period on the foreign private issuer proposal ended September 24, 2007. The second is the issuance of a concept release in July to explore a more far-reaching prospect – the possibility of giving domestic issuers the alternative to report using IFRS. The comment period on the concept release is still open and closes on November 13, 2007.

These recent initiatives address the core policy issue of what role, if any, should the use of IFRS play in the U.S. public capital markets at this time along with U.S. GAAP. As with any policy decision, such a determination includes giving due consideration to the benefits and costs. In all of the Commission's work to date, a consistent premise is that investors are better served by having high quality financial information across issuers, regardless of domicile. This aids investors' ability to make informed capital allocation decisions among competing alternatives. Investors also benefit if costs of compliance for issuers in entering and staying in our capital markets are reduced, thereby encouraging additional investing opportunities from the global economy.

Of course, there are issues to consider in adjusting to a new set of accounting standards. With respect to the foreign private issuer proposal, for those not already familiar with IFRS this would include working with IFRS financial statements without a U.S. GAAP reconciliation. The impact of the loss of the reconciliation depends on the extent to which investors currently use it and the extent to which IFRS and U.S. GAAP continue to differ in some respects. The effect also depends on the number of issuers that would potentially avail themselves of this alternative. Currently, approximately 110 reporting foreign private issuers, out of a total of over 1,100 who file with the Commission, provide in their filings financial statements that are prepared pursuant to IFRS as published by the IASB, which is the subject of the foreign private issuer proposal. In addition, approximately 70 more reporting foreign private issuers prepare their financial statements in accordance with a jurisdictional adaptation of IFRS. If these issuers could also state that their financial statements are prepared in accordance with IFRS as published by the IASB, they would be in a similar position. Looking to the future, the Commission also has approximately 100 issuers from Israel and approximately 500 from Canada; both countries have announced moves to IFRS reporting.

Public Response to the Foreign Private Issuer Proposal

As noted above, the comment period on the foreign private issuer proposal closed on September 24, 2007, and the Commission received approximately 120 comment letters. The vast majority of commenters agreed that, overall, the use of high quality globally accepted accounting standards was an important and worthwhile goal in helping the global capital markets function effectively.

- Some commenters stated that IFRS were suitable to be used as an internationally accepted set of standards and that allowing IFRS without a U.S. GAAP reconciliation would be perceived as recognition of the adequacy of the convergence process to date and would not hinder the ongoing convergence process. However, other commenters stated that the time was not yet ripe for accepting financial statements prepared using IFRS without a U.S. GAAP reconciliation. Some of these commenters also expressed concern over the adequacy of the governance and funding for the IASC Foundation and/or that removing the reconciliation requirement would sap momentum from the overall convergence project.

- Many commenters stated that the reconciliation information is highly technical, not widely understood and is typically not available on a sufficiently timely basis to be useful. These commenters also generally expressed confidence in the quality of application of IFRS in practice. Others noted the usefulness of both the quantitative and qualitative aspects of the U.S. GAAP reconciliation.

- Many commenters urged the Commission to go further than just accepting without reconciliation financial statements prepared in accordance with IFRS as issued by the IASB. These commenters advocated a number of ideas, including: allowing financial statements prepared pursuant to jurisdictional adaptations of IFRS without a U.S. GAAP reconciliation; allowing financial statements prepared pursuant to jurisdictional adaptations of IFRS if reconciled to IFRS as published by the IASB; and allowing financial statements prepared pursuant to any home country GAAP if reconciled to IFRS as published by the IASB.

Conclusion and Next Steps

The Commission is currently analyzing the comments received thus far on the releases and for the proposal to remove the reconciliation process we have begun the process of evaluating the important issues raised. Given the increasing globalization of capital markets, it is imperative that the Commission be vigilant in keeping our regulatory standards up-to-date for the protection of investors, for the maintenance of efficient and orderly markets, and for the promotion of capital formation. Our ongoing work in the area of accounting and financial reporting is an important part of the Commission's wide-ranging efforts in this regard.

Thank you for the opportunity to appear today, and we would be pleased to respond to any questions.