

COUNCIL OF INSTITUTIONAL INVESTORS

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Testimony of Jeff Mahoney, the Council's general counsel, before the SEC's August 4 Roundtable on International Financial Reporting Standards

The Council believes that the following six questions must be answered before most U.S. investors would embrace a switch to international accounting standards in the United States.

- (1) In the aggregate—do international standards produce the same quality of information as U.S. Generally accepted Accounting Principles (GAAP)?
- (2) Would application and enforcement of international standards in the United States be at least as rigorous and consistent as the existing application and enforcement of U.S. GAAP?
- (3) Does the international standard setter have an adequate, secure, stable source of funding that is not dependent on voluntary contributions from those who have to apply or audit the standards?
- (4) Does the international standard setter have a full-time staff and board who are free from conflicts of interest and geographical biases and, most importantly, who possess the technical expertise to fulfill their important roles?
- (5) Will the international standard setter—in the words of the SEC Advisory Committee on Improvements to Financial Reporting—give “pre-eminence” to the views of the customers of financial reports in the standard setting process?
 - More specifically,
 - The standard setting process must have as its focus identifying and responding on a timely basis to the information needs of investors, and
 - the standard setter must demonstrate its ongoing commitment to the customers of financial reports by having significant, rather than token, investor representation on the standard-setting staff, board, oversight board, and monitoring and advisory groups.
- (6) Finally, does the international standard setter have the structure, process, and governmental support to adequately protect its technical decisions and judgments from being overridden by political processes which, as we know here in the United States, far too often are not aligned with the needs of the customers of financial reports?

In conclusion, the Council believes the SEC has an obligation to U.S. investors to thoroughly address the six issues that I just described before U.S. accounting standards are replaced with international standards.