



**SHADOW
FINANCIAL
REGULATORY
COMMITTEE**

COMMITTEE MEMBERS

GEORGE G. KAUFMAN
Co-Chair
Loyola University Chicago

RICHARD J. HERRING
Co-Chair
University of Pennsylvania

GEORGE J. BENSTON
Emory University

MARSHALL E. BLUME
University of Pennsylvania

CHARLES CALOMIRIS
Columbia University

KENNETH W. DAM
University of Chicago Law School

ROBERT A. EISENBEIS
Banking Consultant

PAUL M. HORVITZ
University of Houston

EDWARD J. KANE
Boston College

ROBERT E. LITAN
Brookings Institute and
Kauffman Foundation

KENNETH E. SCOTT
Stanford Law School

PETER J. WALLISON
American Enterprise Institute

Administrative Office
c/o Professor George Kaufman
Loyola University Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
Tel: (312) 915-7075
Fax: (312) 915-8508
E-mail: gkaufma@luc.edu

Statement No. 246

For Information Contact:

George Benston
404-727-7831

Peter J. Wallison
202-862-5864

Statement of the Shadow Financial Regulatory Committee on
**Allowing U.S. and EU Corporations to Adopt U.S. Generally Accepted
Accounting Principles (GAAP) or International Financial Reporting
Standards (IFRS)**

May 7, 2007

April 30, 2007 was an important day for U.S. investors. On that day, President George W. Bush, German Chancellor Angela Merkel, and European Commission President José Manuel Barroso agreed to “promote and seek to ensure conditions for the U.S. GAAP and IFRS to be recognized in both jurisdictions without the need for reconciliation by 2009 or possibly sooner.”

Currently, if the securities of foreign corporations are traded in U.S. securities markets the financial statements of these corporations must be reconciled with the U.S. GAAP. The cost of this procedure has discouraged many foreign corporations from offering securities in the United States and reduced the opportunity for U.S. investors to invest in their shares. With the adoption by the European Union (EU) of IFRS, U.S. corporations that issue securities in the EU will be required by December 2008 to present their statements in accordance with IFRS. This might require U.S. firms to have two sets of financial statements—one for the United States and the other for the European Union.

Both U.S. GAAP and IFRS offer investors valid ways to account for their financial status and the performance of their operations. Both are useful, and both have shortcomings. Allowing U.S. and EU corporations to prepare their financial statements in accordance with either U.S. GAAP or IFRS will have two important consequences. First, it will generate savings to investors from lower accounting and auditing costs and greater access to securities

An independent committee
sponsored by the
American Enterprise Institute

<http://www.aei.org>

markets. Second, it will give investors and their advisers some insights into the benefits or defects of the alternative standards.

The SEC has announced that it "anticipates issuing a Proposing Release this summer that will request comments on proposed changes to the Commission's rules." The Shadow Financial Regulatory Committee urges the Commission to adopt a rule as soon as possible and no later than April 30, 2008 that will give all issuers a choice between IFRS and U.S. GAAP. It may be that as a result of this change IFRS and U.S. GAAP will converge more rapidly or completely or that differences between the standards will be accepted by market participants. Investors and securities markets would benefit from either outcome.