

Reconciliation Requirements of Form 20-F: The Strategies of the SEC and EC

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Abstract

The purpose of this paper is to analyze the choice among the alternatives of bases of accounting standards at the international level in U.S. securities markets. First, the paper provides an explanation of the reconciliation requirements in Form 20-F for FPI (Foreign private issuer). FPI is required to reconcile with U.S. GAAP. As the securities markets have become internationalized, it became necessary for the SEC to review to the reconciliation requirements. Second, the strategies of both the SEC and EC for convergence to IFRS are discussed. The EC has required the removal of these requirements. In the EU market, third country issuers must prepare their financial information in accordance with IFRS or equivalent standards. In order to make decisions, the SEC and EC engage in strategic actions. The author applies simple game theory to these actions.

Key words

SEC, EC, Reconciliation, Equivalence, Strategic action, Simple game

I . Introduction

Many accounting problems concern the choice or selection among the alternatives methods. Hendriksen (1982) states that “accounting policy is the process of selection of specific alternative reporting methods, measurement systems, and disclosure techniques from among all that might be available for financial reporting by business enterprises.”¹ However, what alternatives are available and chosen depends on the level at which accounting policy is made. In accounting policy, there are three levels, i.e. the firm level, the national level and the international level. At the firm level, some choices are made by specific firms within the alternatives available to them. However, the accounting policy should be regulated at national level. At this level, accounting policy refers to the accounting standards, opinions, interpretations, rules and regulations established by the government or private bodies with the authority to establish policies that are

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enforceable. At the international level, accounting policy is being established through the international organizations. The purpose of an international accounting policy is to develop a single set of global accounting standards.²

This paper is concerned with the international level. The primary concern is the choice between accounting standards, i.e. generally accepted accounting principles as used in the U.S. (U.S. GAAP), International Financial Reporting Standards (IFRS) or local GAAP, adopted by foreign private issuer (FPI) listing in U.S. securities markets. As U.S. markets have become internationalized, FPI in various countries has participated in U.S. markets. FPI has been required to reconcile its local GAAP financial statements to U.S. GAAP. It seems useful to take the case of Daimler-Benz, the German company (now the Daimler AG), seeking to list in the U.S. market, the New York Stock Exchange (NYSE), in 1993. It gives some insight to the reconciliation problem between U.S. GAAP and German GAAP. Camfferman and Zeff (2006) noted the case as follows:

In 1991, a group of major German companies – BASF, Bayer, Daimler-Benz, and Hoechst – met with the SEC to seek approval for a New York listing based on their German GAAP financial statements, without a reconciliation to U.S. GAAP....Then in March, the SEC approved the NYSE listing of Daimler-Benz, which became the first German company to list in the U.S. market and therefore was required to reconcile to U.S. GAAP.... Daimler, according to the requirement of German law, used German GAAP in its annual financial statements, and it submitted to the SEC's requirement to reconcile to U.S. GAAP....It eventually led other Continental European companies to reassess their own interest in a New York listing, which *in turn led the European Commission to support the IASC, as a counterweight to U.S. GAAP* (Italics added).³

In early 2000, the EC implemented a counterweight to U.S. GAAP, by requiring the equivalence to IFRS. The SEC and EC needed to engage in strategic actions. The SEC and EU would be better off, if they could cooperate and mutually agree. The paper explains the efforts of the EC and SEC and their strategic behaviors. Thus, the paper is organized as follows. The second section gives a brief explanation of the reconciliation requirements, being applied to FPI. The third section describes the efforts of the SEC and EU, promoting conversions in early 2000s. Finally, the fourth section presents the strategic actions of the EC and SEC, and the author applies simple game theory to their strategic actions. Additionally, the research of sorts of accounting standards adopted by FPI is presented for an insight into the future direction.

II . Recognition Requirements

2. 1. Balancing of Two Policy Concerns

In order to list in the NYSE, FPI is required to reconcile its earnings and

shareholders' equity to U.S. GAAP. In the interface between foreign markets and domestic ones, the problem of whether FPI should subject to exactly the same requirements as domestic ones, arises.

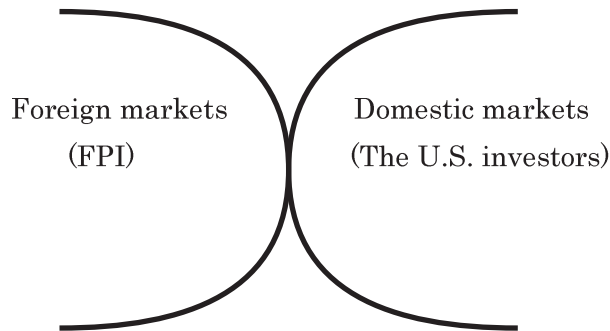


Figure 1 The Interface between markets

The SEC considers the reconciliation requirements from the view of investor interests. The Commission suggests that there are two disclosure policies regarding whether the type of basic information is to be same or different between domestic disclosure documents and foreign ones.⁴

One policy is regarding the basic information for an investment decision. This policy demands the same type of basic information between domestic disclosure documents and foreign ones. This same disclosure policy requires the reconciliation between domestic requirements and foreign ones:

...is the recognition that the investing public in the United States needs the same type of basic information disclosed for an investment decision regardless of whether the issuer is foreign or domestic. This view suggests that foreign registrants be subject to exactly the same requirements as domestic ones.⁵

The other policy is regarding an opportunity to invest in a variety of securities. This policy allows the different types of basic information between domestic disclosure documents and foreign ones. This encouraging investment policy requires removing the reconciliation requirements:

An implication of this policy is that the imposition on foreign issuers of the same disclosure standards applicable to domestic issuers could discourage offerings of foreign securities in the United States, thereby depriving United States investors of the opportunity to invest in foreign securities. According to this reasoning, the public interest would be best served by encouraging foreign issuers to register their securities with the Commission.⁶

Either of these policies has never been formally adopted. Instead, the Commission has

made the reconciliation requirements from balancing of the two policy concerns.

2. 2. Adoption of Form 20-F

FPI has been allowed to use disclosure documents different from domestic ones. To begin with, it needs to define what foreign issuers should be applied to FPI. Rule 4-05 of the 1933 Securities Act and Rule 3b-4 of the 1934 Securities Exchange Act provide the definition of the term FPI as follows:

any foreign issuer other than a foreign government except an issuer meeting the following conditions....:

- (i) More than 50 percent of the outstanding voting securities of such issuer are directly or indirectly owned of record by residents of the United States; and
- (ii) Any of the following: (a) The majority of the executive officers or directors are United States citizens or residents; (b) More than 50 percent of the assets of the issuer are located in the United States; or (c) The business of the issuer is administered principally in the United States.

Presently, Form 20-F is disclosure documents available for use by FPI under the 1934 Act. Historically, Forms 20 and 20-K were initially adopted as pre-Form 20-F. In December 1976, the SEC made these forms similar to Forms 10 and 10-K. The Commission noted on Forms 20 and 20-K as follows:

Forms 20 and 20-K are the registration and annual reporting forms, respectively, authorized for use by certain foreign private issuers under the Exchange Act. The Commission is considering of....make filings on Forms 20 and 20-K substantially similar in content to filings on Forms 10 and 10K....The required financial disclosures include a comparative balance sheet for the latest and the preceding fiscal year, a statement of income for the last three years, a statement of source and application of funds, and usually a statements of stockholders' equity and supplementary profit and loss statements.⁷

The financial statements were required to be reconciled with the Commission's Regulation S-X. However any material variation in accounting principles or practices from the requirements of Regulation S-X must be disclosed and, the effect of such variation must be given.⁸

In November 1979, the SEC announced the adoption of Form 20-F. Form 20-F consolidated and replaced Forms 20 and 20-K. The Commission did not require financial statements filed as part of the Form 20-F to comply with U.S. GAAP or Regulation S-X. However, a discussion of the differences of U.S. GAAP and Regulation S-X was required.⁹

In November 1981, the SEC designed the integrated disclosure regime for FPI. The Commission endeavored to design a system that paralleled the system for domestic

issuers but also took into account the different circumstances of foreign registrants.¹⁰

In November of 1982, the SEC adopted the new registration statements (Forms F-1-2-3) for FPI, as counterparts to Forms S-1-2-3.¹¹ Form 20-F is central to the integrated disclosure system for FPI, as counterpart to Form 10-K. Under the integrated disclosure system for FPI, Form 20-F shall be incorporated by reference into Forms F-1-2-3.

2.3. Item 17 and 18

In order to accommodate the differences in Accounting Standards, Form 20-F permits FPI to prepare financial statements in accordance with the local GAAP, subject to the Item 17 and 18 reconciliation requirements. In November 1981, the SEC noted with regard to Item 17 as follows:

1. Paragraph (a) essentially repeats parts of the current instructions as to financial statements by requiring financial statements as if the filing were on Form 10 or 10-K.
2. Paragraph (b) codifies an existing interpretation that the financial statements should be in a format similar to United States financial statements.
3. Paragraph (c)(1) requires identification of the comprehensive body of generally accepted accounting principles followed (CBAP).
4. Paragraph (c)(2) requires a quantification of the material differences in the practices and methods (as distinct from disclosures and supplemental information, e.g., segment and pension information) of U.S. GAAP and Regulation S-X from those used in financial statements.¹²

Paragraphs (a), (b), (c)(1) and (c)(2) are common to Item 17 and 18. The difference between Items 17 and 18 is in paragraph (c)(3) of Item 18. Paragraph (c)(3) requires the full disclosure of all information required by Regulation S-X and U.S. GAAP (e.g., segment information, pension information, various supplemental information, and reserve recognition accounting), but Item 17 does not.

In November 1982, the reconciliation requirements in Rule 4-01(a)(2) of Regulation S-X were amended to require Item 18 reconciliation in all filings unless a form specified otherwise.¹³ The Rule provides as follows:

In all filings of foreign private issuers, except as stated otherwise in the applicable form, the financial statements may be prepared according to a comprehensive body of accounting principles other than those generally accepted in the United States if a reconciliation to United States generally accepted accounting principles and the provisions of Regulation S-X of the type specified in the Item 18 of Form 20-F is also filed as part of the financial statements. Alternatively, the financial statements may be prepared to the United States generally accepted accounting principles.

Item 17 and 18 reconciliation requirements had not been modified materially until the

year 2007, as I indicate in subsection 4.1.B.

III. Efforts Promoting Convergence

In the early 2000s, the SEC, EC, IASB and FASB took actions to promote the convergence toward a set of global accounting standards. In this section, their efforts for convergence are discussed.

3. 1. Forming a new international accounting standards setter

The original international standards setter, the IASC (International Accounting Standards Committee) which was based on professional bodies, was formed in 1973. The IASC had accepted many alternative treatments in order to harmonize the national GAAP. Epstein and Jermakowicz (2009) state that “it (IAS) essentially endorsed all the accounting methods then in wide use, effectively becoming a *lowest common denominator* set of standards (italics added).”¹⁴ The IASC has issued 41 IAS (International Accounting Standards), 29 of which were adopted by the next standards setter and remain in force.

In May 2000, the IASC member unanimously approved the restructuring of IASC. From the beginning of 2001, a new standards setter, International Accounting Standards Board (IASB), would set IFRS. The IASB members were formed from various interested parties. The objectives of the IASB are to develop a single set of high quality, understandable and enforceable global accounting standards...; to promote the use and rigorous application of those standards; and to bring about convergence of national accounting standards and IAS to high quality solutions.¹⁵

3. 2. Effort of the SEC and EC

A. The EC’s Effort for Convergence

In the EU market, Accounting Directives remain the basis of the EU’s accounting rules for limited liability companies. But, Accounting Directives do not meet the needs of companies that wish to raise capital on international securities markets.¹⁶ The EU does not form new standards. Instead, the EC (European Commission), which is the administrative organization of the EU, supported the effort of the IASC and IOSCO (International Organization of Securities Commissions) to create a single body of financial reporting standards that could be used for listing purpose around the world.

In May 2000, the core list of standards contained in the agreement between the IASC and IOSCO (July 1995) had been finalized. The IOSCO had assessed the core 30 IAS, and recommended its members to “permit multinational issuers to use IAS for the preparation of their financial statements for cross-border offerings and listings”.¹⁷

The IOSCO’s recommendation of IAS was a forward step for the IASC. But, in

June 2000, the EC published its communication on “EU Financial Reporting Strategy” in which it was proposed to adopt IAS as the requirement for primary listing in all member states. This endorsement by the EC surpassed the IOSCO approval, and since then the EC has appeared to be the more influential body gaining acceptance for IAS/IFRS.¹⁸

In July 2002, the EC adopted a regulation to require the use of IFRS by all European issuers with publicly traded securities beginning with the 2005 financial year.¹⁹

B. The SEC’s Effort for Convergence

In February 2000, the SEC issued a Concept Release on International Accounting Standards (Release No.33-7801). The SEC had pursued a dual objective of “upholding the quality of financial reporting domestically, while encouraging convergence towards a high quality global financial reporting framework internationally”.²⁰ In the Release, the SEC sought input to determine under what conditions the Commission should accept financial statement of foreign private issuers that are prepared using IFRS, and considered the issue of the U.S. GAAP reconciliation of IFRS financial statement.²¹

The SEC had a problem with U.S. GAAP. From the 1990s through 2000, many companies had played financial numbers game. The financial engineering caused Enron and other companies to fail down. Congress responded the unfairness and tricks by passing the Sarbanes-Oxley Act of 2002. To improve quality and transparency in financial reporting, Section 108 of the Act requires the SEC to review U.S. GAAP. In addition, the Act requires the FASB to “consider, in adopting accounting principles, the need to keep standards current in order to reflect changes in the business environment, the extent to which *international convergence on high quality accounting standards* is necessary or appropriate in the public interest and for the protection of investors” (Italics added).²²

3. 3. A Commitment to Convergence

The efforts of the SEC and EC toward the convergence connected to the Norwalk Agreement. At their joint meeting in Norwalk, September 18, 2002, the FASB and IASC each acknowledged their commitment to the development of high-quality, compatible accounting standards. Both the FASB and IASB agreed to:

1. Undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and IFRS.
2. Remove other differences between IFRS and U.S. GAAP that will remain at January 1, 2005, thorough coordination of their future work programs.
3. Continue progress on the joint projects that they are currently undertaking.
4. Encourage their respective interpretative bodies to coordinate their activities.²³

Although the agreement states many conditions for convergence, the work programs among the FASB and IASB are crucial to the materialization of international convergence.

At the meeting in April and October 2005, the FASB and IASB reaffirmed their commitment to the convergence. Both the FASB and IASB recognized the relevance of the roadmap for removal of the need for reconciliation requirement for non-US companies that use IFRS and are registered in the U.S. markets. In February 2006, both the FASB and IASB agreed a Memorandum of Understanding which reaffirmed the objective of convergence outlined the work program toward the goals for the IASB-FASB convergence program by 2008.²⁴

IV. Strategy for Mutual Recognition

In this section, the paper discusses why and how the SEC and EU make decision for mutual recognition. The author applies simple game theory to their strategic actions. Additionally, the research of sorts of accounting standards adopted by FPI is presented for an insight into a future direction.

4. 1. Decision of the EC and SEC

A. The EC's Initiative

The EC took the initiative in strategic action for mutual recognition. In July 2002, the regulation 1606/2002 required the use of endorsed IFRS in the EU.²⁵ Publicly traded companies governed by the law of a Member State are required to prepare their consolidated accounts in accordance with IFRS. The requirement was extended to third country issuers by the Directives 2003/71/EC and 2004/109/EC. Under these Directives U.S. issuers must prepare their financial information in accordance either with IFRS or with U.S. GAAP (third country GAAP) that is "*equivalent*" to endorsed IFRS.²⁶

In June 2004, the EC mandated to the Committee of European Securities Regulators (CESR) technical advice on implementing measures on the equivalence between certain third country GAAP and IFRS.²⁷ In June 2005, the CESR issued consultation papers on "Equivalence of certain third country GAAP and on Description of certain Third Countries Mechanisms of Enforcement of Financial Information".²⁸ In order to assess the equivalence, the EC took into account the CESR's advices. In April 2007, the CESR issued the consultation paper on the establishing mechanism, and in December, on the equivalence of Chinese, Japanese and U.S. GAAP.²⁹

In December 2007, taking into account the CESR's advice, the EC provided for the definition of equivalence by making reference to the ability of investors:

The GAAP of a third country may be considered equivalent to IFRS if the financial statements drawn up in accordance with GAAP of the third country concerned

enable investors to make a similar assessment of the assets and liabilities, financial position, profit and losses and prospects of the issuer as financial statements drawn up in accordance with IFRS, with the result that investors are likely to make the same decisions about the acquisition, retention or disposal of securities of an issuer (Italics added).³⁰

And the EC established a mechanism for the determination of the equivalence that has three measures as follows:

1. The Commission will consult the CESR with regard to the assessment of equivalence.
2. The Commission will monitor the ongoing progress in the work by third country authorities to eliminate any requirement for EU issuers using IFRS to reconcile financial statements.
3. EU issuers are to be permitted to use IFRS in the third country concerned.³¹

Thus, the EC took the initiative in getting mutual recognition by the equivalence requirement of U.S. GAAP to IFRS. The success of the EC's initiative depends on whether the FASB and IASB would promote the work program toward the convergence.

B. The SEC's Decision to Remove the Reconciliation

In order to maintain listing in EU markets, U.S. issuers are required to adopt IFRS or receive the assessment of the equivalence with IFRS. On the other hand, EU Issuers in U.S. markets are required to reconcile IFRS with U.S. GAAP. Unless the SEC removes the reconciliation requirement, U.S. GAAP might be evaluated by the EC as un-equivalent to IFRS. On December 21, 2007, the SEC decided to remove the requirements. The Commission notes the reasons for the removing them as follows:

1. Our acceptance of IFRS financial statements without the U.S. GAAP reconciliation will encourage more foreign issuers to prepare financial statements in accordance with IFRS.
2. It will facilitate capital formation for foreign private issuers that are registered with the Commission.
3. Adopting these amendments now may serve as the incentive to encourage the use of IFRS as issued by the IASB, as well as to support their development as a truly globally accepted set of high-quality accounting standards.³²

Thus, the Commission is adopting the amendments of Item 17(c) so that the reconciliation requirements shall no longer be required from FPI that prepares financial statements that comply with IFRS as issued by the IASB.³³

C. The EC's Decision to Assess the Equivalence

In December 2007, the EC consulted with the CESR about the technical assessment of the equivalence of the U.S. GAAP. The CESR draws the following conclusions:

1. The IASB and the FASB have publicly committed to convergence between IFRS and U.S. GAAP.
2. The two boards are addressing the main differences identified by CESR in its 2005 advice.
3. A mechanism has been set up within the two bodies to ensure that new standards or interpretation issued do not create new differences between the two sets of standards.
4. The two boards will issue joint standards in the future.
5. There is concrete evidence of active work between the two standards setters.³⁴

The CESR recommends that the Commission finds U.S. GAAP equivalent to IFRS for use on EU markets. The EC takes into account the CESR's consultation. In December 2008, after the SEC removed the reconciliation requirements, the EC concluded "it is appropriate to conclude to consider U.S. GAAP equivalent to adopted IFRS from 1 January 2009".³⁵ The Commission is required to monitor the development of third country GAAP in relation to adopted IFRS. During the period leading up to 2009, the Commission should also inform the European Securities Committee (ESC) and the European Parliament regularly about the progress on convergence and of progress on the elimination of reconciliation requirements.³⁶

4. 2. An Application of a Simple Game

FPI is required to reconcile to U.S. GAAP. The SEC has the authority to decide whether to remove the reconciliation. On the other hand, U.S. issuers in EU market must prepare their financial information in accordance with IFRS or U.S. GAAP considered equivalent with IFRS. The decision whether U.S. GAAP is equivalent to IFRS rests with the EC. In making decisions, the SEC and EC engage in strategic action. Strategic action means that each player must try to determine what the other player is likely to do.³⁷ The author uses a game theory to demonstrate why it may be rational for the SEC and EC to choose their strategy for mutual recognition. The outcome in actions can be illustrated in terms of simple game.³⁸

The SEC has two choices, that is, to accept IFRS without reconciliation (denoted as U.S.=IFRS), or to require reconciliation (denoted as U.S.≠IFRS). The EC also has two choices, that is, to consider U.S. GAAP equivalent to IFRS (denoted as U.S.=IFRS), or to consider U.S. GAAP un-equivalent to IFRS (denoted as U.S.≠IFRS).

The diagram in Figure 2 shows the payoffs to the SEC and EC. Payoffs to the SEC which mean the benefits to U.S. are shown at left hand number in each box. Payoffs to

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EC which mean the benefits to EU are shown at right hand number in each box. The payoffs are defined as the gain (or losses) to market participants' benefits relative to what the benefits would be unless the decisions are made. The benefits means economic concept such as opportunity cost. The numbers are hypothetical. What is important is whether the number is larger or smaller.

Consider each box of Figure 2. Box I (6, 6) signifies that the SEC would accept IFRS, while the EC assesses the equivalence of U.S. GAAP. Box II (0, 10) signifies that the EU would establish hegemony against the SEC. That is, the EC holds U.S. ≠ IFRS, while the SEC holds U.S. = IFRS. Box III (10, 0) signifies that U.S. would establish hegemony against the EC. That is, the SEC holds U.S. = IFRS, while the EC holds U.S. ≠ IFRS. Box IV (2, 2) signifies that both the SEC and EU would impose mutual restriction. That is, they both hold U.S. ≠ IFRS.

Each commission benefits the most if it is the only one to consider U.S. ≠ IFRS, and better off if both consider U.S. = IFRS. Each commission has a dominant strategy, that is, to treat U.S. ≠ IFRS. The SEC, for, example, would reason as follows: "If the EC treats U.S. ≠ IFRS, the SEC will be better off if we also treat the same. If the EC treats U.S. = IFRS, we also better off if we treat U.S. ≠ IFRS. Therefore, we should treat U.S. ≠ IFRS regardless of what the EC does." The EC would reason in the same manner. Unfortunately, when they both treat U.S. ≠ IFRS, both are left worse off than if U.S. = IFRS had been treated. Another way to look at this situation is to recognize that both the SEC and EC would be better off if they could cooperate and mutually agree not to treat U.S. ≠ IFRS. The success of their cooperation depends on whether the SEC and EC could build the mechanism to ensure that U.S. GAAP and IFRS would converge.

		EC' s Strategy for U.S. issuers	
		U.S.=IFRS (equivalent)	U.S. ≠ IFRS (un-equivalent)
SEC' s Strategy for FPI	U.S.=IFRS (accept)	I (6, 6)	II (0, 10)
	U.S. ≠ IFRS (Reconciliation)	III (10,0)	IV (2, 2)

Figure 2 Strategies for Mutual Recognition

4. 3. Future Direction

In view of the current status of sorts of accounting standards adopted by FPI, we can see a future direction toward a global convergence. There are three sorts of accounting standards, i.e. U.S. GAAP, IFRS and Others. Others are non U.S. local GAAP, i.e. Japan GAAP, German GAAP and so on. Figure 3 presents the number of sorts of accounting standards adopted by FPI that filed annual reports on Form 20-F, as of 2010. The number is derived from Table 1 (presented below). However, the subjects of the research were designed to cover FPI listed in the NYSE.

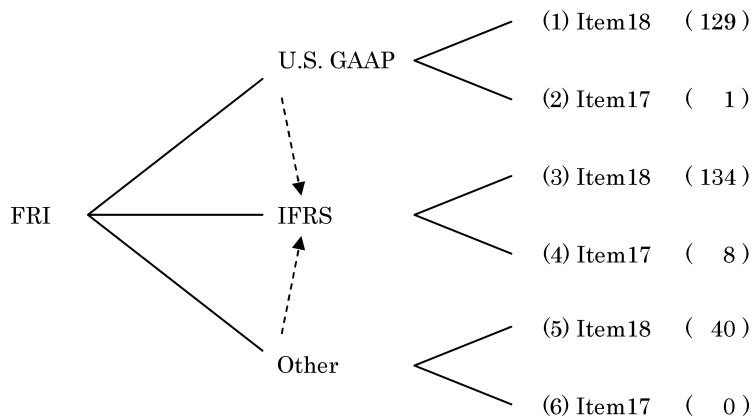


Figure 3 The number of sorts of Accounting Standards adopted by FPI

The aim of my research is to provide an insight into the situation of adoption of IFRS. First, it can be observed that the number of FPI (142) which adopted IFRS is larger than the number of U.S. GAAP adopters (130). The EU, Australia, New Zealand and other countries had recently decided to adopt IFRS for all public companies. The number of IFRS adopters would increase because of a trend toward a global convergence. On the other hand, countries of U.S. GAAP adopters include islands countries such as Bermuda, British Virgin Islands, Cayman Islands and Marshall Islands, and other countries such as Japan, India, Russia and others. For example, Japan chooses to watch the situations in other countries before the final decision to adopt IFRS is made. Countries of “Other” adopters include Argentina, Brazil, Korea, Mexico, Taiwan and others. However, in such countries, there is a time lag in adopting an IFRS as local GAAP. For example, Brazil will start to adopt IFRS in 2012.

Second, the number of FPI (9) which used Item 17 is very small. Most FPI already provide financial information according to Item 18. So far, the SEC has encouraged FPI to provide the financial statements and related information specified in Item 18 of Form 20-F in lieu of Item 17, though the Item 18 statement and information are not required.

However, in 2008, the SEC amends to require Item18 information for FPI.³⁹

To see the future direction, the research concerning a trend of status of accounting standards adopted by FPI should be continued for several years. Moreover, the SEC proposes to adopt IFRS for U.S. issuers. The Commission and FASB are taking steps toward U.S. GAAP convergence with IFRS.

Acknowledgment

I would like to thank Ass. Prof. S. Hattingh for his English advices.

Notes

1. Hendriksen (1982), p. 116.
2. *Ibid.*
3. Camfferman and Zeff (2007), pp. 314-316.
4. SEC (1981), Release No. 33-6360, p. 4.
5. *Ibid.*, p. 6.
6. *Ibid.*, p. 6.
7. SEC (1976), Release No. 34-13056, p. 1172.
8. *Ibid.*, p. 1172.
9. SEC (1979), Release No. 34-16371, p. 1118.
10. SEC (1981), *op. cit.*, p. 5.
11. In March 1982, the SEC adopted a three-tier registration system (Forms S-1-2-3) under the securities Act designed to integrated Securities Exchange Act disclosures into the Securities Act prospectus for U.S. issuers (Release No. 33-6383, 1982. 3). In July 2005, expanding the type of issuers that may incorporate by reference to Forms S-1and F-1 makes Forms S-2 and F-2 superfluous. Therefore, Forms S-2 and F-2 were rescinded (Release No. 33-8591, September 2005).
12. SEC (1981), *op. cit.*, p. 10.
13. Release No. 33-6437 (SEC (1982), p. 1012) required that reconciliation of Item 18 shall be quantified in the following format:

(i) For each year and any interim periods for which an income statement is presented, net income shall be reconciled in a tabular format, substantially similar to the one shown below, on the face of the income statement or in a note thereto. Each material variation shall be described and quantified as a separate reconciling item, but several material variations may be combined on the face the income statement if shown separately on a note.

Net income as shown in the financial statement	XXX
Description of items having the effect of increasing reported income	
Item 1	XXX
Item 2, etc.	XXX
Description of items having the effect of decreasing reported income	
Item 1	(XXX)
Item 2, etc.	(XXX)
Net income according to generally accepted accounting principles in the United States	XXX

(ii) For each balance sheet presented, indicate the amount of each material variations

between an amount of a line item appearing in a balance sheet and the amount determined using United States generally accepted accounting principles and Regulation S-X. Such amounts may be shown in parentheses in columns, as a reconciliation of the equity section, as a restated balance sheet, or in any similar format that clearly presents the differences in amounts.

14. Epstein and Jermakowicz (2009), *op. cit.*, p. 4
15. IFSC (2000), Part A, Names and objectives.
16. EC (2000), para. 9.
17. IOSCO (2000), A Resolution.
18. EC (2000), *op. cit.*, para. 5, 17 and 11.
19. EC (2002), Regulation (EC) No 1606/2002.
20. SEC (2000), Release No. 33-7801, Summary.
21. *Ibid.*
22. See the Section 108 of the Sarbanes-Oxley Act of 2002.
23. FASB and IASB (2002), the Norwalk Agreement.
24. FASB and IASB (2006), A Road Map 2006-2008.
25. EC (2002), article 4.
26. EC (2003), Directives 2003/71/EC and EC[2004] 2004/109/EC.
27. EC (2004), Formal Mandate to CESR for Technical Advice.
28. CESR (2005), Technical Advice on Equivalence.
29. CESR (2007a), Technical advice on a mechanism.
30. EC (2007), Article 2 (Equivalence).
31. *Ibid.*, para. 3, and Section 1 of Article 4 (Conditions for the acceptance of third country accounting standards for a limited period).
32. SEC (2007), p. 12.
33. *Ibid.*, B. 1. The SEC was eliminating Item 17(c)(2)(viii) which related to reconciling disclosures to be provided by issuers that use IAS 22, "Business Combinations," as IAS 22 had been superseded by IFRS 3, "Business Combinations." Because IAS 22 might no longer be used by an issuer preparing IFRS financial statements, the SEC also was deleting Instruction 6 to Item 17 as proposed.
34. CESR (2007b), Advice on the equivalence of Chinese, Japanese and US GAAPs.
35. EC (2008).
36. *Ibid.*, Article 1a.
37. Stiglitz and Walsh (2005), p. 313.
38. In order to explain strategic behaviors of the SEC and EC, I modify the context of the case "Beggar-Thy-Neighbor Tariff Policies" illustrated by Stiglitz and Walsh (2005, p. 317).
39. SEC (2008), Summary.

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Table 1 The accounting basis by country of FPI listing in NYSE.

Country	Number (Companies)	Form 20-F					Other Form
		Accounting Standards			Item		
		U.S. GAAP	IFRS	Others	17	18	
Antigua	0	0	0	0	0	0	
Argentina	10	0	2	8	0	10	
Australia	4	0	4	0	0	4	
Bahamas	0	0	0	0	0	0	
Belgium	2	0	2	0	0	2	
Bermuda	15	9	3	0	0	12	3 ¹
Brazil	27	4	20	3	0	27	
British Virgin Islands	4	4	0	0	0	4	
British West Indies	0	0	0	0	0	0	
Canada	74	1	1	1	0	3	71 ²
Cayman Islands	51	48	3	0	0	51	
Chile	11	0	11	0	0	11	
China	11	0	11	0	3	8	
Colombia	2	0	2	0	0	2	
Denmark	1	0	1	0	1	0	
Finland	1	0	1	0	1	0	
France	7	0	7	0	0	7	
Germany	5	2	3	0	0	5	
Greece	2	1	1	0	0	2	
Hong Kong	3	0	3	0	0	3	
Hungry	0	0	0	0	0	0	
India	9	4	4	1	0	9	
Indonesia	2	0	1	1	1	1	
Ireland	5	2	3	0	0	5	
Isle of Man	0	0	0	0	0	0	
Israel	2	0	2	0	0	2	
Italy	4	0	4	0	0	4	
Japan	18	18	0	0	1	17	
Korea	8	3	1	4	0	8	
Liberia	1	1	0	0	0	1	
Luxembourg	3	0	3	0	0	3	
Marshall Islands	18	16	2	0	0	18	
Mauritius	0	0	0	0	0	0	
Mexico	17	0	2	15	0	17	
Netherlands	9	4	5	0	0	9	
Netherlands Antilles	0	0	0	0	0	0	
New Zealand	1	1	0	0	0	1	
Norway	2	0	2	0	0	2	
Panama	2	1	1	0	0	2	
Peru	1	0	0	1	0	1	
Philippines	1	0	1	0	0	1	
Portugal	1	0	1	0	0	1	
Russia	3	3	0	0	0	3	
Singapore	0	0	0	0	0	0	

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South Africa	5	2	3	0	0	5	
Spain	5	0	4	1	0	5	
Sweden	0	0	0	0	0	0	
Switzerland	6	3	3	0	0	6	
Taiwan	5	0	0	5	0	5	
Turkey	1	0	1	0	0	1	
United Kingdom	25	2	23	0	0	25	
<i>Total</i>	<i>(386)</i>	<i>(130)</i>	<i>(142)</i>	<i>(40)</i>	<i>(9)</i>	<i>(303)</i>	<i>(74)</i>

During August in 2011, the author researched the number of accounting basis by country of 386 FPI listing in NYSE as of December 31, 2010, the companies list of which was prepared by the SEC. SEC's EDGAR system was referred as data source in making research. In judging whether FPI adopted IFRS, he did not distinguish between IFRS as published by the IASB and the jurisdictional version of IFRS.

Note :

1. Figure in Other Form denotes the number of FPI using Form 10-K.
2. Figure in Other Form denotes the number of Canadian issuers using Form 40-F.

