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An analysis of SEC comment letters and IFRS

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Abstract
Purpose – This study investigates the influence of the Securities and Exchange Commission (SEC) on the interpretation and application of International Financial Reporting Standards (IFRS) by examining a group of SEC-selected foreign private issuers filing 2005 annual reports in the USA and reporting using IFRS for the first time.
Design/methodology/approach – This paper uses hand-collected information from SEC comment letters to analyze IFRS topics and documents the ultimate resolution of each SEC comment (no change to filing, current change to filing or prospective change to future filing). The authors use descriptive statistical analyses, as well as a logistic regression model involving the resolution of each SEC comment, to examine the SEC's influence on the interpretation of IFRS.
Findings – The study finds both higher comment totals, and higher numbers of required filing modifications, for those IFRS pronouncements which were identified as needing improvement during the 2006-2008 convergence efforts by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). Additionally, the study documents a decreasing likelihood of a filing modification when US generally accepted accounting principles (US GAAP) guidance is referenced in comment letter correspondence involving IFRS topics.
Originality/value – The study extends the IFRS literature and the SEC comment letter literature by focusing on the resolution of comments directed at IFRS disclosures, as well as exploring the factors which influence whether a comment ultimately requires a filing modification.

Keywords Securities and Exchange Commission, Comment letters, US GAAP, IFRS

Paper type Research paper

1. Introduction and overview

Since 1933, the Securities and Exchange Commission (SEC) has required US-domiciled public companies to file reports using US generally accepted accounting principles (US GAAP). Since the 1960s, foreign public companies filing in the USA have had the option of filing their annual reports (Form 20-F) under US GAAP or reconciling from another comprehensive basis of reporting to US GAAP. International Financial Reporting Standards (IFRS) (known from 1973 to 2001 as International Accounting Standards, or IAS), replaced the national GAAPs of the European Union (EU) nations in 2005, when virtually all EU-listed firms were required to adopt IFRS for financial reporting. The standards have now been accepted by more than a hundred

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countries. Not surprisingly, the SEC (through its Division of Corporation Finance (DCF)), as the primary securities regulator of the US markets, has increasing contact with IFRS as many foreign private issuers file their Forms 20-F using IFRS.

As a result of the EU's adoption of IFRS in 2005, the SEC received the first wave of foreign private issuer Form 20-F filings with IFRS financial statements in 2006. This event was deemed momentous enough for the SEC to issue a separate release detailing its comments on these filings (SEC, 2007a). These filings were reviewed by the DCF under the SEC's regular review program mandated by Section 408 of the Sarbanes-Oxley Act of 2002 (SOX). The DCF evaluates disclosures from an investor's perspective and focuses its reviews on "critical disclosures that appear to conflict with the Commission rules or the application of accounting standards and on disclosure that appears to be materially deficient in explanation or clarity." (SEC, 2016).

These reviews were anticipated with some trepidation. The EU companies under review constituted a large group of important and influential companies. The practical concern in Europe and at the International Accounting Standards Board (IASB) was whether the SEC would uphold the spirit of principles-based IFRS and permit managers greater reporting discretion or impose its interpretations of IFRS on the foreign registrants. Two additional factors magnified this concern. First, the IASB and FASB were seeking to converge IFRS and US GAAP as soon as possible. The FASB and IASB set forth a plan for this convergence effort in the February 27, 2006 Memorandum of Understanding and Roadmap for Convergence (the " 2006 MoU") (FASB/IASB, 2006). The IASB and FASB further updated and refined the 2006 MoU in September 2008 (the " 2008 MoU Update") (FASB/IASB, 2008). Ostensibly, the SEC could use the comment letter process to support its investor-oriented mission, enhancing the quality of IFRS reporting in the USA by increasing and modifying IFRS disclosures in those topic areas where the on-going convergence process revealed disclosure weaknesses. However, the concern was that the SEC would adopt a "heavy-handed" approach to IFRS interpretation, potentially undermining the IASB and any convergence efforts and establishing the SEC's interpretations as the international standard (Neveling, 2005). Second, the SEC had only recently begun making comment letters and company responses publicly available on its website (SEC, 2005). The newly transparent comment and review process allows the SEC staff to exert significant influence on the interpretation of accounting standards (Pozen, 2007). As a result, the review process attracts the attention of companies, their auditors and others concerned that the SEC will "impose different and additional requirements in the application of IFRS through the comment and review process" (Fried *et al.*, 2007). We hereafter refer to the process of IFRS interpretation and application through SEC regulatory review and comment as "comment letter IFRS".

Anecdotal reports arising out of the SEC's reviews alleged comment letter IFRS. Sukhraj (2006a) reported that the SEC sent detailed compliance demands to multiple UK companies, and that UK company financial officers were expressing concerns as to "how far the SEC was going in laying down the law on how IFRS should be applied." Sukhraj (2006b) further reported that UK companies were being required by the SEC to meet "the detailed, line-by-line, rules-based disciplines of USA accounting", rather than being permitted, under IFRS, to report financial statements under a principles-based approach.

This paper's motivation for examining the comment letter process, and potential comment letter IFRS, for this group of foreign private issuers is three-fold. First, the market forces in the USA, including the reporting system and other USA institutions such as the SEC, have created a strong demand for transparent reporting which has resulted in high-quality financial reporting that meets the needs of outside stakeholders (Hail *et al.*, 2010a). Firms subject themselves to the US environment of investor protection regulations and stringent disclosure requirements, and as a result, are compelled to produce and report higher-quality financial information (Beneish and Yohn, 2008). The comment letter process is a potentially under-examined enforcement mechanism which increases disclosure and allows the SEC to impose more stringent and specific disclosure requirements on this group of first-time IFRS filers in an attempt to enhance IFRS disclosure quality.

Second, this group provides a unique cross-section of companies from a perhaps one-time period when the SEC examined all first-time IFRS filers, and these first-time reviews provide the SEC with the ideal opportunity to influence the development of IFRS. Additional or revised disclosures mandated by the SEC for this group of large, world-class companies would likely continue into their subsequent filings and become permanent disclosures; additionally, industry peers would likely follow the SEC comments and adopt SEC-mandated disclosures and modifications.

Third, although IFRS/US GAAP convergence efforts appeared to have stalled, there is renewed interest on the part of the FASB and the SEC for financial statements prepared under IFRS being offered by domestic companies in the US capital markets. The FASB has voiced its support for supplemental IFRS information being presented, subject to audit and regulatory reviews[1]. Although full movement to IFRS for domestic issuers is not generally supported by the SEC, permitting additional disclosure of audited and regulated supplemental IFRS-based financial information is being actively considered[2]. Examining this first-time group provides insights into the IFRS topics examined and the depth of SEC review for a potentially new group of filers presenting first-time supplemental IFRS financials, as well as for foreign public companies reporting under IFRS and seeking to file in the USA for the first time.

This paper's first objective is to examine whether the SEC's comment letters reveal indications of comment letter IFRS. The paper examines the content of the SEC's comment letters issued for a population of 90 foreign private issuers that submitted Form 20-F filings for fiscal year-end 2005 and undertakes a detailed descriptive analysis of the comment letters' content, classifying these comments according to the reporting topic areas defined by IFRS. Evidence indicating comment letter IFRS is found in higher comment totals for those IFRS topics subject to the convergence projects of the IASB and FASB under the 2006 MoU and the 2008 MoU Update. However, potentially more significant indications of comment letter IFRS are comments requiring the registrant to make actual changes to its current or prospective filings. This paper additionally examines and records the ultimate resolution of each comment (i.e. no change to filing, modification of current filing or modification to prospective filings) and classifies comment resolutions requiring filing modifications using the same IFRS topic areas. Further descriptive evidence of comment letter IFRS is found in correspondingly higher comment resolutions requiring filing modifications for the same convergence topic areas. Overall, approximately 65 per cent of the comments required amended disclosure, and approximately 98 per cent of such comments required modifications to future filings.

This paper's second objective is to examine potential manifestations of the SEC's focus on improving disclosure through the comment letter process. A logistic regression model is used to examine two formal research questions involving comment resolutions. The model's dependent binary variable is comment resolution, which is observed in two states: a comment is resolved without a required filing modification or the SEC comment requires a filing modification. First, this paper examines the impact of SEC regulations and regulatory pronouncements on comment resolution and hypothesizes that references in comments to SEC regulations and regulatory pronouncements are associated with an increase in required filing modifications. For the total sample of comments, this paper finds an increasing likelihood of a filing modification. However, this association does not hold under all circumstances; when the sample is restricted to comments focused on IFRS topics, an increasing likelihood of a filing modification is not evident. Second, this paper examines the impact of US GAAP on comment resolution and hypothesizes that references in comments to US GAAP are associated with decreased required filing modifications. IFRS has less detailed guidance than does US GAAP, and thus, many comments (from both the SEC and registrants) make reference to US GAAP when explaining IFRS disclosures. When the sample consists of comments focused on IFRS topics, this paper finds a decreasing likelihood of a filing modification when US GAAP guidance is referenced in the comment correspondence.

This study contributes to the regulatory literature in three important ways. First, comment letters have only been made publicly available since 2005, and the accounting literature analyzing comment letter content is relatively new. Thus, this study contributes to this emerging accounting literature by focusing on the comment letter resolution process and its potential effects on financial reporting disclosure for companies filing in the USA and reporting using IFRS. Further, the small sample size overcomes one of the significant limitations inherent in comment letter studies. As noted in Cassell *et al.* (2013), determining comment resolution is not possible without extensive hand-collection of data. All comment letter data are hand-collected, and unique comment resolution data are obtained for the descriptive and multivariate analyses.

Second, this study contributes to the established accounting literature involving IFRS by examining the SEC's influence on the interpretation and application of IFRS using one of its primary enforcement mechanisms, the comment and review process. Multiple studies analyzing the capital market effects surrounding the change from local GAAP to IFRS find that such effects can vary dramatically, depending upon the local regulatory environment and the strength of legal enforcement (Daske *et al.*, 2008). The SEC's comment and review process is a mechanism for enforcing high-quality financial disclosure by potentially increasing investors' understanding of a registrant's financial reporting through the public discourse in the comment letter process and by enforcing proper disclosure compliance and greater disclosure clarity by requiring additional disclosures or filing modifications.

Third, this paper contributes to the debate regarding potential of IFRS interpretations across jurisdictions. Whittington (2008) notes that various efforts have been made to prevent IFRS interpretations from becoming too detailed or too country-specific; however, this effort is complicated by IASB's necessary reliance on multiple national regulators to assure implementation and enforcement, and such regulators' frequent desire to make country-specific "carve-outs" from the standards. Comment letter IFRS is one potential example of a "nationalistic" slant on IFRS, and this study contributes to a further understanding of how country-specific regulatory structures and enforcement mechanisms affect IFRS interpretation.

The paper proceeds as follows. Section 2 is a literature review, which briefly outlines prior IFRS research and comment letter research. Section 3 outlines the motivation and research questions. Section 4 describes the research data, methodology and descriptive results. Section 5 describes the logistic regression models and results. Section 6 presents the conclusion.

2. Literature review

2.1 Prior research on IAS/IFRS adoption

Considerable research has addressed the capital market effects of IFRS adoption. Evidence suggests that the accounting information of non-US firms applying IFRS is of higher quality than the information reported by firms that do not (Barth *et al.*, 2008). Research has found that mandatory IFRS adoption results in greater firm comparability (Yip and Young, 2012), as well as increased market liquidity and decreased cost of equity capital (Daske *et al.*, 2008), although more recent literature observes that such liquidity benefits are concentrated exclusively in the EU and limited to EU countries with stronger reporting enforcement (Christensen *et al.*, 2013). Within this research stream, several studies have detailed the theoretical relationship between regulation, enforcement and disclosure quality. Barth *et al.* (2008) notes that the regulatory environment is important to the application of accounting standards, and that strong legal systems are associated with less earnings management. A strong regulatory environment is associated with increased investor protection and is important in capital markets by mandating the disclosure of important information, and thus reducing management's opportunistic behavior (Shima and Gordon, 2011). Enforcement works in tandem with the regulatory environment; effective monitoring and prosecution acts as a strong deterrent to offenders and "aligns the incentives for high-quality financial reporting with those of outside investors" (Shima and Gordon, 2011).

Many studies in the capital markets area compared IFRS to local GAAP; however, fewer studies have examined the application of IAS/IFRS and compared it to that of US GAAP. Leuz (2003) and Bartov *et al.* (2005) compared Germany's new market-listed firms using IAS with those using US GAAP and failed to find significant differences between such firms with respect to measures of information asymmetry and value-relevance of financial information in the financial statements. However, more recently, Barth *et al.* (2012) examine a sample of firms from 27 countries that adopted IFRS between 1995 and 2006, and a sample of US firms matched on size and industry. The authors find that US firms' accounting amounts generally have higher value relevance than those of IFRS firms, and that IFRS firms in countries with common-law legal origins and high enforcement are more comparable with US GAAP firms.

Another related strand of literature focuses on the SEC's elimination of the requirement that foreign cross-listed firms must provide a reconciliation to US GAAP in their Form 20-F if they have prepared their financial statements in strict accordance with IFRS as promulgated by the IASB (SEC, 2007c). Several studies have investigated the impact of eliminating the reconciliation requirement, with the general consensus being that there was no loss of information for investors (Kim *et al.*, 2012; Li *et al.*, 2014).

2.2 Prior comment letter research

Academic research in the area of the SEC comment letter process has focused on US-registered firms. Ertimur and Nondorf (2006) examine the initial public offering comment letter process and find that managerial expertise is associated with higher-quality disclosure. Gao *et al.* (2010) find that SEC reviews prompting restatements focus on companies with weaker market monitors, and they find significant variation across SEC industry review groups with respect to such restatements. Cassell *et al.* (2013) investigate factors that affect the probability of a firm receiving a Form 10-K comment letter, the extent of the comments received and the costs of comment letter remediation. The authors find that low profitability, high complexity and weak governance are positively associated with the receipt of a comment letter, the number of comment letter topics and the costs of remediating the comments. Other comment letter research focuses on investors' reactions to the increased information content in comment letters. Johnston and Petacchi (2015) examine the content and resolution of Form 10-K and Form 10-Q comment letters and find improved informational content of earnings and improved firm information content after conclusion of comment letter reviews. Other comment letter research has found that, following receipt of a comment letter, filing disclosures are generally enhanced (Bozanic *et al.*, 2015) and tax avoidance behavior declines (Kubick *et al.*, 2016). Gietzmann and Isidro (2013) investigate changes in institutional investor holdings after a firm receives a comment letter and find that long-term institutional investors react negatively to the issuance of comment letters. Moreover, they find that IFRS-reporting firms have a higher probability of receiving a comment letter, and that institutional investors respond more negatively to IFRS-related comment letters than to US GAAP letters. Theirs is the only other study found that analyzes comment letters involving Form 20-F and IFRS filers. The lack of research into the SEC comment process is largely due to the difficulty in analyzing and classifying the data, not to a lack of interest in the process. The accounting profession, SEC registrants and securities regulators around the globe find the SEC's comment letters of interest.

3. Research questions

This study's initial research question is descriptive: what information from our sample yields descriptive statistical information indicating potential comment letter IFRS? This paper summarizes total comments, rounds and comment letter responses times, as well as tabulating comments and comment resolutions by IFRS topic. The paper focuses on the IFRS topic areas, as comments that request additional information or disclosures could be the SEC's attempt to expand the quality of reporting in the USA for those particular IFRS topic areas of concern (Hail *et al.*, 2010a). In the 2006 MoU, the FASB and IASB noted two short-term convergence projects jointly examined by the FASB and IASB, impairments and income taxes, as well as other joint projects where the then-current accounting practices of US GAAP and IFRS were regarded as needing improvement; business combinations, consolidations, fair value measurement guidance, liability and equity distinctions, performance reporting (financial statement presentation), post-retirement benefits, revenue recognition, derecognition, financial instruments, intangibles and leases. The comment totals for these IFRS/US GAAP topic areas are examined for a heavier comment burden. In addition, each individual comment resolution is examined and tabulated, as a more significant indication of comment letter IFRS with economic implications is whether the SEC requires the registrant to amend or modify its filings (Johnston and Petacchi, 2015; Gietzmann and Isidro, 2013). Heavier comment totals and greater numbers of filing modifications would indicate that the SEC is applying comment letter IFRS to require additional disclosures or disclosure modifications for those IFRS topic areas identified as needing augmentation.

The next two formal research questions investigate other avenues that further reveal indications of comment letter IFRS. The first question pertains to SEC disclosure requirements that go beyond disclosure required by IFRS. In their comprehensive study of the economic and policy factors surrounding the hypothetical adoption of IFRS in the USA, Hail *et al.* (2010a, 2010b) note that such hypothetical adoption of IFRS "poses the question of whether to maintain explicit SEC disclosure requirements that are outside or go beyond those in IFRS". SEC filing rules require far more disclosure than required in many countries, and this additional disclosure is not necessarily incompatible with IFRS, as IFRS does not preclude greater disclosure (Hail *et al.*, 2010a). SEC regulatory disclosures are an integral part of a high-quality, transparent US reporting system. These additional, more stringent or more specific disclosure requirements could be used to improve the quality of IFRS reporting in the USA (Hail *et al.*, 2010a). A potentially opportune method for enforcing this enhanced disclosure regime is the comment letter process. Thus, this paper examines whether comments requiring filing modifications have a positive association with references to SEC regulations, as well as SEC interpretive and other releases and Form 20-F instructions. The formal hypothesis is stated as follows:

H1. References in comment letters to SEC regulatory pronouncements are positively associated with modifications to regulatory filings.

The second avenue pertains to a potential SEC interpretation bias involving US GAAP. IFRS is often noted as being more principles-based than US GAAP and affords managers greater reporting flexibility (DeFond *et al.*, 2011). As IFRS requires that managers exercise greater judgment in its interpretation, then, as Hail *et al.* (2010a) note, the use of IFRS in the USA will potentially require greater interpretation and application guidance. The authors additionally note that when IFRS is adopted in other countries, firms tend to default to their prior local GAAP when "making judgment calls and exercising discretion under IFRS". Further, existing US GAAP-oriented disclosures in registrant filings potentially meet the need for greater interpretation and application guidance and bolster the quality of IFRS reporting in the USA, as US GAAP standards are investor-oriented and capital market-oriented, and thus well suited for the USA environment (Hail *et al.*, 2010b). Thus, the SEC may be inclined to accept, without modification, IFRS interpretation and guidance that more closely follows US GAAP. This paper investigates whether the SEC is less inclined to require filing modifications when the comment letter correspondence between the SEC and the registrant refers to US GAAP for application or disclosure guidance. The formal hypothesis is stated as follow:

H2. References in comments letters to US GAAP are negatively associated with modifications to regulatory filings.

4. Research data and methodology

4.1 Research data

Beginning from July 3, 2007, the SEC posted to its website "Staff Comments on Annual Reports Containing Financial Statements Prepared for the First Time on the Basis of International Financial Reporting Standards" (SEC, 2007a). As part of the posting, the SEC staff provided a description of the comment process, general observations resulting from the review of more than 100 foreign private issuers and copies of the staff comments together with the company responses to those comments (SEC, 2007b). As detailed in Table I, this study begins with the 98 companies listed by the SEC and eliminates dual-listed registrants, inadvertent postings and comments related to 6-K filings. Comment letter data are then hand-collected for the remaining 90 firms. Table II provides a more detailed summary of the 90 companies by jurisdiction of incorporation or organization.

Total firms listed in the SEC release (SEC, 2007a)	*98*
Less: registrants listed twice where only one review was completed:	
Barclays Bank plc and Barclays plc	−1
BHP Billiton ltd and BHP Billiton plc	−1
Reed Elsevier NV and Reed Elsevier plc	−1
Rio Tinto ltd and Rio Tinto plc	−1
Unilever NV and Unilever plc	−1
Less: registrants listed twice:	
Skyepharma plc	−1
Less: registrants whose comments related to Form 6-K:	
British Telecommunications plc	−1
BT Group plc	−1
Total	90

Table I.
Number of company comment letters

Country	No.	(%)
UK	34	37.8
France	13	14.4
Italy	8	8.9
The Netherlands	6	6.7
Australia	5	5.6
Spain	5	5.6
Ireland	4	4.4
Sweden	4	4.4
Germany	3	3.3
Denmark	2	2.2
Belgium	1	1.1
Finland	1	1.1
New Zealand	1	1.1
Norway	1	1.1
Portugal	1	1.1
Venezuela	1	1.1
Total	90	100

Table II.
Companies by country

4.2 Descriptive analysis

4.2.1 Rounds and comments. Each individual SEC comment for every company is examined, and the total number of comments issued and number of rounds generated by the SEC are tabulated. A round is completed when the SEC issues a comment letter, and the company provides a response to the questions/comments raised in that letter. Administrative comments are excluded from the analysis (e.g. "The Company is responsible for the adequacy and accuracy of the disclosure in the filings"), as well as any comments or questions from the SEC's Office of Global Risk regarding companies' operations in countries identified as state sponsors of terrorism[3]. Ten of the comment letters reviewed referenced an SEC staff-company conference call that had taken place during the period of a comment round; if the phone conversation raised new or "next-level" issues not previously established in the written communications, the conference call was considered a new round. Table III reveals that the SEC review process yields a mean (median) of 19.0 (15.0) comments over one or more rounds, ranging from one comment in one round to 101 comments cleared over three rounds. In addition, comments may "carry over" comments or questions in earlier rounds or may give rise to completely new issues/comments raised by the SEC; the number of new comments in each round is calculated (a new comment is one that refers either to another location in the 20-F filing or a new financial reporting topic). Most issues were identified by the SEC in the first round. The percentage of new comments per round was approximately 14, 33 and 5 in subsequent rounds two, three and four, respectively.

	Companies	Mean comments	New comment %	Median comments	Minimum	Maximum
One	90	14.7	100	13.5	1	68
Two	61	5	14.1	4	1	26
Three	21	3.4	32.9	2	1	13
Four	10	1.9	5.3	1	1	4
Five	2	1	0	1	1	1
All	90	19	n/a	15	1	101

Table III.
Number of review comments by round

Table IV details the statistics for the response times (i.e. the time, in days, from the SEC's first comment letter to final resolution of all comments in all rounds) and rounds per company. The mean (median) response time is approximately 113 (108) days, with a range of 15 to 276 days. The mean (median) number of rounds is approximately 2.04 (2), ranging from one to five rounds. As a comparison with US registrants, Cassell *et al.* (2013) report a mean (median) of 12 (10) comment topics in the first round letter for comment letters involving Forms 10-K, and mean (median) response time of 80 (61) days. Similarly, Johnston and Petacchi (2015) report mean (median) response time of 87.55 (65) days. This group of foreign private issuer comment letters contains more comments on average and takes longer to resolve than comparable US firm 10-K comment letters. Table V reports the total number of comments, as well as mean and median comments, by jurisdiction.

4.2.2 Comments by financial reporting topic. Each individual comment is examined and the topic references in each comment are coded based on the SEC staff's reference to (1) IFRS, (2) SEC regulations, interpretive releases and other regulatory guidance and (3) US GAAP. As reported in Table VI, 1,416 (62.7 per cent) of the total topic references involved IFRS pronouncements, 707 (31.3 per cent) involved SEC regulations, interpretive releases and other regulatory guidance and/or US GAAP and 134 (5.9 per cent) involved other requirements.

As detailed in Table VII, this study also analyzes the total number of comments (1,787) to determine the resolution of each comment. Not every comment has a resolution; for example, an SEC comment in the first round may be the subject of a continued discussion between the

Table IV.
Company rounds and comment letter series response times per company

	Mean	Median	Minimum	Maximum
Rounds	2.04	2	1	5
Response time (days)	113	108	15	276

Table V.
Comments by jurisdiction

Country	No. of companies	Total comments	Mean comments	Median comments	Minimum	Maximum
Australia	5	106	21.2	22.0	5	39
Belgium	2	25	12.5	12.5	2	33
Denmark	2	21	10.5	10.5	6	15
Finland	1	14	14.0	14.0	14	14
France	14	419	29.9	21.0	5	101
Germany	3	33	11.0	10.0	2	21
Ireland	4	54	13.5	13.0	3	25
Italy	8	164	20.5	18.5	9	31
The Netherlands	6	126	21.0	12.5	1	59
New Zealand	1	17	17.0	17.0	17	17
Norway	1	15	15.0	15.0	15	15
Portugal	1	14	14.0	14.0	14	14
Spain	5	165	33.0	19.0	3	71
Sweden	6	96	16.0	7.0	1	41
UK	34	500	14.7	13.0	1	48
Venezuela	1	18	18.0	18.0	18'	18
Total	94 (90)[a]	1,787				

Note: [a] There are 90 individual companies; however, four of the companies were reviewed twice, for a total of 94

SEC and the client through two or more rounds. These 362 carryover comments are removed from the total. Additionally, 22 SEC comments delivered to registrants that delisted and did not respond are removed. Thus, the net "final" number of resolved comments is 1,403. In 35.5 per cent of these resolutions, the registrant's response to the comment was considered satisfactory, and no further action was required. However, the remaining 63.6 per cent of the comments required amended disclosure in future filings[4]. Although initially surprising that few restatements arise from this sample (12 comments [0.9 per cent]), the SEC was likely cognizant of many registrants' home country legal institutions and adopted a more palatable prospective modification approach for these companies. In civil code countries (e.g. France, Spain, the Netherlands and Italy), only the shareholders or a civil court judge can require restated financial statements once the shareholders have formally approved them (Zeff, 2007). In contrast, in common law countries (e.g. the USA, the UK, Canada and Australia), financial statements are the responsibility of company management, and a regulator (e.g. the SEC) can require restatements (Zeff, 2007).

These results reveal that approximately two out of three resolved comments involved some form of disclosure modification. Gietzmann and Isidro (2013) performed a similar resolution analysis with a larger sample of IFRS filers[5] and found that the SEC requested some form of amendment to approximately 45 per cent of their sample. These descriptive results align with those of Gietzmann and Isidro (2013), but reveal a substantially higher percentage of required modifications for these first-time IFRS filers.

This study analyzes each of the 1,787 comments and first focuses on the 1,416 IFRS pronouncements (Table V) referenced in those comments. The financial reporting topic areas defined by the IFRS standards are used as the primary coding tool; the pronouncements referenced in each comment are coded to IFRS, International Accounting Standards (IAS) or Standing Interpretation Committee (SIC) pronouncements. Table VIII, Columns A and B, provides a detailed break-out of these

Description	No.	(%)
IFRS 1-8, IAS 1-40, and Interpretations of the SIC 12 and 13	1,416	62.74
SEC regulations, releases and regulatory pronouncements and US GAAP	707	31.32
Other miscellaneous requirements	134	5.94
Totals	2,257[a]	

Note: [a] A single comment can reference more than one accounting topic; therefore, this total exceeds the 1,787 total comments

Table VI. Topic references

Resolution	No.	(%)
Registrant disclosure or response was satisfactory	498	35.50
Registrant agreed to modify disclosure in future filings	893	63.60
Registrant restated 20-F filing	12	0.90
Subtotal: Final resolution comments	1,403	100.00
Registrant delisted and no response was made	22	
Comments carried over to a subsequent round	362	
Total comments	1,787	
Final resolution comments involving IFRS pronouncements	945	
Final resolution comments not involving IFRS pronouncements	458	
Final resolution comments	1,403	

Table VII. Review comment resolution

Pronouncement		All comments Column A Total	All comments Column B (%)	Modification comments Column C Total	Modification comments Column D (%)
IFRS1	First-time adoption	87	6.10	39	5.90
IFRS2	Share-based payment	34	2.40	15	2.30
IFRS3	Business combinations	53	3.70	22	3.30
IFRS4	Insurance contracts	16	1.10	11	1.70
IFRS5	Assets held for sale and discontinued operations	40	2.80	13	2.00
IFRS6	Exploration for and evaluation of natural resources	12	0.80	3	0.50
IFRS7	Financial instruments: Disclosure	19	1.30	4	0.60
IFRS8	Segment reporting	1	0.10	1	0.20
IAS1	Presentation of financial statements	149	10.50	75	11.40
IAS2	Inventories	26	1.80	8	1.20
IAS7	Cash flow statements	92	6.50	40	6.10
IAS8	Accounting policies, changes and errors	7	0.50	2	0.30
IAS10	Events after the balance sheet sate	5	0.40	2	0.30
IAS11	Construction contracts	24	1.70	12	1.80
IAS12	Income taxes	57	4.00	26	3.90
IAS14	Reporting financial information by segment	58	4.10	32	4.90
IAS16	Property, plant and equipment	29	2.00	9	1.40
IAS17	Leases	34	2.40	15	2.30
IAS18	Revenue	117	8.30	57	8.60
IAS19	Employee benefits	77	5.40	43	6.50
IAS20	Government grants and assistance	5	0.40	3	0.50
IAS21	Effects of changes in foreign currency	7	0.50	1	0.20
IAS23	Borrowing costs	4	0.30	2	0.30
IAS24	Related party disclosures	3	0.20	2	0.30
IAS27	Consolidated and separate financial statements	18	1.30	11	1.70
IAS28	Investments in associates	18	1.30	6	0.90
IAS29	Financial reporting in hyperinflationary economies	3	0.20	0	0.00
IAS31	Interests in joint ventures	10	0.70	3	0.50
IAS32	Financial instruments: Presentation	47	3.30	21	3.20
IAS33	Earnings per share	22	1.60	16	2.40
IAS34	Interim reporting	5	0.40	1	0.20
IAS36	Impairment of assets	72	5.10	33	5.00
IAS37	Provisions, contingent liabilities and assets	103	7.30	49	7.40
IAS38	Intangible assets	36	2.50	14	2.10
IAS39	Financial instruments: Recognition and measurement	104	7.30	55	8.30
IAS40	Investment property	5	0.40	3	0.50
SIC12	Consolidation–special purpose entities	16	1.10	10	1.50
SIC13	Jointly controlled entities	1	0.10	0	0.00
	Total IFRS pronouncements references	1,416	100.00	659[a]	100.00

Notes: [a] There are 945 comments with final resolutions referencing IFRS pronouncements; Of these 945 comments, 595 require filing modifications. The 659 pronouncement total exceeds the 595 comment total because a comment can reference more than one pronouncement

Table VIII. Analysis of IFRS pronouncements referenced in comments

1,416 IFRS pronouncements references. Second, from Table VII, the 1,403 comments with resolutions are segregated and a sub-sample of 945 comments with resolutions that reference IFRS pronouncements are further isolated. Within this group of 945 resolved IFRS comments, 595 comments required a filing modification. An analogous exercise is performed by coding the IFRS pronouncements referenced in each of these 595 resolved comments that required a filing modification. Table VIII, Columns C and D, provide a detailed tabulation of the IFRS topics for the resolved comments. A majority of the 2006 MoU joint projects were among the highest referenced pronouncements: impairments (IAS 36; 5.1 and 5.0 per cent), income taxes (IAS 12; 4.0 and 3.9 per cent), business combinations (IFRS 3; 3.7 and 3.3 per cent), performance reporting (IAS 1; 10.5 and 11.4 per cent), employee benefits (IAS 19; 5.4 and 6.5 per cent), revenue recognition (IAS 18; 8.3 and 8.6 per cent), derecognition (SIC 12; 1.1 and 1.5 per cent), financial instruments (IAS 39; 7.3 and 8.3 per cent), intangible assets (IAS 38; 2.5 and 2.1 per cent) and leases (IAS 17; 2.4 and 2.3 per cent). Overall, these 10 (out of 38) IFRS topic areas accounted for 50.5 per cent (715/1,416) of the total IFRS topic references in the comments and for 53.1 per cent (350/659) of the total IFRS topic references in comments requiring filing modifications. This summary statistical data suggest that the SEC was most heavily commenting upon and requiring filing modifications in those IFRS topic areas that were subject to the IASB/FASB convergence efforts, and that the SEC used the comment letter process to influence the disclosures for those particular IFRS topic areas of concern in an attempt to improve disclosure quality.

5. Multivariate analysis

For testing *H1* and *H2*, the following logistic regression model is estimated:

$$RESOLVE\,[prob\,(modify\ Current\ or\ Future\ Disclosure\ = 1)]$$

$$= \alpha + \beta_1 REGS + \beta_2 GAAP + \lambda_1 MVE + \lambda_2 SEGMENTS + \lambda_3 EXP + \lambda_4 FO + \lambda_5 GO + \lambda_6 SO + \lambda_7 ROUND + \lambda_8 TWICE + \lambda_9 DAYS + \lambda_{10-17} AD\ OFFICES + \varepsilon$$

The dependent variable, *RESOLVE*, is a binary indicator variable equal to 1 if the SEC staff required a current or prospective modification of the Form 20-F filing, and 0 otherwise.

H1 investigates whether SEC regulations and regulatory pronouncements are positively associated with comment resolution. These additional disclosure requirements can be found in the actual Form 20-F instructions and SEC interpretive and other releases, as well as SEC regulations (e.g., Regulation S-X or Regulation S-K). A binary indicator test variable, *REGS*, is created equaling 1 if the resolved comment contains a reference to specific SEC regulatory guidance, and 0 otherwise. Thus, the model tests whether a required filing modification (*RESOLVE* = 1) is associated with a reference to SEC regulatory guidance in the comment (*REGS* = 1). *REGS* is investigated under two separate samples: the full sample of comment resolutions (1,403 observations) and the sub-sample of comment resolutions that are limited to discussion of IFRS topic references (945 observations). The regression results in the sub-sample are of particular interest and reveal whether filing modifications are associated with SEC regulatory guidance when the comment involves IFRS topics.

H2 investigates whether references to US GAAP guidance are negatively associated with comment resolution. As the SEC noted in its review of these filings, IAS 8 requires that companies look to the pronouncements of other standard-setting bodies (e.g. FASB) when IFRS is not clear with respect to the accounting treatment of a particular matter (SEC, 2007b). As IFRS has less detailed guidance as compared to US GAAP, it will typically require greater interpretation guidance (Hail *et al.*, 2010a). This paper hypothesizes that, when the SEC is evaluating the adequacy of a filing disclosure and the discussion in one or more comment letter rounds refers to US GAAP guidance, then the SEC will be less inclined to require a filing modification. The more detailed guidance provided by US GAAP, coupled with the SEC's greater familiarity with US GAAP, will influence the SEC's acceptance of a registrant's presentation of an accounting matter. A binary indicator test variable is created, *GAAP*, which equals 1 if the resolved comment contains a reference to US GAAP guidance (e.g. a SFAS, EITF abstract or other FASB guidance), and 0 otherwise. The model tests whether a required filing modification ($RESOLVE = 1$) is negatively associated with a reference to US GAAP in the comment ($GAAP = 0$). Similar to the *REGS* measure, the *GAAP* impact is investigated under the same two samples (the 1,403 observation sample and the 945 observation IFRS topic sub-sample). The results in the sub-sample are of particular interest; the implication of a negative, significant coefficient on *GAAP* provides evidence that the SEC is influencing the interpretations of IFRS by favoring disclosures that align with US GAAP.

Multiple control variables are included in our regression analysis to control for other factors that may affect the probability of a comment requiring a filing modification. Two variables are included to control for firm size and complexity in our regression; the natural log of the market value of equity (*MVE*) and the number of business segments reported by the company (*SEGMENTS*). Ertimur and Nondorf (2006) discuss the potential importance of managerial expertise related to the SEC filing process. Prior 20-F filing experience or comment letter experience may be associated with fewer filing modifications; thus, the control variable *EXP* is included which represents the number of 20-F and 20-F/A filings reported on the SEC's Edgar System for the company prior to the first-time IFRS filing.

Additionally, comment resolution may be influenced by a company's legal origins. Ball *et al.* (2000) provide evidence that stronger information disclosure standards found in common law countries result in greater financial statement transparency. Examination of Table V reveals generally larger mean and median comment totals for companies in several code law countries (e.g., France, Italy, the Netherlands and Spain). Following Leuz *et al.* (2003) and Henry *et al.* (2009), control variables are included for the English, French, German and Scandinavian legal origins represented in the sample companies; English registrants are set as our reference group and binary indicator variables are included for French (*FO*), German (*GO*) and Scandinavian (*SO*) registrants.

Three control variables are included to control for observed characteristics in the data. Following Boone *et al.* (2013), the round number (1-5) in which a particular comment was resolved is included (*ROUND*). More rounds required to resolve a comment may indicate greater issue importance and a greater likelihood of a filing modification. Additionally, the SEC staff reviewed Form 20-F filings of four registrants in the sample twice (for fiscal years 2005 and 2006). The variable *TWICE* is included in our regression analysis. Registrants reviewed twice may have peculiar or important topic issues attracting SEC scrutiny. Finally, the number of days required to conclude all comments for a specific registrant's comment letter series is included (*DAYS*). Comment letters taking longer to resolve may indicate more problematic issues with the particular IFRS filing; alternatively, lengthy letters could indicate more thoughtful or thorough responses to the SEC's comments.

Lastly, as the SEC is organized across industry groups and performs its review responsibilities in specific offices, binary indicator variables are included for the SEC AD offices to which each registrant is assigned (*AD OFFICES*). Each industry group is headed by an assistant director, hence the SEC's term "AD office". Differences may exist among the AD offices with respect to the number of comments delivered to companies, the intensity of the staff review and the propensity to require changes to company filings. Gao *et al.* (2010) find that restatements are not uniform across AD offices, and that there are significant variations in SEC monitoring across AD offices. Further, review groups within AD offices, as well as some entire AD offices, are structured along industry lines, thus providing limited control for industry effects.

5.1 Descriptive statistics

Table IX presents descriptive statistics for the sample observation variables. There are large variations in several of the continuous variables. *MVE* ranges from a minimum of 4.31 (US\$74.13m) to 12.26 (US\$210.582m). The number of company segments (*SEGMENTS*) ranges from a minimum of one segment to a maximum of 10 segments, and the number of previous 20-F/20-F/A filings ranges from zero to 10. *ROUND* ranges from one to five, and the days to finalize the comment letter (*DAYS*) range from 15 to 276.

5.2 Regression results

Table X, Panel A presents the results of the logistic regression analysis for the full 1,403 resolved observations. For the test of *H1*, the results show a positive, significant coefficient on the *REGS* test variable (1.129, $p < 0.001$) but an insignificant coefficient on the *GAAP* variable (-0.124, $p = 0.398$). The full sample results support *H1*, indicating a greater likelihood of a filing modification when the SEC introduces regulatory guidance into the comment letter process, but *H2* finds no support. The coefficient on the control variable size (*MVE*) is positive and marginally significant (0.099, $p = 0.053$), suggesting a marginal likelihood of a filing modification for larger companies. Contrary to expectations, the coefficient on the control variable for filing experience (*EXP*) is positive and significant (0.085, $p = 0.045$), indicating a greater likelihood of a filing modification for companies with more extensive filing experience. Two other control variables display high levels of significance in the regression. *ROUND* is positively associated with the likelihood of a filing modification (0.695, $p < 0.001$), indicating that the later the round in which the comment is resolved, the more likely a modification will be required. *DAYS* is negatively associated with the likelihood of a filing modification (-0.003, $p = 0.003$), suggesting that longer comment letter series resolution times are associated with individual comments that are less likely to require filing modifications.

Variable	*N*	Mean	25th percentile	Median	75th percentile	Minimum	Maximum
RESOLVE	1,403	0.645	0	1	1	0	1
REGS	1,403	0.156	0	0	0	0	1
GAAP	1,403	0.216	0	0	0	0	1
MVE	1,403	9.417	8.732	9.661	10.542	4.306	12.258
SEGMENTS	1,403	4.456	3	5	5	1	10
EXP	1,403	4.704	4	4	5	0	10
FO	1,403	0.511	0	1	1	0	1
GO	1,403	0.021	0	0	0	0	1
SO	1,403	0.079	0	0	0	0	1
ROUND	1,403	1.297	1	1	1	1	5
DAYS	1,403	137.845	73	149	183	15	276
TWICE	1,403	0.006	0	0	0	0	1

Table IX.
Descriptive statistics

Variable	Panel (A): Full sample		Panel (B): IFRS pronouncements	
	No modification	498		350
	Filing modification	905		595
	$N =$	1,403	$N =$	945
	Coefficient	*p*-value	Coefficient	*p*-value
Intercept	−0.564	0.340	−0.078	0.916
REGS	1.129	*<0.001*	0.700	0.251
GAAP	−0.124	0.398	−0.376	*0.040*
MVE	0.099	*0.053*	0.037	0.547
SEGMENTS	−0.019	0.561	−0.032	0.418
EXP	0.085	*0.045*	0.085	0.126
FO	0.201	0.164	0.331	*0.060*
GO	0.759	*0.103*	2.075	*0.001*
SO	0.427	*0.093*	0.890	*0.004*
ROUND	0.695	*<0.001*	0.775	*<0.001*
DAYS	−0.003	*0.003*	−0.003	*0.017*
TWICE	−0.750	0.328	−0.074	0.954
AD OFFICE fixed effects	–	–	–	–
	$R^2 =$	0.1235	$R^2 =$	0.1259

Table X.
Logistic regression results

Table X, Panel B presents the results of the logistic regression analysis using the sub-sample restricted to IFRS topic references (945 observations). This sub-sample is particularly relevant, as only those resolved comments that reference IFRS topics are being considered. The *REGS* test variable coefficient loses its significance; *H1* is not supported, as the results indicate that references to SEC regulations, interpretive releases or form instructions are not associated with an increased likelihood of a filing modification when an IFRS topic is being considered in the comment. However, the coefficient on the *GAAP* test variable becomes negative and significant (-0.376, p = 0.040). *H2* finds support in the sub-sample regression; US GAAP references are associated with a decreased likelihood of a filing modification when IFRS topics are discussed. When the comment letter correspondence between the registrant and the SEC makes reference to US GAAP guidance, the registrant's disclosure of an accounting matter is more likely to remain unmodified.

With respect to our control variables in the IFRS topic sub-sample, the size and filing experience variables (*MVE* and *EXP*) lose their significance; however, the *ROUND* and *DAYS* variables retain their significance levels. Further, in the IFRS topic sub-sample, there are positive and significant coefficients on the legal origin control variables (*FO* is marginally significant), suggesting that with respect to IFRS comments, companies residing in code law companies are more likely to have filing modifications as compared to companies based in common law countries.

6. Conclusion

This study examines the content of SEC comment letters for a sample of 90 foreign private issuers for fiscal year-end 2005 and investigates whether the SEC's reviews influenced the application of IFRS. It examines IFRS topic totals in the comments, as well as the resolution of each SEC comment, and finds heavier comment totals for those IFRS topics that the IASB and FASB identified as areas of concern in their 2006 MoU. Additionally, approximately 65 per cent of the comment resolutions require amended disclosures (though predominantly modifications for future filings), and these modifications are concentrated in the same IFRS topic areas with heavy comment totals. Further examination of the comment resolutions finds that SEC regulatory references are not associated with an increased likelihood of a filing modification when IFRS topics are discussed in comment letters, but that US GAAP references in comment letter correspondence are associated with a decreased likelihood of a filing modification when IFRS topics are discussed.

This study is subject to several important limitations. First, the number of companies is small and represents a unique set of predominantly large, first-time IFRS filers. As a result, the results may not generalize to a broader set of filers. Second, the comment letter process takes place during a unique period when the FASB and IASB were fully engaged in convergence efforts, and the SEC was supportive of these efforts. These efforts may have influenced a more robust comment response from the SEC regarding convergence topics. Finally, it should be noted that the logistic regression model was developed based on prior comment letter accounting research, and efforts were made to avoid omitting significant variables. However, there is the risk that omitted variable bias could alter the results.

Although this study represents a somewhat historical examination of the first-time IFRS filers, the results have implications for foreign public companies reporting under IFRS and considering entry into the US markets. The results suggest that companies can expect a comprehensive, detailed review of their IFRS filings upon initial entry into the US market. Thus, to minimize time and compliance costs, the results additionally suggest that companies should concentrate their disclosure efforts on those IFRS topics which attract greater numbers of SEC comments (e.g. financial statement presentation, revenue recognition, financial instruments, post-retirement benefits and contingencies), and that companies reporting under IFRS and filing in the USA strongly consider analogous US GAAP guidance when exercising discretion in interpreting and applying IFRS and preparing filing disclosures.

The results also suggest several avenues for continuing research. Further research could extend the US GAAP analysis to a larger group of companies with legal origins extending beyond the EU concentration in the current sample and examine potential US GAAP influences on IFRS reporting on a more diverse jurisdictional basis. In addition, such analysis could move beyond the current sample's 2005 fiscal-year end analysis and examine US GAAP influences on IFRS filings following elimination of the requirement that foreign cross-listed firms provide reconciliation to US GAAP. The results also suggest further research involving industry analysis and whether US GAAP influences on IFRS financial reporting are concentrated in specific industries as opposed to particular IFRS topics.

Notes

1. FAF/FASB News Release, December 8, 2014, available at www.accountingfoundation.org/cs/ContentServer?c=FAFContent_C&pagename=Foundation%2FFAFContent_C%2FFAFNewsPage&cid=1176164627729 (accessed 5 February 2016).
2. Remarks of James Schnurr, SEC Chief Accountant, before the 2014 AICPA National Conference on Current SEC and PCAOB Developments, December 8, 2014, available at www.sec.gov/News/Speech/Detail/Speech/1370543609306 (accessed 5 February 2016).
3. The Office of Global Security Risk was established in 2004, and works closely with the Treasury Department in an effort to identify potential sources of national security concerns, including state-sponsored terrorism.

4. The authors reviewed the 2006 filings of each of the companies reported in this study. The authors verified that in all but one case, the registrant fully complied with the SEC's request to provide corrections and/or supplementary data in their 2006 filings.
5. The larger Gietzmann and Isidro (2013) sample subsumes this sample; this study examines only first-time IFRS filers identified by the previously noted SEC release.

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