



The Committee of European Securities Regulators CESR

CC: FEE

CESR'S ADVICE ON LEVEL 2 IMPLEMENTING MEASURES FOR THE PROSPECTUS DIRECTIVE – CONSULTATION PAPER

Comments of the Finnish Institute of Authorised Public Accountants

Introduction

The Finnish Institute of Authorised Public Accountants (later "the Institute") has been given the opportunity to comment on the Consultation Paper of CESR's Advice on Level 2 Implementing Measures for the Prospectus Directive. We appreciate this opportunity and we believe that the Prospectus Directive will be of great importance for creating harmony and consistency within EU for financial information of different kind of issuers.

CESR has raised several questions, on which CESR expects feedback and comments. The Institute will in turn give its comments on questions which are of importance and within the competence of the Institute.

Question 56 What are your views on the costs of providing reconciliation as compared with a full restatement?

Reconciliations are always more cost saving than restatements. Restatements require proper presentation and classification of different kind of needed adjustments. In fact restatements means reconciliations of each item in the P/L-Statement as in the Balance Sheet, too. Due to the immense disclosure requirements, restatements are always much more burdensome to prepare than reconciliations. In addition, the review or the audit of the restatement requires much more work by auditors.

Question 57 What are your views on the most appropriate way to present the financial information?

Model for listed companies

Generally the Institute believes that investors should have three years of historical financial information, if applicable. **In order to achieve reliance and sufficient trust on financial information, we must ensure that the information given is proper and prepared on consistent bases.** We face problems in situations, where we need to restate financial information, which has been gathered and measured under a different GAAP. The amount of problems depends naturally on how much accounting principles i.e. previous GAAP and IAS/IFRS differ. Our understanding is that the difference is in many European country very big.

Financial Statements prepared according to IAS/IFRS are mandatory for 2005 when comparable figures are also needed for 2004. If an issuer prepares a prospectus in 2005, we may have reliable figures according to IAS/IFRS for 2004. If three years' track record is required, an issuer needs to have financial information for 2004, 2003 and 2002. Most probably, an issuer has to restate financial information for 2003 and 2002. In many cases companies do not have sufficient methods to provide reliable financial data for 2003 and 2002. Therefore the Institute suggests that financial information should not be restated for years, when financial information was sorted under a different GAAP. The table underneath illustrates the situation:

Prospectus Year of issuance	Financial information according to		
	IAS/IFRS	Local GAAP	
2005	2004	2003	2002
2006	2005, 2004	2003	
2007	2006, 2005, 2004		

Concerning a prospectus issued in 2005, we suggest the four-column approach, where 2004 financial statements would be prepared both according to IAS/IFRS and according to local GAAP (including reconciliations according to IFRS 1) and 2003 and 2002 financial statements would be prepared according to local GAAP.

Concerning a prospectus issued in 2006, we also suggest the four column approach - 2005 and 2004 financial statements would be prepared according to IAS/IFRS, 2004 financial statements would be, in addition, prepared according to local GAAP (with reconciliations) and 2003 financial statements would be prepared according to local GAAP.

Companies seeking for listing

We believe that the four-column approach is the most proper way of presentation. Investors should be provided with three years of history. However, if a company has not originally prepared its financial statements according to IFRS, restating may result in errors and thus may have negative impact on confidence and trust in financial reporting.

Question 58 What are your views on the importance of comparability within the audited historical track record and with the reporting standards that are to be adopted

For equity issuers the Institute believes that the main rule should be to present three year historical financial information. If the company has changed accounting principles from local GAAP to IAS/IFRS during the past three years or is in a process to change principles for the ongoing year, the most important thing is to ensure correct financial information. Usually restating prior years, accounted for under a different GAAP, is difficult. The company may not have methods and processes to restate financial information. Restating may require recording and measuring past transactions according to IAS/IFRS. **In order to achieve reliance and sufficient trust on financial information and thus functioning capital markets within EU, we must ensure that the information given is proper and prepared on consistent bases. We believe this is the most challenging target.**

When changing GAAP, we have to live with financial information presented in two different ways. The connection between different GAAPs should be handled by reconciliation.

Question 59 What are your views on how this should be achieved

We refer to our comments on question 57.

Question 60 Do we agree with the approach taken in relation to issuers of debt securities?

We believe that the four-column approach is proper.

COMMENTS ON ANNEX E – EQUITY REGISTRATION DOCUMENT AND DEBT REGISTRATION DOCUMENT

According to the CESR documents, the following is required: "If the issuer has been operating in its current sphere of economic activity for less than one year, the audited historical financial information covering that period must have been prepared in accordance with the standards applicable to annual financial statements under the IAS Regulation..."

"The historical financial information must have been independently audited..."

The Institute concludes that Interim Financial Statements should be subject to review procedures – not full scope audit procedures. Usually Interim Financial Statements are not prepared with the same accuracy as Financial Statements covering the whole fiscal period. Therefore, it is not consistent to the principle of preparation of Interim Financial Statements, to require full scope audit. The materiality aspect is also more complex for short periods. In addition, there are several questions of accruals, which may be treated in different ways for a very short period. I.e. we can mention accounting for different kinds of marketing costs.

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