

21 November 2003

Mr Fabrice Demarigny  
Secretary General  
CESR

Dear Sir,

**CESR's Draft Recommendation for Additional Guidance Regarding the Transition to IFRS**

We are pleased to provide our comments on the Committee's October 2003 Consultation Paper on additional guidance regarding the transition for IFRS by European companies in 2005.

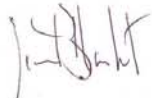
We are totally supportive of the Committee's overall objective of encouraging companies to communicate early and clearly about the impact of the transition from their local accounting rules to IFRS, beginning in early 2004. We believe the introduction of IFRS in Europe over the next two to three years will create a high potential for confusion among users of financial statements. There will inevitably be a lack of comparability in the short term, as some companies will use the exemptions allowed in IFRS 1 and interpretation differences will arise in the application of the standards. Therefore, it is essential that companies be encouraged to disclose early and fully about the impact of the transition process on their reported financial information.

Our responses to the specific questions raised in the Draft Recommendation are included in appendix.

Yours faithfully,



Jack Mueller  
Head of European Equity Research  
MORGAN STANLEY



Jeannot Blanchet  
Executive Director, Equity Research  
MORGAN STANLEY

## **Appendix--Responses to specific questions raised in the Draft Recommendation**

### **Question 1. Do you consider it useful that CESR Members provide recommendations to European listed companies on how to disclose financial information to the markets during the phase of transition from local GAAP to IFRS?**

Yes. CESR's recommendations will ensure a good level of consistency in companies' disclosures about the effects of transition to IFRS.

### **Question 2. Do you agree that European listed companies should be encouraged to prepare the transition from local GAAP to IFRS as early as possible?**

Yes. We believe the use of IFRS as a reporting basis throughout the European Union provides a more useful financial reporting framework to investors than the current one, i.e. having companies reporting under very different local accounting rules. Therefore, the sooner the transition to IFRS, the better for investors; earlier they prepare, the better the information.

### **Question 3. Do you agree that those companies should also be encouraged to communicate about this transition process? If yes, are the 4 milestones identified by CESR for such communication appropriate?**

Yes to both questions.

### **Question 4. What are your views on an encouragement to listed companies to disclose narrative information about their process of moving to IFRS and about the major identifiable differences in accounting policies this transition will bring about? Do you consider it appropriate to include such information in the 2003 annual report or in the notes to the 2003 financial statements?**

We agree with encouraging companies to make narrative disclosures as soon as possible. However, we are concerned that companies will use boilerplate disclosures early on, stating that they have not fully assessed the potential impact of the transition, and that not all IFRS applicable in 2005 are finalised. We would suggest the final Recommendation be strongly worded to avoid the use of boilerplate disclosures by companies as much as possible.

### **Question 5. Do you believe that listed companies should be encouraged not to wait until beginning 2006 for communicating about the impact of the transition to IFRS on the 2004 financial statements if such information is available earlier? Do you agree that quantified information in this regard should be given as soon as possible?**

Yes to both questions, as long as the quantified information is reliable.

### **Question 6. Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS1 for defining which quantified information should be disclosed as a result of the recommendations in § 11 and § 12? Do you believe other disclosures should be envisaged? Do you agree with inclusion of such information in the annual report or in the notes to the financial statements?**

It is appropriate to refer to IFRS1 for defining which quantified information should be disclosed. In terms of other disclosures, the recent IASB decision to delay the application of IAS 39 to January 1, 2005 (i.e. not applied retrospectively) will create even more confusion among users of financial statements, as the IFRS comparatives for 2004 will not truly be comparable to 2005. Therefore, it would be useful to recommend that companies additionally disclose in 2004 the potential impact of applying IAS 39 on January 1, 2005 when quality information is available.. The objective is to get disclosures that can be used by investors to assess the potential impact of the lack of comparability on accounting for financial instruments in the IFRS 2004 and 2005 financial statements. Finally, in terms of location of the disclosures, we would prefer that

such information be disclosed in the notes to the financial statements so that they are subjected to auditors' review.

**Question 7. Do you agree with the principle that any interim financial information published as of 2005 by listed companies should be prepared using the accounting standards that are to be used by those companies for the 2005 year end financial reporting, i.e. IFRS, in the way indicated here under?**

In principle, we would prefer a full application of IAS 34 in the first set of 2005 interim statements, but we understand the pragmatic approach suggested in the Draft Recommendation.

**Question 8. Do you agree that when listed companies do not elect to apply IAS 34 for quarterly information published in 2005, they should be encouraged to prepare and disclose financial data by applying IFRS recognition and measurement principles to be applicable at year end?**

In principle, we would prefer a full application of IAS 34 in the first set of 2005 interim statements, but we understand the pragmatic approach suggested in the Draft Recommendation.

**Question 9. Do you agree with the proposed encouragement for European listed companies to either fully apply IAS34 for half yearly reporting as from 2005 or, if this standard is not applied, to prepare the key half-year financial data that are to be published, in conformity with IFRS recognition and measurement principles to be applicable at year end?**

In principle, we would prefer a full application of IAS 34 in the first set of 2005 interim statements, but we understand the pragmatic approach suggested in the Draft Recommendation.

**Question 10. CESR considered different possibilities for the presentation of comparative information for the corresponding period(s), but concluded that the above proposed solution could appropriately serve users of financial information without imposing too burdensome requirements on issuers. Do you concur with the proposed solutions? In particular, do you agree with the proposals that A) comparative figures should be provided and restated using same accounting basis as for the current year; B) previously published information for the previous period may be provided again; C) explanation of restatement of comparative figures should be given; D) in case of presentation of financial statements over 3 successive periods the restatement of the first (earliest) period could not be required; E) indicative format ("bridge approach") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?**

We agree with this broad proposal.

**Question 11. Do you agree that, in addition to the presentation of comparative information in conformity with IFRS1 (i.e. prepared on the basis of IFRS provisions), it could be deemed useful to present again the comparatives prepared on the basis of previously applicable accounting standards?**

Yes, as long as the different bases of reporting are clearly identified in the financial statements.

**Question 12. Do you agree that, when presentation of financial statements over 3 successive periods is required, it would be acceptable not to require the restatement to IFRS of the first (earliest) period? If yes, do you agree with the indicative format ("bridge approach") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?**

Yes to both questions.