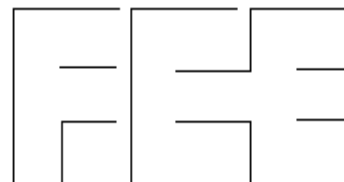


Date  
30 July 2004

Le Président

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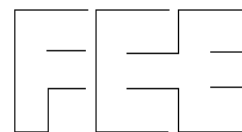
Dear Mr. Demarigny,

Re: Call for Evidence: Mandate to CESR for Technical Advice on Implementing Measures on the Equivalence between certain Third Country GAAP and IAS / IFRS

1. FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) welcomes the opportunity to provide you with our preliminary views resulting from first discussions on equivalence between Third Country GAAP and IFRS. Ever appreciating that CESR has to work towards very tight deadlines set by the Commission, a period of a month in holiday time is too short for an organisation such as ours to submit an official standpoint respecting our full due process. However we believe that our preliminary thoughts may be of interest to you in developing the concept paper for public consultation. We would also be prepared to discuss our ideas further with you in more detail. Members of our Working Parties dealing with accounting and capital market issues would be ready to be involved in expert discussions
2. The comments below are provided on the assumption that endorsed IFRS and full IFRS are the same despite the current discussions on the endorsement of IAS 39. We have not considered the implications of endorsed IFRS not being the same as full IFRS here, but have done so in our separate paper, "FEE Position Call for Global Standards: IFRS" of 4 June. Furthermore we have focused on listed companies only in our observations.

### *Equivalence*

3. Providing an understanding of equivalence, and making a global assessment as to whether financial statements prepared under third country GAAP provide equivalent information as those under IFRS, could constitute an enormous task. It may be a nearly impossible task within the given timeframe, if a complete exercise, including assessment of each individual standard, is envisaged. In particular it may not be sufficient to assess equivalence at a particular point in time, since standards change over time. This will therefore need to be a continuing process. Moreover, CESR is asked to assess a system of standards and not to assess equivalence of individual standards. We also observe that any assessment by CESR on Third Country GAAP might be subject to challenge and CESR would have to produce evidence and reasoning of its decision, particularly when the GAAP of additional countries needs to be assessed. CESR may have to restrict itself to considerations of investor protection and supply and transparency of information. CESR may find it more practical therefore to consider mainly the process of



standard setting and the other surrounding mechanisms, as we discuss further in paragraphs 9 and 10 below.

4. In this respect, CESR will have to decide whether or not it will consider the notion of reciprocity which is clearly a political issue. A balance needs to be found between investor protection and providing access to capital markets for non-domestic companies.
5. If, for a particular Third Country GAAP, CESR concludes that it is not considered equivalent with IFRS, the issue of reconciliation needs to be addressed. A reconciliation requirement could cover the full spectrum from a reconciliation statement of net income and key balance sheet figures to full IFRS financial statements. There is a risk that individual enforcement bodies could require full financial statements if not satisfied with the recommendation provided.
6. The issue to consider is what constitutes equivalence, how equivalence can be assessed and under what criteria. The notion of equivalence is included in the Seventh Directive but has not been developed and interpreted. As a helpful parallel, the SEC has issued a Concept Release in February 2000 on International Accounting Standards to determine under what conditions the SEC should accept financial statements of foreign private issuers using IAS, assessing not only the standards themselves but the elements of a high quality global reporting structure.
7. Our comments below are based on a technical and process viewpoint rather than on political considerations. We provide suggestions for issues which CESR may wish to consider or on which CESR should take an explicit decision not to consider.

#### *Defining Equivalence*

8. What is equivalence? It is possible that equivalence could be interpreted as producing very similar accounting results. If so, our conclusion would be that none of the Third Country GAAPs identified would be equivalent to IFRS. However, in our view, equivalence should be defined as leading to information that is as reliable and relevant as information prepared under IFRS. Under equivalent GAAP, informed users should take the same economic decisions. Issues to be considered in this respect are:
  - Does it concern equivalence of Third Country GAAP or equivalence of Third Country GAAP as applied by a specific company? (Application of Third Country GAAP by a specific company in a specific industry could lead to equivalent financial statements, even where this would in general not be the case, for instance when certain standards are not applicable or amounts involved are not material). We are of the opinion that equivalence should be considered in relation to Third Country GAAP in general rather than on an individual company basis.
  - Could equivalence be different at industry level? (Are there standards for the particular industry; some standards may have a significant impact for certain industries such as financial instruments and insurance)
  - Should equivalence cover recognition, measurement, disclosure and presentation or mainly focus on disclosure? (Should all elements be addressed? Could disclosure compensate for major differences in recognition and measurement?)
  - Should the assessment of equivalence encompass both the issues of comparability between companies and consistency over time? (Even if financial statements are not the same under both GAAPs, should companies not be able to produce a reliable track record demonstrating consistency over time?)
  - Should equivalent Third Country GAAP at least create a level playing field? (The equivalent GAAP should not provide an “easy way” of avoiding using IFRS)

## Criteria

9. Given the complexity set out in paragraph 3 and the enormous task CESR is facing, CESR could consider focusing on the Third Country process of independently produced high quality accounting standards. There may also be a need to consider the mechanisms around accounting standard setting, including audit and enforcement. Several criteria could be considered and different levels of criteria could be taken into account. Issues to be considered in this respect include:
  - Should assessment of Third Country GAAP include other elements of high quality global financial reporting structures such as effective, independent and high quality accounting standard setters? (Would it be important to assess the degree of independence of the standard setter now and in the future? To what extent should the standard setter be free from political interference?)
  - To what extent is Third Country GAAP internationally accepted? (Issues to be considered include: acceptance in European capital markets; proper due process within the standard setter; and well codified and documented standards and interpretations covering all core subjects)
  - Should the Framework from which the Third Country GAAP is derived be considered? This would cover whether the underlying assumptions and qualitative characteristics are equivalent to those set out in the IASC Framework including understandability, relevance, reliability and comparability as well as a true and fair presentation.
10. CESR may also wish to consider the issue of enforcement. Who is going to undertake the enforcement if there is no enforcement body in a particular country to challenge the treatment in financial statements? Should the enforcement body in a Third Country at least have rules similar to the CESR standards?
11. CESR will have to consider if and how to undertake the individual Third Country GAAP assessment. If CESR were to undertake such assessments the GAAP studies undertaken by the large audit firms could be of help, but would need to be updated. Should the Third Country be asked to make an assessment of its standards against IFRS?
12. We intend to comment on the concepts paper when it is published for public consultation. In the meantime we are pleased to discuss in more detail any of the issues raised in this letter.

Yours sincerely,



David Devlin  
President