

CONCEPT PAPER ON EQUIVALENCE OF CERTAIN THIRD COUNTRY GAAP AND ON DESCRIPTION OF CERTAIN THIRD COUNTRIES MECHANISMS OF ENFORCEMENT OF FINANCIAL INFORMATION

Reply of Euronext to CESR consultation paper
(CESR/04-509) dated 21st of October 2004

Euronext believes that work on equivalence of certain third country GAAP and enforcement aspects is important to ensure the establishment of a level playing field in Europe, the creation of a competitive market and enable new entrants to access our markets more easily and at lower costs.

Euronext is therefore grateful for the possibility to comment on CESR's concept paper and would like to draw CESR's attention, in particular, to the importance of reaching harmonised implementation throughout the Member States in this field. This is particularly necessary regarding non-equivalence and request for remedies. This important issue is developed in point C below.

A. Objective of equivalence

Euronext generally welcomes the methodology that CESR intends to use in its assessment work of third countries GAAP. However, while agreeing with the general principles for the review process, we wonder if sufficient evidence from the market participants will be collected to enable CESR to make a correct assessment of the knowledge of third countries GAAP. Consequently, CESR should be as transparent as possible on the process used and should clearly identify the market participants from which it would be key to receive contributions in order for CESR to make a substantiated assessment.

With respect to the assessment of whether a difference between IAS/IFRS and third country GAAP is significant, Euronext believes that to be considered as significant a difference should be recurrent in relation to a large number of industrial sectors. The mere existence of specific accounting standards for a given industrial sector should not be a sufficient basis to conclude to a significant difference leading to a request for remedies or a decision of non-equivalence (e.g. specific accounting standards used in mining or telecom).

Concerning the investor's knowledge of third country GAAP, Euronext finds it hard to support CESR's assumption that all types of investors should master accounting standards in the same way. For professional investors, there is no doubt that they will acquire or already have the required knowledge of IAS/IFRS and of third country GAAP. Most of them indeed already directly invest in third country markets or in securities traded on European regulated markets but based on third country standards.

We are however not convinced that the same level of knowledge can be expected from retail investors, whether on IAS/IFRS or on third country GAAP.

Moreover, it would be premature to consider IAS/IFRS as a benchmark, since they have not yet been applied.

Because of the different levels of knowledge, depending on the type of investor, Euronext believes that CESR should base its assessment work on whether or not there are technical differences likely to result in completely different investment decisions, instead of making risky assumptions on the level of knowledge of investors taken as a whole and of integrating this knowledge in the assessment process.

If CESR was to persist in this way, it would be appropriate to make a distinction between professional and retail investors. It would not be relevant to place on an equal footing market participants that are, by definition, different, the risk being to come to different conclusions as to the equivalence of IAS/IFRS and a third country GAAP, depending on whether investors are professional or not.

B. Review of general principles

Euronext believes that relevance, reliability and comparability are key characteristics that CESR has to take into account in its review process. They are indeed basic accounting principles used when assessing financial statements.

On the understandability concept, **we believe that the definition given by the IAS framework is not appropriate and cannot be used as a basis for comparison.** We indeed would like to underline that this definition is to be used in the particular context of establishing and understanding financial statements based on particular assumptions (users reasonable knowledge and due diligence).

In order to ensure fair comparison between accounting standards, the same assumption has to be made for third country GAAP even if European investors will, in a number of cases, not have the third country background requested to understand the accounting standards in question. The problem mentioned above (i.e. the differentiation between institutional and retail investors) is also an issue in this context.

Euronext welcomes the use of the IAS framework definition of the objectives of financial statements (i.e. to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions). We would even favour the use of this definition in the assessment of equivalence.

C. Consequences of non-equivalence

Euronext welcomes the work made by CESR concerning the potential remedies designed to achieve the objective of a same investment decision and finds those remedies appropriate. However, such remedies should be requested with great care in order not to overwhelm third country issuers.

With respect to the request for remedies, Euronext would favour an approach providing for guidance at European level rather than at the level of each relevant competent authority because of the risks to have different requirements depending on each and every competent authority. Indeed, it could create situations where some regulators would require reconciliation while other would only require further statements. This would not create the

necessary level playing field since regulators requirements would be unfavourable for listing platform established in countries where the competent authority is particularly demanding from issuers located in third countries.

We therefore believe that CESR's proposals should prevent discretionary interpretation from the Member States competent authorities as to whether remedies should be applied or not. Such proposals should also make clear what a third country issuer, wanting to access EU markets, has to specifically consider regarding its financial statements and what should be disclosed in its documentation as well as how it should be disclosed. It is also important that information on such requirements be easily accessible to third country issuers (e.g. posted on a website) especially regarding the main accounting items on which remedies have to be applied as well as explanations on the way to implement remedies in third country financial statements. This would enable third country issuers to clearly identify what they would be required to do in the accounting field in order to meet the European accounting requirements and give them the possibility to make prior due diligence. In addition, easy access to information on these matters will contribute to reduce the burden and the costs for third country issuers, enhancing the attractiveness of EU markets for such issuers.

Concerning the auditors' work, we believe that it would be useful to ensure that the auditors who have to recognize the additional remedies have sufficient knowledge of IAS/IFRS accounting standards.