



LONDON INVESTMENT BANKING ASSOCIATION
6 Frederick's Place, London, EC2R 8BT
Tel: 020-7796 3606 Fax: 020-7796 4345
Direct: 020-7367 5507 E-mail: ian.harrison@liba.org.uk

3 August 2004

M. Fabrice Demarigny
Secretary General, CESR
11-13 Avenue de Friedland
75008 Paris
FRANCE

By email to secretariat@cesr-eu.org

Our Ref: [ian/cesrequivalence/ACC3/ACC20](#)

Dear M. Demarigny

Equivalence Between Third Countries GAAP and IAS/IFRS

Further to our brief telephone conversation on 21 July, I am writing on behalf of LIBA (the London Investment Banking Association) in response to CESR's call for evidence relating to the EU Mandate to CESR for Technical Advice on Implementing Measures on the Equivalence between third country GAAP and IAS/IFRS, which was published on 29 June. I am most grateful to you for allowing us to submit this response a few days beyond the 29 July deadline.

LIBA is, as you know, the principal trade association for those European and international investment banks and securities houses which conduct their European activities from London. Our members (a list of whom is attached) take a close interest in all aspects of the EU Regulation and related developments, including the involvement of CESR, particularly where there are potential cross-border issues which could impact the international financial markets in which they operate.

We are delighted that the EU has taken the positive step of asking CESR to provide technical advice on determining whether certain non-EU GAAPs can be considered "equivalent" to IAS/IFRS as endorsed under the IAS Regulation. As is evident from the attached list, many LIBA members have their ultimate parent company outside the EEA – typically in the US, Japan or Switzerland, and most of these entities expect to be impacted by the Prospectus and/or Transparency Obligations Directives. Considerable concern has been expressed by this group over the delay in establishing whether or not they will be required to produce dual sets of financial statements. We are therefore very pleased to have the opportunity to provide our initial comments on how CESR might approach the Mandate, and we look forward to providing further input as work on this important topic progresses.

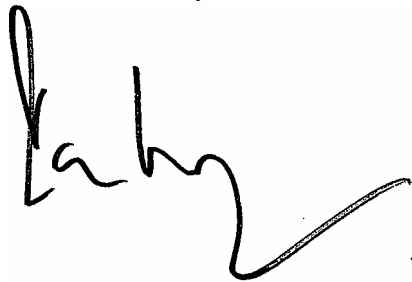
Our suggestions at this stage are as follows:

- Without in any way detracting from the need to ensure due process, we hope that CESR will do everything possible to reach a conclusion as soon as possible. With this in mind, we hope that some of our thoughts may help to reduce the amount of work that will be required. In particular, we would encourage you to make as much use as possible of the substantial body of existing work (by standard setters, regulators and others) comparing the various financial reporting frameworks, identifying significant differences, and establishing convergence projects. The IASB has, for example, carried out extensive comparisons between its own accounting standards and those issued by the FASB, while the “Big Four” accountants have produced a number of detailed comparisons between IAS/IFRS and other major GAAPs.
- In the interests of both consistency and efficiency, we strongly support a unified approach to the requirements of both the Prospectus Directive and the Transparency Obligations Directive. Similarly, we suggest that both the “Concept Paper” and the ultimate advice on equivalence should at this stage be restricted to financial statements only, and that both should consider each set of GAAP requirements as a whole, as opposed to making direct and specific comparisons between individual accounting standards, interpretations, statements of positions or other pronouncements.
- Any assessment needs to consider not only the current EU and third country GAAP, but also how each of these GAAPs is expected to, or is intended to, change in the future.
- As we have stated in previous correspondence with the EU, with EFRAG, and with others, we consider that any set of accounting standards must be comprehensive if it is to be credible. The comprehensiveness of each GAAP should therefore be a key factor in considering its possible equivalence to adopted IAS/IFRS, although this must not result in a third country GAAP being held to a higher standard. (This last point could be a material issue if, as seems likely, the EU is to be without a comprehensive adopted accounting standard for financial instruments, at least for the immediate future).
- Notwithstanding the comments in the previous bullet point about the need for standards to be comprehensive, we believe CESR should examine how best to deal with situations where a third country GAAP lacks appropriate standards for one or more limited areas, but where the nature of these areas is such that this lack is unlikely to affect the great majority of entities who might wish to take advantage of the “equivalence” exemption. To take a hypothetical case, it would be unreasonable for a lack of appropriate accounting guidance for (say) agriculture to prevent all non-agricultural companies from benefiting from equivalence.
- A third country GAAP should not be considered equivalent to adopted IAS/IFRS unless there is an effective enforcement regime which is at least comparable to the enforcement regime being put in place in the EU.

- We note that CESR has been invited to consider what remedies should be applied where a third country's GAAP is not assessed as "equivalent". We believe that, provided the third country GAAP is not considered to fall significantly short of acceptable equivalence, it should be sufficient for reporting entities to provide a reconciliation to adopted IAS/IFRS.
- Finally, it would be very helpful if CESR were able to confirm that, under the transitional arrangements, an entity will be permitted to continue to use its own local GAAP for reporting until 1 January 2007 for both the Prospectus and the Transparency Directives. We would expect that these transitional arrangements will, as a minimum, apply to those GAAPs that are being assessed as part of this process.

I hope you will find these comments helpful. We would of course be very pleased to expand on any particular points if there are aspects which you find unclear, or where you would like further details of our views.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping underline.

Ian Harrison
Director

LONDON INVESTMENT BANKING ASSOCIATION

LIST OF MEMBERS

ABN AMRO Bank
Arbuthnot Latham & Co., Limited
Arbuthnot Securities Limited
BNP Paribas
Banc of America Securities Limited
Barclays Capital
Bear, Stearns International Limited
Brewin Dolphin Securities
Bridgewell Group Limited
Cazenove & Co. Ltd
CIBC World Markets
Citigroup Inc.
Close Brothers Corporate Finance Ltd
Collins Stewart Limited
Commerzbank AG
Credit Suisse First Boston (Europe) Ltd
Daiwa Securities SMBC Europe Limited
Dawnay, Day & Co., Limited
Deutsche Bank AG London
Dresdner Kleinwort Wasserstein
Evolution Beeson Gregory Limited
Fortis GSLA Arbitrage Limited
Goldman Sachs International
Greenhill & Co. International LLP
Hawkpoint Partners Limited
HBOS Treasury Services plc
HSBC Bank plc
Instinet Europe Ltd
Investec Plc
J.P. Morgan Securities Ltd
KBC Peel Hunt Ltd
Lazard & Co., Limited
Lehman Brothers
Merrill Lynch Europe PLC
Mizuho International plc
Morgan Stanley International Ltd
Nomura International plc
N M Rothschild & Sons Limited
Numis Securities Limited
Robert W. Baird Group Limited
Singer & Friedlander Limited
3i Group plc
UBS AG London
WestLB AG

3 August 2004