

21 November 2003

FINANCES DEVELOPPEMENT GROUPE

3, Rue d'Antin
75002 PARIS

Mr Fabrice Demarigny
Secretary General, CESR
11-13, avenue de Friedland
75008 PARIS
FRANCE

Re : CESR – Draft recommendation for additional guidance regarding the transition to IFRS

BNP Paribas is a major international banking and financial services group with strong positions in Europe and Asia and an increasing presence in the United States. The Group is the first banking group in the euro zone regarding net income and market capitalization. It is represented by its international network in more than 85 countries and employs 85 000 persons.

Dear Mr Demarigny,

We are pleased to provide our comments on the above draft recommendation which reflect joint deliberation between ourselves and Société Générale.

General comments

In our view, the recommendations provided by this paper should enable the setting out clearly of what financial information is required regarding the transition to IFRS and ensuring the consistency of such information in a new normative and regulatory accounting environment.

However, if this paper contains useful and relevant recommendations in a stable accounting environment, it remains difficult for the companies to meet fully these requirements in a changing context, as IAS/IFRS still will be in 2003 and 2004.

Specifically in relation to the standards still in progress, the level of financial communication will be very mixed according to the different economic sectors ; we believe that the final CESR paper should state clearly that some sectors (for example banking groups, in relation to the option of non-retrospective application of IAS 32 and 39) will publish in 2003 and 2004 financial information which will be by nature less complete than information published by other economic sectors' companies (see question 4).

Though they should be applied by 1 January 2005, IAS 32 and 39 (disclosure and measurement of financial instruments, which make up for a banking group the largest part of

its balance sheet) are still under discussion on important issues and should only be published in their final version during the first quarter of 2004. We believe that in its final recommendations CESR should take into account this fact as a specificity of the transition to IAS/IFRS for European banking and insurance groups.

Moreover, IASB allows companies to apply these standards prospectively ; no comparative information regarding balance sheet and profit and loss items in the scope of these standards would be required by IAS/IFRS for 2004, which strengthens the particular nature of their transition to IFRS for European financial groups.

It is our belief that it is essential that CESR clearly conforms to IASB's line in its final recommendations and does not require that companies publish comparative financial statements for 2004 with figures restated taking into account consequences of first adoption of IAS 32 and 39 (of which the retrospective application in 2004 is not compulsory) or any other standard which would not be applicable by 1 January 2004.

Additionnally, we would like to inform CESR that the important uncertainties on the definitive accounting policies and requirements to apply and the necessary changes in the information systems will not allow us to publish as early as 2004 the effects of this application on our 2004 financial statements (see questions 5 and 6). For example, the definition of deferred expenses should be only clarified in the Standard « Additional amendments to IAS 39 » in the first quarter of 2004.

Being able to set out the effects of the application of IAS/IFRS in our 2004 financial statements seems at this point to us to be impossible.

As such, we are in full agreement with CESR's recommendations that financial information should be communicated « as soon as possible » but only when it is reliable and definitive.

Finally, we would like to add that our IFRS 2004 (excluding application of IAS 32 and 39) and IFRS 2005 financial statements will not be comparable because of very large impacts on the financial statements of a banking group that will result from the first application of IAS 32 and 39 at 1 January 2005 (see question 10).

We detail in Appendix 1 our views on the draft recommendation.

If you have any queries regarding our comments, please do not hesitate to contact me at 33-1 40 14 73 02.

Sincerely,

Philippe BORDENAVE
Chief Financial Officer

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, we consider these recommendations useful.

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 ?

We agree.

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 ?

We agree.

However, as indicated in our general comments, it does not seem to us feasible to consider communicating IAS/IFRS financial data before the publication of 2004 annual financial statements.

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 ?

1) We consider useful to describe narrative information in our financial statements for the year 2003 about our plan and degree of achievement in our move to IAS/IFRS as well as the major differences identified to date between our present accounting policies (French GAAP) and the ones we know with sufficient certainty we will have to apply under IFRS in 2005.

This information will help financial statements' users to understand and to best prepare themselves to the transition to IAS/IFRS in 2004 and 2005.

However, at the time of publication of the 2003 financial statements, several standards which should be in theory applied from 1 January 2005 will not have been published in their definitive form. This situation means that a large part of financial communication, even narrative, will be rather imprecise regarding the major differences between present and IFRS accounting policies.

Appendix 1

Comments on CESR draft recommendation regarding the transition to IFRS

The standards concerned are the following :

- Amendments to IAS 32 and 39 : exposure draft on macro-hedging (ED 6) to comment by companies by November 14th, 2003, definitive IAS 32 and 39 to be published in March 2004
- Business Combinations Phase I : comments to exposure draft (ED 3) under review by the IASB, definitive standard to be published in 2004 first quarter
- Share-Based Payment : comments to exposure draft (ED 2) under review by the IASB, definitive standard to be published in 2004 first quarter
- Insurance Contracts Phase I : comments to exposure draft (ED 5) under review by the IASB, definitive standard to be published in 2004 first quarter
- Assets disposals : comments to exposure draft (ED 4) under review by the IASB, definitive standard to be published in 2004 first quarter

Additionally, these standards still in exposure draft form may modify some accounting policies required by definitively approved standards, what makes the transition to IFRS still more delicate and intricate.

As examples, ED 4 modifies IAS 27 and removes the exemption of consolidation for companies of which the detention by the parent is less than 12 months and ED IAS 39 is modified by ED 5 about the accounting treatment of financial guarantees.

2) We consider appropriate to include such information in the 2003 annual report.

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 ?

Firslly, we would like to point that, as required by article 4 of the European regulation n°1606/2002, European listed companies will have to publish their IAS/IFRS consolidated financial statements only for periods beginning on or after 1 January 2005.

However, BNP Paribas shares CESR's concerns and would prefer communicating as soon as possible (as soon as information is reliable) about the impact of the transition to IFRS on its financial statements.

To meet this objective, the Group will not wait until the beginning of 2006 for publishing information on the impact of the transition to IFRS on its 2004 financial statements as the opening and year-end IFRS 2004 balance sheet and profit and loss account of 2004 first six months will be published during the summer of 2005 with the half-year 2005 financial statements (and even in May 2005 for the profit and loss account of the first quarter of 2004).

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However, the strong uncertainties on the definitive accounting policies and requirements to apply and the necessary changes in the information systems will not allow us to publish as early as 2004 the effects of this application on our 2004 financial statements.

We think that the publication of any IAS/IFRS financial information in our 2004 financial statements would be deceitful for users of these financial statements. As such, we respect CESR's recommendations ; CESR indicated that financial information should be communicated « as soon as possible » but only when it is reliable and definitive.

Question 6 : Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS 1 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 ?

In line with the IFRS1 provisions described in Implementation Guidance IG 63, this information may consist in :

- a reconciliation of shareholders' equity at the date of transition (for example 1 January 2004) from previously used GAAP 10 to IFRS. It can take the form of a 3-column table presenting a summarised opening balance sheet under previous GAAP, the effect of the transition to IFRSs and the corresponding IFRS figures. It should be accompanied by a note explaining the effect on each line item presented.*
- a reconciliation of shareholders' equity at the end of the reporting period (for example 31 December 2004) from previous GAAP to IFRS under the same format and with the same level of information.*
- a reconciliation of the profit and loss account from previous GAAP to IFRSs under the same format and with the same level of information.*
- an explanation of the main adjustments to the cash flow statement.*

Please see question 5.

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 ?

We agree.

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 ?

We agree.

We would like to set out again our general position on the question of quarterly information.

We strongly support the current non-requirement by market authorities of the publication at each quarter of the same level of information as at half-year.

Such an obligation (through the compulsory application at each quarter of IAS 34 or a requirement of the future European « Transparency » directive) would considerably increase the work to be performed at each quarter and would hinder the principal objective of quarterly communication, which in our view is to publish quickly summary and reliable information.

Question 9 : Do you agree with the proposed encouragement for European listed companies to either fully apply IAS 34 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 ?

We agree.

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 statement 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?

Proposed format at 31/03/2005 (if application of IAS 34) and at 30/06/2005

Items of Financial Statements	30/06/2005	30/06/2004	30/06/2004	30/06/2003
	IFRS	IFRS (restated)	French GAAP	(as published)

A) We do not agree.

As set out in our general comments, we think that CESR should take into account the specificities of transition to IAS/IFRS for banking groups (non-retrospective application of IAS 32 and 39). Because of these specificities, we estimate that « providing and restating comparative figures for 2004 using same accounting basis as for the current year (ie 2005)» will not be possible.

Appendix 1

Comments on CESR draft recommendation regarding the transition to IFRS

Additionally, we would like to point out that the option of non-retrospective application (on the model of IAS 32 and 39) should be extended to standards which are strongly linked to IAS 39 or will not have been published in their definitive version by 1 January 2004 (as for example IAS 18 or future Insurance Contracts – Phase I).

- B) We agree
- C) We agree
- D) We agree

- E) We support CESR's objectives regarding to a clear and synthetic presentation of comparative information.

However, the recommended format (« bridge approach ») is in our view impossible to follow for a banking group insofar as the balance sheet and profit and loss account items would be very different under French GAAP and IAS/IFRS (example : presentation of securities).

More generally, we point out again that our IFRS 2004 (without application of IAS 32 and 39) and IFRS 2005 financial statements will not be comparable because of very large impacts on the financial statements of a banking group which will result from the first application of IAS 32 and 39 at 1 January 2005

To our mind, mixing this way balance sheet and profit and loss account items for financial assets and liabilities, which are by nature the largest items in a banking group's financial statements, is far from being the best way to present relevant information for financial statements'users. These financial items will be namely measured very differently under IAS/IFRS in 2004 and 2005 financial statements.

We rather advocate, each time they are necessary to help in understanding of financial information by users, the publication of formalized tables explaining the transition from the last French GAAP financial statements to the new ones under IAS/IFRS.

We think that such a presentation should be consistent between companies of the same economic sector. Obtaining a consensus between French and European banking groups on an indicative format seems to us to be very important.

Question 11 : Do you agree that, in addition to the presentation of comparative information in conformity with IFRS 1 (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 ?

We agree.

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 ?

1) We agree

2) Please see question 10