

Dear Mr. Fabrice Demarigny,

The Banco de Portugal welcomes the opportunity to comment on the proposed "Draft Recommendation for Additional Guidance Regarding the Transition to IFRS".

We will not be answering on each and specific question raised in the consultation paper, as we are mostly concerned with the specificities of the process of transition to IFRS in relation to the banking system.

We are supportive of measures that encourage the preparation of financial statements that provide useful information to the decision making needs of its users.

We also understand the advantages of gradually preparing the market for the impact of the transition to IFRS.

Nevertheless, in what concerns the banking system, such impact will mainly arise from the adoption of the standards related to the recognition, measurement and disclosure of financial instruments ? IAS 32 and IAS 39 ? which were not endorsed, in the European Union, along with the other standards in the 29th September Regulation (1725/2003) and whose date of future endorsement is still not certain, being dependent ? inter alia ? upon the conclusion of the process of discussion and revision. Moreover, in the July and September meetings held by IASB, the Board tentatively agreed upon some changes regarding the rules on first time adoption of those two standards, suppressing the need to restate the 2004 financial statements and modifying the impact of the transition (namely, due to the change in the retroactivity period of application of the derecognition rules).

Therefore, in what concerns the banking system, considering that the impact of transition will mainly arise from the adoption of those standards on financial instruments, and that the respective first time application rules, whose process of revision, adoption and endorsement still remains surrounded by a considerable degree of uncertainty, we do believe that the reliable communication on the real impact of transition to IFRS, before 2005, is seriously compromised ? and that 2003 would most certainly be a premature date for the disclosure of information, inhibiting the accomplishment of the proposed objectives of producing relevant and reliable information.

The issuance of a recommendation on how to disclose financial information to the markets during the phase of transition to IFRS should by no means disregard these specificities of the banking industry. If quantitative information is to be required before 2005, CESR would have to publish more detailed guidance, regarding how to gauge the impact on banks' financial statements, so as not to compromise the reliability of the information transmitted, which could, perversely, induce negative reactions by the market participants.

Yours sincerely,

Carlos Santos

Head of the Banking Supervision Department

Banco de Portugal