QUESTIONS POSED IN CESR DRAFT RECOMMENDATION 03-323b

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?

We consider that, in principle, CESR can usefully provide recommendations on the minimum disclosures during the transition phase. Recommendations can provide assistance to companies in developing their communication strategy and provide some guidance to users on what they can expect companies to provide. However, any guidance should be at a sufficiently high level that companies do not feel compelled to provide information before it has been subject to sufficient quality control and audit checks. If information is provided without sufficient checks and later has to be corrected, this can cause confusion, and will be to the detriment of investors, the company concerned, and the markets generally.

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?

Companies clearly need to have internal processes in place to plan their transition as soon as is practically possible. However - assuming that the timetable for the development of the accounting standards allows - although some companies may wish to be in a position to run dual reporting systems in 2004, others may wish to perform retrospective restatements for 2004, and even for 2005, reporting. Any minimum disclosure recommendation should therefore acknowledge that different strategies may be appropriate in different circumstances.

Question 3

Do you agree that those companies should also be encouraged to communicate about the transition process? If yes, are the 4 milestones identified by CESR for such communication appropriate?

We agree that companies should be encouraged to communicate about their conversion plans. While the 2003 annual report and 2004 and 2005 interim and annual reports provide one framework for such communication, other equally valid communication milestones are possible. For example, in the UK preliminary announcements are required, and companies may wish to use these documents. Alternatively, other companies may wish to arrange special communications with analysts and shareholders to discuss IFRS conversion issues outside the timing of the normal reporting framework

Any guidance produced by CESR should acknowledge that different milestones are possible and even desirable, depending on local market practice. This is a further reason why the guidance should be at a sufficiently high level.

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?

It is clear that companies should at some point give some narrative information about their conversion plans. Given that no final IFRS standard has been issued or endorsed by the EU Commission, however, it seems premature to expect companies to be in a position to disclose major identifiable differences in accounting policy in their 2003 financial statements. Therefore, while it may be appropriate to expect companies to explain their conversion plans in 2003, we do not agree that they should be expected to start identifying accounting differences at that time.

Moreover, some companies may wish to provide information about their conversion plans in the MD&A or OFR, others may choose to do so in the notes to the accounts or in forms of market communication outside the normal reporting cycle. Therefore, the location and timing of the disclosure should not be specified in guidance.

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?

We agree that companies should not wait until they release their 2005 annual report in 2006 to communicate about the impact of the transition to IFRS. Indeed, where companies are subject to half-yearly or quarterly reporting requirements, the first IFRS financial information will be disclosed in the first 2005 interim report released in 2005, and this information will include 2004 IFRS comparatives.

Therefore, the latest date at which 2004 IFRS financial information will be released is in August/September 2005 for companies with December year-ends which are subject to half-yearly reporting. Companies may in fact wish to release their 2004 IFRS comparatives before the half-yearly report. However, we do not agree that quantification of the impact of IFRS should be required to be given "as soon as possible", but only when there has been sufficient internal and external review processes undertaken to ensure that the information will not be later revised. Quantification should also only be released where the company's management is in full understanding of the nature and impact of the conversion adjustments.

We are also concerned that old GAAP and IFRS information covering the same period should not be required to be communicated at the same time and in the same document, since there is great potential for confusion for all concerned, particularly in advance of 2005. This potential for confusion is exacerbated by the fact that, unless companies choose to adopt IAS 32/39 in advance of their application date, the 2004 comparatives will not contain adjustments related to these standards and will not, therefore, be comparable with 2005 IFRS data. Therefore, even if companies were in a position to provide 2004 IFRS comparatives in their 2004 annual reports, the absence of information about the IAS 32/39 adjustments would not give users a sufficient understanding of the likely impact of adopting IFRS in 2005, particularly for large companies and banks that make extensive use of financial instruments.

We therefore do not agree that companies should be required to provide 2004 IFRS comparatives, or other quantification of the impact of conversion, in their 2004 annual reports.

<u>Question 6</u>

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?

We consider that it is wholly inappropriate to refer to Implementation Guidance published by the IASB in connection with IFRS 1. This guidance is clearly marked as not being part of IFRS 1 and should not be referred to by CESR Members in a manner that could, by implication, give it a mandatory status.

While we agree that quantified information about the impact of the transition to IFRS is likely to include IFRS profit and loss account and balance sheet numbers as well as reconciliations of equity and profit at transition and at the reporting date, we do not believe the formats suggested by the Implementation Guidance are the only formats that can be used for the explanation. This is why the non-mandatory status of the Implementation Guidance is important. If CESR wants to refer to the requirements in IFRS 1 for explanation of the transition, reference should be made to paragraph 38 of IFRS 1.

As set out in our response to question 5, we do not agree that CESR should issue guidance requiring that the 2004 IFRS comparatives and reconciliations be included in the 2004 annual report.

<u>Question 7</u>

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, ie IFRS, in the way indicated here under?

Yes. This is in accordance with IFRS 1, paragraph 2 (b). It also accords with our expectations of the application of the current UK listing rules and is not dependent on the Transparency Directive.

<u>Question 8</u>

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 the year end?

The timetable for producing and communicating dual GAAP financial information in the first part of 2005 is, in our view, so tight as to make the introduction of a new requirement for quarterly reporting unsafe. However, in jurisdictions where quarterly reporting is a pre-existing requirement, we agree that companies should be require to prepare quarterly financial data using the same accounting policies that they will use in their first IFRS annual reports. This again follows IFRS 1, paragraph 2 (b).

<u>Question 9</u>

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?

Consistent with the current UK listing rules and generally accepted accounting practice, we agree that half yearly financial information should be prepared using the accounting standards that will be used in their first IFRS annual reports. We note that IAS 34 includes this principle as well as additional guidance on recognition and measurement principles that apply to interim periods. In our view, companies should also be encouraged to apply these principles in their 2005 interim reporting.

We also agree that, where possible, companies should fully apply IAS 34, but that the guidance should not require the application of the presentation and disclosure requirements of that standard in 2005.

<u>Question 10</u>

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;

We agree that both for quarterly, half-yearly and annual reporting, 2004 IFRS comparatives should be provided. However, we do not agree that CESR can mandate that these comparatives are provided and restated using the same accounting basis as for the current year. The IASB has determined that IAS 32/39 are not to be applied to the 2004 comparatives and we do not believe that CESR can or should override accounting standards in this way.

(b) previously published information for the previous period may be provided again;

We do not agree that companies should be required, or even encouraged, to provide old GAAP 2004 comparatives. Once 2005 has begun, it is important that companies and users of financial statements think in the new accounting language; providing old GAAP numbers will discourage this step change. Given that the 2004 IFRS comparatives will not be comparable to the 2005 IFRS numbers, including an additional column of non-comparable old GAAP numbers is in our view a recipe for confusion. Since the reconciliations and explanations required by IFRS 1 will be provided, we consider it is actually unhelpful to continue to provide old GAAP comparatives.

It should be noted that differences in format and presentation requirements between old GAAP and IFRS may also make it very difficult to provide information along the lines of the indicative format (para 26), since old GAAP and IFRS account lines may not be compatible.

(c) explanation of restatement of comparative figures should be given;

We agree that the reconciliations and explanations required by IFRS 1 should be provided, which is sufficient explanation of the restatements.

(d) in case of presentation of financial statements over 3 successive periods the restatement of the first (earliest) period could not be required;

We strongly believe that 2003 IFRS comparatives should not be required, as this would be incompatible with the requirements of IFRS 1. However, in jurisdictions where companies are already required to provide comparatives for two preceding periods, for reasons given in (b) above, such companies will need to give individual consideration as to how they present old GAAP 2003 comparatives, particularly where the introduction of IFRS changes the formats of the financial statements.

(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?

We understand that this issue is only relevant in jurisdictions where companies are already required to provide comparatives for two preceding periods. As set out above in the response to this question, however, we have concerns over the practicality and usefulness of the "bridge" approach.

<u>Question 11</u>
Do you agree that, in addition to the presentation of comparative information in conformity with IFRS 1 (ie 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 disagree. As set out above in our response to question 10, we have concerns over the practicality and usefulness of the "bridge" approach and providing old GAAP comparatives.

<u>Question 12</u>
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 format") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

We strongly agree that 2003 IFRS comparatives should not be required, as this would be incompatible with the requirements of IFRS 1. However, as set out in the response to question 10, we have concerns over the practicality and usefulness of the "bridge" approach.