



London
STOCK EXCHANGE

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M. Fabrice Demarigny
CESR
11-13 avenue de Friedland
75008 PARIS
FRANCE

10 Paternoster Square
London EC4M 7LS
T +44 (0)20 7797 1000
www.londonstockexchange.com

Dear Mr Demarigny

EQUIVALENCE OF CERTAIN THIRD COUNTRY GAAP

We welcome the opportunity to comment on the CESR draft technical advice on the equivalence of certain third country GAAP. We believe that this matter is central to the success of the Lisbon Strategy and the Financial Services Action Plan. The economic benefits of European financial integration are clearly dependent on inward investment. In order to ensure the success of the European economy it is essential that the question of equivalence of third country GAAP does not inadvertently deter such investment and so undermine European economic performance.

We look forward to a thorough consideration by the Commission of the broader policy issues relevant to this issue. In particular, we believe that there is a case for accepting the equivalence of the third country GAAP in the medium term. For an interim period of say five years, equivalence could be determined in order to allow for the implementation and enforcement of the FSAP. It has been made increasingly clear that there will be no "FSAP II" and that the focus in the medium term should be on ensuring the success of existing legislation (for example, the Commission's Green Paper and recent speeches by Commissioner McCreevy). Equivalence could then be reviewed once the FSAP is fully in place and operational.

We congratulate CESR on an impressive technical analysis of this complex area. We support the outcome based approach underlying the advice and we agree that reconciliation is undesirable. Also, we welcome the assumption set out in the Concept Paper that investors on European markets will have a reasonable knowledge of IAS/IFRS and the reporting environment of the considered third countries.

However, we have a number of outstanding concerns which CESR may wish to consider:

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- The advice does not provide an exhaustive list of differences between third country GAAP and IFRS. Instead, according to paragraph 101 of the advice, issuers must provide additional disclosures when this is necessary for enabling users to take informed investment decisions. We are concerned that issuers will be unable to be certain that they have provided all other necessary disclosures without conducting a full reconciliation. As already explained, we support CESR's rejection of reconciliation, but we are concerned that an unintended consequence of the advice would be the requirement for full reconciliation.
- The advice states that the auditor's involvement is necessary for evaluating the specific circumstances that to the knowledge of the auditor could lead to the conclusion that there are other GAAP differences that are significant for investors' decisions. We submit that it is for the management of the issuer company to conclude on differences that are significant for investors' decisions and rather for the auditor to opine on the conclusion.
- We would urge CESR to continue to engage with third country standard setters to ensure that assumptions used to decide equivalence are correct, particularly in those cases where it is proposed that supplementary statements should be required.

It is vital to properly resolve these concerns. The approach adopted on equivalence of accounting standards will have a direct impact on decisions taken by third country issuers on whether to seek admission to EU regulated markets. Investment in the EU by these third country issuers is key to the success of the European economy and EU capital markets. We look forward to the Commission conducting a rigorous cost benefit analysis to ensure that the anticipated benefits of its proposed approach are commensurate with the costs on issuers.

Also, we believe that the Commission should consider the appropriate weight to accord to company accounts in terms of investors' decision-making framework. The advice acknowledges that accounting standards in isolation are not a sufficient basis for investor decision making. It concedes that much of the information in earnings and financial statements is anticipated and priced by investors before it appears in financial statements. Investors place considerable reliance on analysts' reports and similar external sources. It also lists other relevant considerations, or "filters", such as corporate governance and the legal environment that investors are likely to consider. We are also conscious of the considerable progress in developing EU Conduct of Business rules in MiFID, in particular suitability rules under Article 19.4. We assume that the Commission

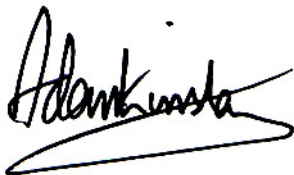
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will take all of these factors into account when deciding the equivalence of the relevant third country GAAP. It should also consider this matter within the context of the developing policy on the medium term focus of European financial services integration.

We hope that CESR finds this information useful and if you have any questions do not hesitate to contact us.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adam Kinsley', with a long horizontal flourish underneath.

Adam Kinsley
Head of Regulatory Strategy
London Stock Exchange
T: +44 (0)20 7797 1421