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***Consultation paper: CESR's technical advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries***

Dear Mr Koster,

I am writing to you on behalf of the European Banking Federation (EBF) which is the voice of the European banking sector, representing the interests of over 5000 European banks.

We welcome the opportunity to comment on CESR's Consultation Paper of 17 April 2007 entitled "*CESR's technical advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries.*" Given the short comments period we would only like to highlight the issues that our members consider as most important.

The mechanism proposed in the consultation paper offers a suitable basis to determine the equivalence of the generally accepted accounting principles of third countries.

However, it is crucial to respect the principle of mutual recognition. Financial statements prepared under the accounting standards of a third country should only be recognised in the European Union if the third country in question also recognises the IFRS accounts. We consider this principle as a driver of the convergence work program and believe that it will help to remove the reconciliation requirements in 2009, as agreed in the roadmap.

We agree with the proposed mechanism which will ensure an appropriate consideration of new and revised rules when evaluating the equivalence of standards. We believe that any new rules issued by a third country standard setter will only aim at further elimination of possible differences of GAAPs, already considered equivalent to IFRS.

Please find below our replies to the questions raised in the consultation paper.

a.i.s.b.l.

**Question 1: Do you agree that CESR's suggested method for handling applications for equivalence is the best way? In cases where the standard setter is not in a position to initiate and/or substantiate an application, do you have any concrete suggestions as regards the solution of such a situation and in particular, who could undertake the abovementioned assessments?**

We agree that the national standard setter of the third country should initiate the process by submitting an application for the recognition of equivalence to the European Commission. It makes sense that the national standard setter of the country seeking the equivalence should undertake a preliminary assessment of the comparability of the measurement principles and disclosure requirements of its GAAP with IFRS. This self-assessment can however only represent a basis for the subsequent evaluation process. We believe that the national assessment should be verified by a body at the EU level in order to ensure the objectivity of the local assessment. The European Financial Reporting Advisory Group (EFRAG) may play an important role in the assessment process, considering their expertise in international accounting rules.

As an alternative, where the national standard setter is not in a position to initiate the application, the national stock exchange regulator may step in the process to substitute the standard setter.

**Question 2: Do you think that CESR should publish guidance on the information that it would consider satisfactory to ensure an informed decision?**

We believe that the CESR's *Technical Advice on Equivalence of certain Third Country GAAP and on Description of certain third countries mechanisms of Enforcement of Financial Information* (CESR/05-230b) satisfactory provides the level of details on what kind of information the standard setters should include in their assessment of equivalence. In our opinion there is no need to issue any further guidance.

**Question 3: Which of the two approaches indicated above (and in the Appendices) do you think is most appropriate? Please provide your reasons.**

We favour the approach described in Appendix 1. The simplified methodology shown in Appendix 2 is based on the assumption that the existence of a convergence programme towards IFRS is sufficient for equivalence evaluation. There is a risk that the information contained in the second approach will not be sufficient to reach an economically sound decision with respect to the equivalence.

**Question 4: Recital 8 of the Commission Regulation 1787/2006 and recital 7 of the Commission Decision 2006/891/EC of 4 December 2006 state that "the progress of the convergence process should be closely examined before any decision on equivalence is taken". Do you think the existence of a convergence programme between the assessed third country's GAAP and IFRS should play any role in the determination of equivalence, other than facilitating the comparison between the standards and identifying the necessary rectifications?**

As already mentioned, we do not think that the mere existence of a convergence programme is an adequate criterion for determining the equivalence of a third country's GAAP with IFRS.

The practical application of the convergence programme may however lead into reducing existing differences and bringing rules more into line.

**Question 5: Do you agree that filters are important and that they should be reflected in any equivalence mechanism? If so, do you think the CESR's model correctly reflects how consideration of the filters should be incorporated into the mechanism?**

As far as the equivalence of filters such as auditing and enforcement are concerned, we support CESR's views on the role of the 8<sup>th</sup> Directive. Compliance with the 8<sup>th</sup> Directive should form the basis to measure the equivalence of a country's auditing regime.

Yours sincerely,

Guido Ravoet