Date

21 November 2003

Le Président

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cc Mr Philippe Danjou

Dear Fabrice,

Re: <u>Consultation Paper – European Regulation on the Application of IFRS in 2005 – Draft Recommendation for Additional Guidance Regarding the Transition to IFRS</u>

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the CESR consultation paper on a draft recommendation for additional guidance regarding the transition to IFRS. FEE is broadly supportive of the underlying ideas of the draft recommendation of encouraging good practice by companies to communicate on their plan for transition to IFRS and their progress in achieving the plan. We hope the recommendations on good practice will stimulate companies to prepare for the transition to IFRS in case they have not already done so.

2. The transition to IFRS may give rise to information of a price-sensitive nature and we agree that it is important to inform the market in a timely manner. Our assessment of the most appropriate way for companies to communicate IFRS information to the market in 2004/2005 and the degree to which CESR should provide guidance on this process was formed by four key assumptions, as follows:

   - Understanding of the impact of IFRS will be improved most effectively by a structured and orderly release of IFRS information to the market;

   - Understanding and confidence will be undermined if at a later date it proves necessary to revise previously-published quantitative IFRS information;

   - The requirements of relevant legislation and accounting standards should not be modified by supplementary guidance on the transitional process; and

   - Supplementary guidance should permit flexibility in the timing and content of communications with the market.

3. In view of the principles set out above, the provision of price-sensitive IFRS information to the market should meet the following detailed conditions, on which we expand in subsequent paragraphs:

   - Information should be released only when it is of a high quality and reliability suitable for publication and has undergone the proper due process at the company

   - One indication of quality and reliability is that information has been audited or reviewed by the auditor

Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

- No partial information should be provided; at least internally the company should understand the full impact of the transition to IFRS

- Information released should be based on endorsed IFRS (the deadline of 2005 should not be advanced), although companies may opt for earlier dissemination of IFRS figures on a voluntary basis

- It is the responsibility of the directors of the company to identify whether information is of a price-sensitive nature and decide on appropriate and timely disclosure thereof.

Therefore it is important that:

- No requirements should be introduced to use (endorsed) IFRS earlier than foreseen in the IAS Regulation or the Transparency Directive

- Companies should be allowed to apply IFRS earlier, when they assess that they are fully prepared

- Regulators provide an indication of good practice to stimulate preparation for the transition to IFRS and to foster harmonisation

- Careful consideration is given to interim information published during 2005:

    - The use of two sets of reporting principles may confuse the market
    - IAS 34 assumes that the same accounting policies as in the most recent annual financial statements are used. If those policies are changed a description of the nature and the effect of the change needs to be provided
    - Are interim reports the appropriate place to report for the first time on the transition to IFRS in form of quantitative information?

- There should be some flexibility in the ways of communication on the transition to IFRS envisaged in the recommendation.

4. We would like to reiterate the statements in CESR Standard No 1 and Draft Standard No 2 that CESR is not a standard setter and should not be involved in standard setting: "Issuing general interpretations of the existing standards is part of the standard setting process conducted by the relevant bodies, such as IFRIC. Enforcers may contribute to this process by providing their experience to the interpretation debate. However, harmonisation requires that they should not attempt to create a parallel body of interpretations." We do not consider it appropriate that CESR should seek to supplement accounting standards by issuing recommendations that effectively may result in requirements that may be implemented differently in Member States. We urge caution before issuing any recommendation that might lead to an effective requirement. However, CESR could usefully issue a statement of good practice to assist companies in releasing information

5. In FEE's opinion companies should not be required to disclose financial information as and when it becomes available during the transition process. This risks providing information on a piecemeal and unbalanced basis at various points in time. The ad hoc release of information would also undermine CESR's aim of achieving comparability of information published in the year 2005 with preceding periods.

6. The IASB's timetable means that changes to existing standards and new standards may not be issued until the first quarter of 2004. These standards are also subject to an endorsement process before they can be applied by European companies. It is impractical for CESR to oblige companies to explain possible change in accounting policy following IFRS - with certainty of a quantitative nature -, when the standards are not yet part of the European legal framework.

7. Careful consideration should be given as to whether interim reports are the appropriate place to report on the transition to IFRS and to implement IFRS for the first time. It is a challenge for preparers to explain to investors and other stakeholders successfully the transition to IFRS. It is more complex to do so in the interim reports since it is hard to understand the full year impact based on a condensed set of financial statements with reduced disclosures. IAS 34 assumes that the same accounting policies as in the most recent annual financial statements are used when interim reporting is provided. If those policies are changed a description of the nature and the effect of the change needs to be provided (IAS 34.16(a)).

The IAS Regulation does not require the use of IFRS before the 2005 annual financial statements. Caution is therefore needed in encouraging the use of IFRS already for the 2005 interim reports although we recognize that some regulators have already required the use of IFRS for the 2005 interim reports. Because of the complexity of getting IFRS figures for the first quarter of 2005 particularly for those companies that to date have not published quarterly information, FEE has proposed in its comments on the proposal for the Transparency Directive that an option could be provided to Member States to exempt companies from the requirement to publish quarterly information in 2005 (thus resulting in 2005 annual financial statements on IFRS in 2006, half year interims on IFRS in 2005, first and third quarter information on IFRS as from 2006). Companies would, however, not be prevented from disclosing quarterly information on IFRS in 2005. It is our opinion that all 2005 published financial information should preferably be based on IFRS, otherwise it would be misleading and confusing to the market when figures relating to the same year relate to two different sets of accounting standards.

Given the difficulty of addressing the transition to IFRS in the interim reports it would be helpful if CESR in its recommendation could address this difficulty and complexity since it is crucial to get the right information to the market place. Some suggestions that CESR may include in relation to interim reporting to stimulate companies to:

- Make sure that the market understands their first results under IFRS. This could be achieved through publication of the IFRS figures in a separate document when they become available to publication standard
- Provide such information as to ensure that analysts properly distinguish between real changes in business performance and changes in accounting policies
- Report comprehensively on changes in accounting policies and the application of accounting policies such as estimates
- Report where the IFRS allow alternative treatments, the reasoning for particular treatments used
- Report on significant additional disclosures
- Report the impact on the change of IFRS to balance sheet, profit and loss account and cash flows and any supplementary key financial data
- Explain how the transition to IFRS affects trends in key financial statistics and figures
- Report on the full years effects compared to half year effects (and quarterly effects if applicable)
- Where it is practice to provide forecasts or estimates provide a suitable explanation of the impact of IFRS compared to existing GAAP.

The CESR recommendation could acknowledge that these sorts of issues need to be addressed by companies in transitioning to IFRS for the first time.

8. Any recommendation from CESR should be conducive to provide additional information of value to investors and other stakeholders but should not impose requirements beyond the IAS Regulation and IFRS1. Where an IFRS has provided concessions (e.g. IAS 32/39 no comparatives for 2004), this should not be reworded or modified through CESR guidance.

9. We would encourage CESR to continue the debate with preparers that already use IFRS on their experiences on transition to IFRS in order to identify best practice and obstacles in the process of first time application and to assess whether the proposed CESR recommendation is feasible in practice.

<u>Questions</u>

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 find it useful that CESR encourages companies to prepare for their transition to IFRS and to inform the market and the public of their transition plan. Disclosure of information should take place in a structured way. It should be avoided that companies disclose partial financial information. FEE is of the opinion that companies should disclose the progress of their transition process rather than any quantitative information, that can only be available when companies have identified the full implications of transition to IFRS in order to be able to provide a comprehensive picture. Companies should only provide information, especially in a quantitative form, when the information is of good quality and credibility. Companies must not be forced or encouraged to release quantitative information if there is a risk that it may later be amended, either on the basis of internal further analysis and experience with the use of IFRS or based on revised or new IFRS. See also our earlier remarks.

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?

The phrase "as early as" should not be used to advance the 2005 deadline, set in the IAS Regulation in view of the challenge already involved in meeting that deadline. This would of course not prevent companies from voluntary disclosure of information on the impact of their transition to IFRS if they are in a position to do so on a comprehensive basis.

Caution needs also to be expressed since several important standards in the improvements project have not yet been finalised and a number of new standards are still to be issued. Companies changing to IFRS based on the existing endorsed standards will face the burden of adapting again to the revised and new standards.

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?

Companies should be encouraged to discuss their transition process but should not be forced to do so. In particular, quantitative information should only be disclosed when it is of sufficient quality and reliability. One indication of quality and reliability is that the quantitative information has been audited or reviewed by the auditor as applicable. See also our earlier comments.

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?

Companies should be encouraged to publicly disclose information about their transition plan and its progress. Such narrative information could form part of the annual report or preliminary results announcements or it could be subject to a separate market disclosure. CESR should not mandate the location or methodology for this disclosure, although its observations on good practice or voluntary adoption by companies would be useful.

We note that CESR would be unable to issue final guidance much before the end of December 2003. This, together with the status of many of the IFRS means that companies should not be expected to disclose any financial information nor a complete overview of identified major differences between existing GAAP and IFRS in 2003 annual reports. We also disagree with the last sentence of paragraph 11. As set out above, we strongly believe that a piecemeal disclosure is not in the interest of the addressees and does not foster harmonisation.

Qualitative information on the transition should be part of the annual report in each of the years the transition is addressed. Where both quantitative information and qualitative information is provided, we believe that the qualitative information, including the intention of management as to the progress on the transition, should be addressed in the annual report and not in the notes to the accounts.

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?

See our general remarks and our answer to question 1. We do not agree that CESR should require companies to include transitional information that is required in the 2005 financial statements pursuant to IFRS1 in respect of 2004 a year earlier in the 2004 financial statements. Such a requirement goes beyond IFRS1, which provides options as to how and where to present transitional information. Also the 2004 financial statements may not be the appropriate time and place to provide comprehensive information on the transition to IFRS as presenting data based on local GAAP and IFRS at the same time might confuse the reader and distract attention from the performance of the company in the opinion of many informed commentators. The CESR proposal even goes beyond the requirements in the proposal for the Transparency Directive, providing a Member State option to exempt requiring half-year financial information on basis of IFRS for 2005. As discussed above, flexibility should be allowed in communicating the transition to IFRS.

Question 6: Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS1 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?

It is inappropriate to refer to the Implementation Guidance, which is not an officially endorsed part of IFRS1. Such a reference risks introducing requirements that go beyond IFRS1. See also our general remarks.

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?

Although we in principle agree that ideally all 2005 published financial information needs to be based on IFRS in order not to confuse the market, caution is needed in relation to interim information published during 2005. It is generally accepted accounting practice that the accounting policies used for interim reporting are consistent with those used in last annual financial statements. See also our general remarks (paragraphs 1 and 5).

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?

Yes, see our answer to question 7 and our general observations.

Question 9: Do you agree with the proposed encouragement for European listed companies to either fully apply IAS34 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?

Yes, see our answer to question 7 and our general observations.

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?

We agree that a restatement should not be provided for the third year since such a requirement would go beyond IFRS1. In our view, companies should ensure that the first time IFRS information is provided in a clear and transparent way. Presenting in the same table IFRS and local GAAP information in this way risks creating confusion in the market. An explanation of the restatement should be provided at an appropriate time. The restated comprehensive 2004 financial information should preferably only be published as 2005 comparatives. CESR should allow flexibility.

We do not agree that CESR can mandate that 2004 comparatives are provided and restated using the same accounting basis in an integral manner as for 2005. This is because the IASB has determined that IAS 32/39 are not applied to the 2004 comparatives and we do not believe that CESR can override accounting standards in this way.

Once 2005 has begun, it is important that companies and users of financial statements think in the new accounting language. The information provided needs to be helpful to the users. The format of presentation should be flexible as long as it is not confusing to the reader. Presenting local GAAP and IFRS in one table is unhelpful and may also be misleading. Since the reconciliations and explanations required by IFRS1 will be provided, we do not consider it is actually useful to continue to provide local GAAP comparatives when two years of comparatives are required. It should be noted that differences in format and presentation requirements between local GAAP and IFRS may also make it very difficult to provide information along the lines of the indicative format (para 26), since local GAAP and IFRS account lines may not be compatible. Therefore we have serious reservations about the proposed guidance on the bridge approach.

Question 11: Do you agree that, in addition to the presentation of comparative information in conformity with IFRS1 (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 would be cautious about requiring superfluous information made for completeness purposes only. For two years of comparatives no comparative disclosure of local GAAP is needed. Where three years comparatives are required the information on local GAAP and IFRS should be presented in different tables (2003 and 2004: local GAAP and 2004 and 2005: IFRS).

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?

Yes, we agree that the earliest period should not be restated since this would go beyond the requirements of IFRS1. As stated above we have serious reservations about the proposed guidance on the bridge approach.

We would be pleased to discuss any aspect of this letter you may wish to raise.

Yours sincerely,

David Devlin
President