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

Dear Sirs,

The European Federation of Financial Analysts' Societies (EFFAS) is pleased to comment on the consultation paper Re: CESR/07-212.

Financial analysts frequently use information of non-EU listed companies with a clear understanding that differences between local GAAP and IFRS exist. Moreover, in cases such as US GAAP analysts are usually very familiar with differences in accounting standards. For analysts, a third country seeking equivalent status is deemed to be in a transition stage before reaching convergence and full comparability. The financial community needs a widely accepted, homogeneous, and solid financial reporting system.

Question (1) relating to the approach that any additional disclosure requirement for rectification of the target GAAP should be suggested by third country standard setter it seems adequate. Application for equivalent status should be turned to the authoritative local standard setter that is the best placed institution to understand the differences of the local GAAP with IFRS. No suggestion is envisaged when the local standard setter is not able to apply for equivalence.

Regarding question (2) users feel advisable to provide guidance on the information that it would be considered satisfactory to ensure an informed decision. Nevertheless, it might be useful to include that "every company should make appropriate disclosures when significant difference exist between IFRS and the local GAAP on items not included in the guidance but key to the business and or industry ". R&D information for a high-tech company might be a good example.

Addressing questions (3) and (4) analysts feel that an informed private investor no necessarily identifies accounting differences between IFRS and other accounting standards. In fact informed private investors would make different investment decisions in spite of the equivalence. As noted above, analysts are keen that a third country GAAP moves towards convergence rather than rectification.

Moreover, information to be analysed by users does not have to reflect what it might be required in two or three year ahead, particularly if a GAAP convergence program is being developed. Companies should be able to provide relevant disclosures if accounting standards divert significantly from IFRS. Appendix 1 seems to be a better choice for users.

On question (5) it would more convincing for users if companies include a reliable auditing in their financial reports. Information on corporate governance would be advisable to be included but for users it should not be a requirement in the equivalence process.

Finally, as it relates to question (6) users would expect standard setters to provide timely update on the equivalence process when local standards are changed. However, whether or not an information change is timely reported by a third country it has to be validated.

In sum, analysts strongly feel that convergence towards broadly accepted IFRS should be a third country main target.

Truly yours,
Financial Accounting Commission of the
European Federation of Financial Analysts' Societies