Association of German Chambers of Industry and Commerce
Federation of German Industries
German Insurance Association

Remarks on the Draft Recommendation for Additional Guidance Regarding the Transition to IFRS

Companies which securities are traded on a regulated market and governed by law (regulation no. 1606/2002 or by law of the member states) shall prepare their consolidated financial statements in conformity with the International Accounting Standards which have been adopted by regulation no. 1725/2003 for the financial years starting on January 1st 2005. We have welcomed the regulation no. 1606/2002. We definitely agree with CESR that the transition process is a real challenge for the companies.

The IASB published the IFRS 1 which has not been endorsed so far but IFRS 1 already contains detailed accounting and disclosure requirements on the transition to IFRS. CESR recommendations should not result in setting additional accounting standards going beyond IFRS. This would be beyond CESRs function. Each additional recommendation which is not in line with IFRS 1 should be considered critically. The IFRS 1 offers comprehensive and sufficient assistance for the transition process.

According to the IASB timetable changes to existing standards and new standards may not be issued until the first quarter of 2004. These standards are subject to an endorsement process. It seems not appropriate to oblige companies to explain possible change in accounting policy following IFRS before the standards are part of the European legal framework.

We also wonder why CESR is working in this field of recommendations. We therefore propose that the International Accounting Standards and the Interpretations should be in the competence of the IASB. When Standards are developed everyone can participate in the process, CESR too.

Companies should be encouraged to prepare for their transition to IFRS and to inform the market and the public of their transition plan. However, such disclosure should be limited to narrative information on the progress of their transition process rather than any quantitative information. Such information 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. Therefore, companies should not be required to disclose financial information on the transition process before publication of the first financial statements prepared under IFRS.

Answer to question 1:
IFRS 1 provides comprehensive guidance concerning the transition to IAS/IFRS. Therefore further requirements or recommendations are not necessary. In no case CESR should publish binding additional obligations for the companies.

We would like to add that there is no finalised IFRS for insurance contracts. The issues raised under ED 5 "Insurance Contracts - Phase I" are still under discussion and the IASB has yet to reach definitive conclusions on some fundamental issues. Therefore, until the IFRS for Phase I Insurance Contracts is finalised, no steps can be taken by insurance companies to anticipate the transition. Any assessment of the future IFRS' s impact can merely be based on assumptions and can therefore only lead to qualitative statements, which will necessarily fall short of users' expectations and would create much confusion.

Answer to question 2:
Even though it is desirable for a smooth transition to start the preparations as early as possible, we think there should not be binding guidelines for the starting point. Since there is not so much time left before 1st January we think, each company will do its best to prepare the transition anyway.

Answer to question 3:
See answer to question 2. The communication about the transition process is a market based information tool. It should be the decision of the companies if they use the transition process to present themselves.

Answer to question 4:
See answer to question 3. We recommend that companies inform about their intentions and the date of the transition. More details about the transition in the 2003 annual report would probably confuse the user of the annual report. Furthermore the annual report is not the right place to explain differences between the local GAAP and the International Accounting Standards to detail.

Answer to question 5:
See answer to question 4. Furthermore the figures of 2004 are not proved by the auditor at this time. And the companies have not decided yet if they will use the opportunities the IAS give them. Therefore information mentioned in question 5 cannot be given earlier.

Answer to question 6:
The implementation guidance of IAS is sufficient to determine the content and the scope of the quantified information. Other disclosures should not be envisaged. The inclusion of this information in the annual report or in the notes seems understandable.

Answer to question 7:
The positions of the Council and the Committees of the European Parliament on the draft of a directive on transparency requirements differ. In general, the assessment of the transparency is positive. However, one has to take into consideration that it cannot be achieved by a larger regulation density. In our opinion there is no need for

quarterly information[1]. The Commission should only regulate if there is a definite need and lack of information. A lot of companies offer quarterly information as part of their market strategy and to inform their investors. But do investors really need this additional information? Therefore recommendations by CESR on aspects of the draft of the directive on transparency requirements are not needed at this time.

The first adoption of the IAS demands an explanation note about the main differences to the local accounting system. This explanation is usually given in the annual report or in the notes so that the user of the financial statement can understand the transition. If the first adoption of IAS is used in a quarterly reporting we are not sure that there is so much useful information published. Therefore the quarterly and half–year reporting in 2005 should not be required to use the IFRS (in a binding way). On the other hand companies in which opinion the interim information should be in line with IFRS in respect to the annual report are able to do so. But it must be permitted that the interim reporting is in accordance with the previously applicable accounting rules.

Answer to question 8:
See answer to question 7.

Answer to question 9:
See answer to question 7.

Answer to question 10:
See answer to question 7. Since the transition is complex already enough of a burden on companies we recommend that CESR will neither encourage comparative information for the corresponding (quarterly) periods nor demand an additional explanation. Yet we definitely agree that the restatement of the first period (2003) is not required if national regulations demand the presentation of financial statements over three successive periods.

Answer to question 11:
It should be the decision of the companies if they present again the comparative figures.

Answer to question 12:
We agree not to require the restatement of the first period (2003) if national regulations demand the presentation of financial statements over three successive periods.

[1] The German insurance market is in favour of quarterly reporting as it believes that it will bring greater transparency of financial markets. Quarterly reporting is also beneficial to insurers as institutional investors.