

**EUROPEAN REGULATION ON THE APPLICATION OF IFRS IN 2005  
COMMENTS ON DRAFT RECOMMENDATION FOR ADDITIONAL GUIDANCE  
REGARDING THE TRANSITION TO IFRS**

**Summary**

***A single comparative period in accordance with the IASB standards: an approach to be adopted in Europe and in the United States, while taking account of the specific transition modalities for the standards on 32 and 39***

It is useful for all companies for European regulators to adopt an approach that is similar to that defined by IASB through IFRS 1 ‘First time application’, and not to require more than one comparative information period in 2005 in accordance with the IASB reference system. As such, the indication of this position gives companies a better view of the transition procedures.

AFEP is in favour of the CESR solution whereby the figures from the comparative period should be supplied and restated according to the same accounting bases or references as those selected for the period equivalent to the current year, *subject to* taking account of the specific features linked to the first application of the standards on 32 and 39 -*Financial instruments*. In particular, insofar as IASB does not recommend the restatement of comparative items according to these standards, it would be quite inappropriate for CESR to request retrospective application of these.

Beyond the European regulators, it is essential for the American stock market regulator to make a statement in the same direction for the benefit of European companies listed in the United States.

In this respect it would be particularly useful for CESR and the European Commission to obtain explicit acceptance of this solution from the SEC on the basis of the CESR proposal.

**Other points: strong reservations, notably in respect of 2003**

On the other points, AFEP wishes to issue certain reservations on the envisaged recommendations. In particular:

***In respect of the 2003 financial year: do not encourage or request the communication of information on the main divergences or the transition process***

AFEP believes that no figure-based information should be given by companies for the 2003 financial year insofar as the IASB standards applicable in 2005 have not stabilised yet and given that companies will probably not have exercised the options offered by the IAS/IFRS yet. In particular, it is appropriate to emphasise that a significant number of IAS/IFRS will not be approved or published at the start of 2004 (standards on financial instruments, groups of companies, etc.).

In this context, it is not appropriate either to encourage or request the communication of narrative information on the main divergences between the IASB standards and the previously applied national rules and on the transition process. It would very often be premature and necessarily imprecise or incomplete, and therefore irrelevant or even deceptive in some cases.

***In respect of the 2004 financial year: communicate narrative information on the transition process in the annual accounts; information on the main divergences during the publication of the first interim financial information for the 2005 financial year***

AFEP believes it useful for companies to provide narrative information on the transition to the IASB standards in the financial statements drawn up for the 2004 financial year, generally published during the course of the first half of the 2005 financial year.

It should be possible to communicate the major differences identified and the corresponding quantified information on the occasion of the publication of the first interim accounts for the 2005 financial year, i.e. the half-yearly accounts or the quarterly report (only if the company opts to draw up such a report, as this decision should be at its own sole discretion).

***As regards publications in respect of the 2005 financial year: comply with the obligations in force at national level and the recognition and measurement principles applicable to annual accounts***

While emphasising its opposition to the compulsory publication of quarterly financial information, AFEP considers that the interim information published during the 2005 financial year should be prepared in accordance with the obligations in force at national level and the recognition and measurement principles applicable to annual accounts, rather than 'in compliance with the standards applied to the annual accounts'. Moreover, following the IASB rule, 'it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.'

Moreover, AFEP is in favour of presenting two periods in accordance with the IASB standards and two periods in accordance with the previous accounting reference system (with

the intermediate year therefore being presented in accordance with the two accounting reference systems). In order to avoid any reading error, it nonetheless believes that the financial information drawn up in accordance with the two accounting reference systems should be set out on clearly separated pages.

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**RESPONSE TO QUESTIONNAIRE**

**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 ?**

CESR wonders whether it is useful to provide European listed companies with recommendations on how to give financial information to the market during the period of transition from local standards to international IAS/IFRS .

*A single comparative period in accordance with the IASB standards: an approach to use on a widespread basis*

Following the example of what CESR points out in its § 4, AFEP considers that IASB has stipulated procedures that make it possible to provide financial information to the market during the transition from one accounting reference system to another in its IFRS 1-‘*First time application*’, by notably stating that comparative financial information could be limited to one financial year.

It is useful for all companies, that the European regulators adopt a similar approach to that of the IASB and not to require more than one comparative information period in accordance with the IASB standards in 2005. Moreover, an indication of this position gives companies a better view of the transition procedures.

Beyond the European regulators, it is essential for the American stock market regulator to make a statement in the same direction for the benefit of European companies listed in the United States.

In this respect it would be particularly useful for CESR and the European Commission to obtain explicit acceptance of this solution from the SEC on the basis of the CESR proposal.

The provisions of the SEC S-X regulation oblige foreign companies to publish a certain number of figures (income statement, cash flow statement, statement of change in equity) in their reference document (‘20 F’) over three financial years (2005, 2004 and 2003), established in accordance with local standards as well as a reconciliation with US GAAP.

If, for 2005, local standards were to be considered as IAS standards by the SEC, this could imply the presentation of three financial years according to the IASB accounting reference system whereas CESR would not have such a requirement and the information presented would in any case be reconciled with the US GAAP.

*Other points: strong reservations, notably in respect of 2003*

On the other points, AFEP wishes to express certain reservations on the envisaged recommendations. These reservations are expanded on in the answers to the following questions. In particular :

- AFEP believes that no figures should be given by companies for the 2003 financial year. On the one hand, it is appropriate to take account of the absence of stabilisation of the IASB standards applicable in 2005 (as a certain number of provisions applicable in 2005 have not been adopted by the IASB and the European Commission), and on the other hand, to take account of the fact that companies will probably not have yet exercised the options offered by IAS/IFRS .

In this context, narrative information on the process of transition and on the main divergences would no longer be appropriate. It would be premature and necessarily divided into sections and therefore irrelevant and even deceptive in some cases.

- In respect of the 2004 financial year, AFEP believes it useful for companies to disclose narrative information on the process of transition to the IASB standards in the financial statements drawn up for the 2004 financial year, generally published during the first half of the 2005 financial year. It should be possible to publish the major differences identified and the corresponding quantified information on the occasion of the publication of the first interim accounts for the 2005 financial year, i.e. the half-yearly accounts or the quarterly report (only if the company opts to draw up such a report, as this decision should be at its own sole discretion).

In contrast, it would be premature to supply, encourage or request the communication of quantified information at the start of 2005.

- In respect of the 2005 financial year, AFEP considers that the interim information published during 2005 should be prepared in accordance with the obligations in force at national level and the recognition and measurement principles applicable to annual accounts (rather than ‘in compliance with the standards applied to the annual accounts’). Furthermore AFEP emphasises that the IASB standards does not oblige companies to apply the IAS 34 –*Interim financial reporting* - for their interim information and that in any case, they oppose the compulsory publication of quarterly financial information.

**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?**

CESR believes that European listed companies should be encouraged to prepare the transition of the national accounting reference system to the IASB reference system as rapidly as possible.

While fully subscribing to the idea that companies must prepare the transition as early as possible, AFEP considers that additional encouragement is unnecessary.

As such, the majority of companies have already been engaged for several months in developing and implementing the means necessary to implement this change of reference system (training, adaptation of IT systems, etc.).

It is also appropriate to take account of the fact that the IASB standards applicable in 2005 has not been stabilised. A certain number of provisions applicable in 2005 have not been adopted by the IASB and the European Commission (review of the IAS 32 and 39, Groups of companies, Intangible Assets, Impairment of Assets, Payments based on shares). Moreover, once adopted by the European Commission, the standards will have to be translated and published in the Official Journal of the European Union. Other provisions, whose application was initially planned for 2005 were finally postponed ('Performance reporting').

**Question 3 : Do you agree that those companies should also be encouraged to communicate about this transition process ? If yes, are the four milestones identified by CESR for such communication appropriate ?**

CESR wishes to know whether it is appropriate for European listed companies to be encouraged to communicate on the transition process; if the answer is yes, CESR considers that certain dates would be suitable for such communication (publication of financial statements for the 2003 financial year, publication of annual and interim financial statements for the 2004 and 2005 financial years).

Companies believe that this encouragement is not appropriate insofar as the accounting standard system applicable in 2005 has not stabilised yet (see the answer to question 3) and that communication on the transition process raises a certain number of reservations (reservations outlined in response to question 4).

Companies therefore believe it is essential to have a global view of the consequences of a transition to IAS/ IFRS so that they can then communicate on its impact in a relevant manner.

#### **A/ Publication of 2003 financial statements:**

**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?**

CESR wishes to gather companies' attitudes to the appropriateness of encouraging the development of narrative information on the transition to IAS/IFRS (plan, degree of implementation) for 2003 and the major differences identified between the two accounting reference systems as well as on the most appropriate document for including such information (annual report or note on 2003 financial statements).

With the approach of the transition to IAS/IFRS, AFEP considers that narrative information on the transition process as well as on the main divergences identified would be premature, irrelevant, and even deceptive in certain cases:

As regards the *transition process* towards the new accounting reference system, companies consider this information premature for the market. As such, it risks misinterpreting a necessarily incomplete state of preparation, as it is linked to factors that are external to the company (development of standards, adoption and publication at Community level) or which are more specific (standards applicable depending on the activities exercised and legal, fiscal environments, etc.).

As regards the *identification of major divergences* between local standards still applied and IAS/IFRS, AFEP points out that certain major standards have not yet been adopted at Community level. Moreover, companies will probably not have yet exercised the options offered by the IAS/IFRS. As a result, it is unlikely that companies will be able to determine and supply reliable and/or relevant information to the market.

As an exception, in rare cases where companies would be capable of communicating reliable and relevant information, AFEP considers that it should be possible to give this information in the annex notes, or more generally in the annual financial report, rather than in the management report, as the latter contains items other than comments on the financial aspects of the annual accounts.

#### **B/ Publication of 2004 financial statements:**

**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?**

CESR believes that European listed companies should be encouraged to communicate as rapidly as possible on the quantified impacts of the transition towards IAS/IFRS for the 2004 financial year if such information is available, without waiting for the start of 2006.

In compliance with the IFRS 1-*Presentation of financial statements*, annual financial statements drawn up according to IAS/IFRS for 2004 should be published for comparative information purposes at the latest during the financial communication on the 2005 financial year, i.e. at the start of 2006.

AFEP considers it useful for companies to supply narrative information on the process of transition to the IASB standards in the financial statements drawn up for the 2004 financial year, generally published during the first half of the 2005 financial year. It should be possible to communicate the major differences identified and the corresponding quantitative information on the occasion of the publication of the first interim accounts for the 2005 financial year, i.e. the half-yearly accounts, and even the quarterly accounts, if the company opts to compile these.

**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?**

CESR wonders about the relevance of a reference to the implementation guidance published by IASB to indicate the nature of the quantitative information to publish.

AFEP considers that this reference is adequate and that it is consequently unnecessary for CESR to modify its elements or to add new ones.

Moreover, in compliance with its answer to question 4, and by exception, in the rare cases where companies would be able to communicate reliable and relevant information, AFEP considers that it should be possible to give this information in the notes, or more generally in the annual financial report rather than in the management report (as the latter contains items other than comments on the financial aspects relating to annual accounts).



#### **C/ 2005 Interim information:**

**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 in the consultation paper?**

CESR recommends that the interim information published during the 2005 financial year be prepared in compliance with the standards applied for the annual information for the 2005 financial year, i.e. the IFRS.

AFEP considers that the interim information published during 2005 must be prepared in accordance with the obligations in force at national level and in accordance with the recognition and measurement principles applicable to annual accounts rather than in compliance with the standards applied to the annual accounts. In all circumstances, AFEP believes however that in compliance with the IAS 34 § 23 rule that ‘it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.’

#### **C/ 1/ Quarterly information for the 2005 period when applicable:**

**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 ?**

CESR wishes to determine whether, in the absence of opting to apply the IAS 34 - *Interim financial information*, for quarterly information published in 2005, European listed companies should be encouraged to prepare and publish this financial data in accordance with the IFRS principles applicable at the end of the year.

On a preliminary basis, AFEP points out that the publication of quarterly financial information should be at the sole discretion of the issuer. AFEP considers that companies should be able to opt to publish quarterly accounts according to their own specific criteria (nature of the activities, listing in the United States, etc.). As such, compulsory publication of such information leads to a greater focus on communicating short-term items rather than on managing business sectors and activities, which may have an effect on the volatility of markets and understanding of companies’ performances.

As CESR consultation recalls, the IASB accounting reference system does not oblige companies to apply the IAS 34 - *Interim financial information* for their interim publications.

When a company publishing quarterly financial information does not use this facility or, more generally, does not publish quarterly information according to this standard, AFEP, as indicated in the response to question 7, considers that the interim

information published during the 2005 financial year should be prepared according to the obligations in force at national level and in accordance with the recognition and measurement principles that apply to annual accounts. In all circumstances, AFEP believes however that in compliance with the IAS 34 § 23 rule that 'it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data'.

**C/ 2/ Half year financial information for the 2005 period:**

**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 ?**

CESR wishes to determine whether, in the absence of opting to apply the IAS 34 - *Interim financial information* for half-yearly information published in 2005, European listed companies should be encouraged to apply the applicable IFRS principles at the end of the year.

See the answer to question 8.

**C/ 3/ Comparative information presented for the corresponding preceding period(s):**

**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 :**

AFEP is sensitive to the idea expressed by CESR of not imposing overly binding obligations on issuers.

In this respect it quite particularly wishes to draw attention to the consequences of introducing an obligation to publish detailed quarterly information and on the need in this case to postpone the application of this obligation beyond the 2005 financial year to facilitate the development of comparative information. As such, it does not seem possible to envisage drawing up detailed quarterly information for the first quarter of 2004 although the IASB accounting reference system would not even be stabilised yet.

**A) Comparative figures should be provided and restated using same accounting basis as for the current year;**

AFEP is in favour of the CESR proposal whereby the figures for the comparative period would be provided and restated according to the same accounting bases or references as those selected for the equivalent period to the current year, subject to taking account of the particularities linked to the first application of the standards 32 and 39 -*Financial instruments*.

In particular, insofar as IASB does not recommend the restatement of comparative items in accordance with these standards, it would be quite inappropriate for CESR to request retrospective application of these.

**B) previously published information for the previous period may be provided again ;**

AFEP considers that information published for the previous period can be published again in order to display the effects of restatements more effectively.

**C) explanation of restatement of comparative figures should be given ;**

Explanations could be given on the nature of the main restatements made to compile comparative figures in order to inform investors.

**D) in case of presentation of financial statement over 3 successive periods the restatement of the first (earliest) period could not be required ;**

AFEP considers that the restating of the first period presented should not be compulsory under any circumstances. The most pragmatic solution is not to have to restate the first period (the 'earliest' period) and only to restate the hinge period, which would then be presented according to local and international standards.

**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 ?**

CESR wonders about the possibility of presenting comparative information in accordance with an indicative format ('bridge approach').

In the case of a three period publication, AFEP is in favour of presenting two periods in accordance with the IASB standards and two periods in accordance with the previous reference system (with the intermediate year thus being presented in accordance with both reference systems).

However, to avoid any reading error, it considers that the financial information established in accordance with the two reference systems should be shown on clearly separated pages.

**D/ 2005 Annual financial statements:**

**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 ?**

See the answer to question 10. D/

**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 ?**

CESR wonders about the point of whether it would be acceptable not to require the restating of the first period under IAS/IFRS when the presentation of financial statements is required for more than three successive periods. If the answer is yes, CESR wishes to gauge acceptance of the ‘bridge approach’.

In compliance with what it stated in its answer to question 10. D/, AFEP considers that the restating of the first period presented should not be compulsory under any circumstances. The most pragmatic solution is not to have to restate the first period (the ‘earliest’ period) and only to restate the hinge period, which would then be presented according to local and international standards.