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CESR/03-323b

**Implementation and Enforcement of the IFRS**

Vienna, 11.11.2003

Dear Mr. Demarigny,

CESR (The Committee of European Securities Regulators) has taken the responsibility for the enforcement of the International Accounting Standards as they will be part of the Community Regulation. CESR published already in March 2003 the first CESR-standard on Financial Information: Enforcement of standards on financial information in Europe. The Standard foresees independent administrative authorities with the necessary powers to take the responsibility of enforcement, where the enforcement must be reviewed on basis of a random-walk-principle, enforcers must have the power to correct misstatements and cross border coordination must take place.

According to the Council Regulation No. 1606/2002 listed companies must use the IAS and IFRS-standard, endorsed by the European Commission, as of the 1<sup>st</sup> of January 2005. There is no description of this change in the EU-Regulation, but it is related to IAS 1: first time adoption of IFRS.

The insurance industry faces the situation of not disposing of an own standard. The one which is envisaged to be developed is split into two phases, the first one broadly based on the national GAAP's (phase I) and the second one will introduce fair value accounting and asset liability measurement (phase II).

The VVO likes to forward the following positions to the questions raised by CESR:

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?

For the insurance industry it should be extremely useful to dispose of recommendations on how to disclose financial information to the markets, as the respective standard will be released, according to the IASB, the 1<sup>st</sup> of April 2004.

Up to now in the Exposure Draft 5 which deals with insurance contracts the disclosure requirements are formulated in a way, so that it is not at all clear what the requirements of disclosure are and how they could be fulfilled.

CESR has identified 4 different milestones in the transition process, namely the 2003 annual financial statements, the 2004 annual or interim statements, the 2005 interim and the 2005 annual statement.

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 VVO thinks that companies should be encouraged to prepare as soon as possible. Nevertheless as it is not sure what the final interim standard for insurance companies (phase I) will look like, it would be unfair to ask companies to prepare for something, if afterwards the I-IFRS (Insurance IFRS) is changed. For the insurance industry we understand the expression as early as possible, starting with the 1<sup>st</sup> of April 2004. It is likely that the only realistic approach could be a big-bang solution.

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?

The 4 milestones concept does not fit for insurances as most companies have finished its 2003 annual statement by the 1<sup>st</sup> of April 2004.

### ***1. Publication of 2003 financial statements***

Companies should be encouraged at publishing their financial statements of 2003 to describe their plans and degree of achievements in their move towards IAS/IFRS and include this information in the annual report or the notes.

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?

In principle, the VVO welcomes the idea of giving appropriate information to the users as soon as possible. Insurers nevertheless could face the situation, that the information given in 2003 is not correct anymore by April 2004.

### ***2. Publication of 2004 financial statements***

Relevant information of the impact of the change in 2004 should be disclosed as early as possible to comply with IFRS 1 regarding its § 38: comparative information. In case this is not possible narrative information should be given.

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?

**The VVO believes it beneficial to encourage insurance companies to give such information already in 2005 for the 2004 annual statement. Eventhough it should not be an obligation, due to late publication of the insurance standard.**

In accordance with IFRS 1 and its Implementation Guidance 63 the information provided should consist of:

- the reconciliation of shareholder's equity at the date of transition from the previously used GAAP and the IFRS figures, accompanying it with a note explaining the effects by each line item.
- the reconciliation of shareholder's equity at the end of the reporting period with the same information as above.
- the reconciliation of profit and loss with the same information as above.
- an explanation of the main adjustments to the cash flow statement.

Question 6: Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS 1 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?

**The quantified information contained in the Implementation Guidance should be used if a harmonised reporting is aimed at.**

### ***3. 2005 Interim Information***

In view of the situation that any annual financial information would be based on IFRS, CESR believes it necessary to recommend that the interim and quarterly information given for that year are also based on IFRS.

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 these companies for the 2005 year end financial reporting, i.e. IFRS, in the way indicated here under?

**The VVO thinks that interim reports have its own dynamic, therefore preparing the information by a new standard is not a straight forward task. Due to the late publication of the standard the interim statement should be published based on IFRS only starting from 2006 onwards.**

#### ***3.1 Quarterly information for the 2005 period when applicable***

If the issuer is required to present quarterly information it can chose

- either to comply with IAS 34 requirements

- or to present quarterly financial data based on national GAAP which is recognised to be consistent with the year-end statement.

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?

**Quarterly information and disclosures should be made compliant with the new standards as from 2006 on, as a necessary preparation time span for the transition is required.**

### ***3.2 Half-year financial information for the 2005 period.***

IAS 34 "Interim Financial Reporting" is an optional standard, while the proposed Transparency directive of the European Union establishes the obligation of a half-year information from 2006 on.

Question 9: Do you agree with the proposed encouragement for European listed companies to either fully apply IAS 34 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?

**The VVO objects this proposal, instead half-year statements should start to use IFRS from 2006 onwards.**

### ***3.3 Comparative information presented for the corresponding preceding period(s).***

For both quarterly and half-year reporting, if IAS 34 is not applied, comparative figures must be provided for the previous year on the same basis as the current year basis used.

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 the 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.

**The VVO believes that starting from 2006 the option B) and C) or E) are the least burdensome solutions.**

#### **4. 2005 Annual Financial Statements**

IFRS requires comparative figures for the preceding period to be prepared under IFRS and leaves the possibility open to restate the previously published information, so that the 2004 statement can be republished. The information may be provided on the face or in the notes.

Question 11: Do you agree that, in addition to the presentation of comparative information in conformity with IFRS 1 (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?

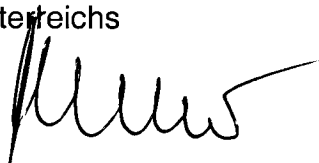
**Yes, it could be useful, if the requirement of the previous statement on IFRS-bases is replaced by it.**

Question 12: Do you agree that, when presentation of financial statements over 3 successive years 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, the VVO agrees not to restate the earliest period, but the use the "bridge approach".**

With the best regards

Verband der Versicherungsunternehmen  
Österreichs



Dr. Louis Norman