

Mr Fabrice Demarigny
Secretary General
CESR

24 November 2003

Dear Mr Demarigny

**DRAFT RECOMMENDATION FOR ADDITIONAL GUIDANCE REGARDING THE
TRANSITION TO IFRS**

I am writing with BT Group's views on CESR's draft recommendation for additional guidance regarding the transition to IFRS on which we are grateful for the opportunity to comment.

We feel that there are a number of significant issues with these proposals. Our greatest concern is with regard to the nature of the requirements and whether the proposals allow for robust, complete and meaningful information to be provided to the users of accounts. Whilst we agree that it is imperative that companies provide the users of financial information with an understanding of the impact of adopting IFRS on a timely basis, this should not be rushed through at the risk of compromising the due process and undermining investor confidence in corporate reporting.

The transition to IFRS in 2005 is complex and assessing the full impact with certainty at the current time is impossible given the uncertainty over the full body of standards that will be endorsed by the European Commission for implementation in 2005. Companies are already putting considerable time and resource in to their transition projects and the imposition of additional regulatory reporting requirements in advance of 2005 is considered to be inappropriate. Reporting externally on the impact of the transition to IFRS in advance of completing the transition exercise is unduly burdensome on companies, increases the risk of confusing and potentially misleading users and increases the risk of errors or misstatements in intermediate reporting.

The remainder of this letter focuses on those specific questions raised in the proposal document.

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?*

Yes. The principal benefit of CESR Members providing recommendations would be the provision of a base level against which the disclosures of all European listed companies can be benchmarked, irrespective of the exchange on which the companies are listed. However the recommendations should not be overly prescriptive and burdensome but should form the base level of information that a company should provide. It should be left to management to determine the most appropriate manner of meeting the disclosure requirements.

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?*

All listed companies should already be aware of the requirement to comply with IFRS with effect for financial years beginning on or after 1 January 2005. In the UK it is questionable whether it is necessary to provide further encouragement following the Financial Services Authority's letter in September 2003 to all UK listed companies encouraging them to get ahead with their preparations as a matter of urgency.

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?*

We would consider it appropriate to encourage companies to report on their readiness for the transition to IFRS but the requirement should not be overly prescriptive and should focus on readiness rather than the potential impact. We comment on this further in our response to the following questions. However we do not agree with the proposed four milestone approach as noted in the following responses.

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?*

Whilst we would support companies making a statement on their readiness for 2005 we believe this should be a voluntary disclosure for companies. Furthermore, we do not believe it is appropriate to include detailed narrative disclosures of the differences in accounting policies on transition to IFRS in the 2003 annual report. There are a number of significant issues associated with this proposal. Firstly it is considered inappropriate

to issue a new reporting requirement so close to the end of the financial year to which it would first apply. Companies need appropriate time to consider the reporting requirements and assess the impact to ensure compliance. Secondly, it is considered inappropriate to disclose information about the impact of the differences until the complete set of applicable IFRS statements has been issued and the full impact has been assessed and audited. The drip feeding of information on the potential impact is likely to confuse users of accounts and undermine investor confidence in corporate reporting.

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?*

Quantified information should be provided in the quarterly and interim reporting in relation to the financial year ending on or after 1 January 2005, including comparative figures and a reconciliation to the previously reported results. The Listing Rules of the UK Listing Authority require company's to present their interim results in accordance with the accounting policies and presentation to be followed in the subsequent annual financial statements. Accordingly UK listed companies will be required to comply with this and we would support this requirement being applied to all European listed companies.

We do not believe it is appropriate to require companies to disclose this information earlier. However if a company wishes to issue the information at an earlier date and is comfortable that the information is sufficiently robust then it should not be precluded from doing so.

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 paragraphs 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?*

As noted above we do not believe it is appropriate to require companies to disclose information in their 2004 annual report. However if a company chooses to disclose information on the effect of adopting IFRS they should be encouraged to refer to the requirements of the Implementation Guidance.

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?*

Yes.

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. We believe this should go further and that all quarterly financial information in relation to financial years beginning on or after 1 January 2005 should be prepared using the IFRS policies that will be applicable at the financial year end. As noted above this would be in line with the requirements of the Listing Rules of the UK Listing Authority.

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?*

Yes. We believe this should go further and that all companies should be required to apply IFRS in their half year reports for financial years beginning on or after 1 January 2005. As noted above this would be in line with the requirements of the Listing Rules of the UK Listing Authority.

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?*

Whilst we believe that the proposed solution provides a means of presenting the information we do not believe that companies should be required to adopt this approach. Such a requirement would be overly prescriptive given that IFRS 1 already prescribes the transitional accounting treatment and disclosures. Accordingly if companies wish to provide the information in an alternative manner then they should have the freedom to do so. Furthermore if companies wish to restate the earliest period in a three year track record then that should be allowable at management's discretion.

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?

Yes it may well be considered useful. However it is considered to be overly prescriptive to require this level of disclosure on the face of the financial statements and should be left to the discretion of management as to how best to disclose the required information. IFRS1 has detailed disclosure requirements including the requirement for a reconciliation of the comparative information in conformity with IFRS to the previously reported GAAP financial information. Whether information is disclosed on the face of the financial statements or in the notes should be a decision made by management.

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, although it should be left to management's discretion as to whether the earliest period is restated to comply with IFRS. In relation to the "bridge approach", as noted above

it is considered to be overly prescriptive to require this level of disclosure on the face of the financial statements and should be left to the discretion of management as to how best disclose the required information.

We would be pleased to discuss our views with you if that would be helpful in addressing the practical issues associated with the proposal.

Yours sincerely

JOHN WROE