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

Dear Mr Koster,

Thank you for the opportunity to comment on *CESR's technical advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries*. Given the extremely brief consultation period, we have confined our comments to a few aspects of major importance.

We believe that the proposals outlined in the consultation paper offer a suitable basis for establishing a mechanism to determine the equivalence of third-country accounting standards. Irrespective of technical considerations, however, financial statements prepared under the accounting standards of a third country should only be recognised in the EU if the third country in question also recognises IFRS accounts. It is absolutely crucial, in our view, to respect this principle of mutual recognition, particularly in light of the fact that IFRS have yet to be recognised by the SEC.

Our replies to the questions posed in the consultation paper are as follows:

Question 1: Do you agree that CESR's suggested method for handling applications for equivalence is the best way? In cases where the standard setter is not in a position to initiate and/or substantiate an application, do you have any concrete suggestions as regards the solution of such a situation and in particular, who could undertake the abovementioned assessments?

We consider CESR's proposal a viable solution and agree that the national standard setter of the third country should initiate the process by submitting an application for the recognition of equivalence to the European Commission. It would also be conceivable for the process to be set in motion by the country's stock exchange regulator. We also agree that it would make good sense for the national standard setter to undertake a preliminary assessment of the extent to which its GAAP are comparable with IFRS. This self-assessment can offer no more than a basis for the subsequent evaluation procedure, however. There is clearly a risk that an assessment by the local standard setter will be subjective and guided by a national interest in obtaining swift comprehensive recognition. For this reason, we consider it essential for the initial assessment to be verified by a body at EU level. This might be achieved with the help of the European Financial Reporting Advisory Group (EFRAG), for example, which has considerable expertise in international accounting rules.

Question 2: Do you think that CESR should publish guidance on the information that it would consider satisfactory to ensure an informed decision?

CESR's Technical Advice on Equivalence of certain Third Country GAAP and on Description of certain third countries mechanisms of Enforcement of Financial Information (CESR/05-230b), published in June 2005, contains extensive information on the differences between Canadian GAAP, Japanese GAAP and US GAAP compared to IFRS. This paper offers a useful point of reference for the amount of detail the national standard setter should include in its assessment. We do not therefore see a need to issue any further guidance.

Question 3: Which of the two approaches indicated above (and in the Appendices) do you think is most appropriate? Please provide your reasons.

We agree with CESR-Fin and favour the approach described in Appendix 1. The "short-cut" methodology shown in Appendix 2 basically assumes that the existence of a convergence programme is in itself an adequate criterion for evaluating equivalence. This approach will

not, in our view, yield enough information to reach an economically sound decision with respect to the degree of similarity between two sets of accounting standards.

Question 4: Recital 8 of the Commission Regulation 1787/2006 and recital 7 of the Commission Decision 2006/891/EC of 4 December 2006 state that “the progress of the convergence process should be closely examined before any decision on equivalence is taken”. Do you think the existence of a convergence programme between the assessed third country’s GAAP and IFRS should play any role in the determination of equivalence, other than facilitating the comparison between the standards and identifying the necessary rectifications?

We do not think that the mere existence of a convergence programme is an adequate criterion for determining the equivalence of a third country’s GAAP to IFRS. Nevertheless, any decision on equivalence is likely to be significantly affected by how such a programme operates and is applied in practice. A convergence programme that is followed not only in letter but also in spirit will automatically result in reducing existing differences and bringing rules more closely into line. This is bound to influence the evaluation of the standards’ equivalence quite considerably.

Question 5: Do you agree that filters are important and that they should be reflected in any equivalence mechanism? If so, do you think the CESR’s model correctly reflects how consideration of the filters should be incorporated into the mechanism?

As far as the equivalence of filters such as auditing and enforcement are concerned, we support CESR’s views on the role of the 8th Directive. Compliance with the requirements of the 8th Directive should be used as a yardstick to measure the equivalence of a country’s auditing regime.

Question 6: Do you agree with this proposal? Do you have any suggestions as regards the procedure for providing the envisaged impact assessments which avoids a period of uncertainty for issuers while these are being made?

We agree with the proposed procedure, which we consider an appropriate means of ensuring that new and revised rules will be adequately taken into account when evaluating the equivalence of standards. We assume that, if a third country's GAAP have been deemed equivalent to IFRS, any new rules issued by the local standard setter will aim at narrowing differences and promoting convergence still further. A situation in which revised accounting rules are at odds with recognised equivalence will therefore not normally arise.

We would be happy to supply further information on request.

Yours sincerely,



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