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CEA COMMENTS ON THE CONSULTATION PAPER

DRAFT RECOMMENDATIONS FOR ADDITIONAL GUIDANCE REGARDING THE TRANSITION TO IFRS

ISSUED BY

THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS

Contents

CESR Questions 1 to 4

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?
2. Do you agree that European listed companies should be encouraged to prepare the transition from local GAAP to IFRS as early as possible?
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?
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?

CEA General Comments and answers to questions 1 to 4

As stated in our comments to the IASB on Exposure Draft 5 – Insurance Contracts Phase I (ED5), CEA generally supports disclosures as long as they are balanced between qualitative and quantitative information and of relevance to users (please refer to Annex 1 for CEA's comments on ED5).

In addition, when CESR provides supplementary guidance on the application of IFRS's, this guidance should only be in the form of recommendations. It will remain the responsibility of the entities to follow such recommendations.

We also agree on the need for listed companies to prepare the transition from local GAAP to IFRS as soon as possible.

However, we would like to stress the following points:

- There is no finalised IFRS for insurance contracts. The issues raised under ED5) 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. The finalisation is foreseen for end of March 2004.
- 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.
- There are dispositions in the IASB's standards dealing with the transition to IAS/IFRS, which fulfil the needs and expectations of users.

- There is already a significant strain for companies due to the tight timeframe of the Insurance Contracts project, which CEA has outlined notably in its comments on Exposure Draft 5. Coping with successive changes of a fundamental nature will already require insurance companies to devote a significant proportion of their resources to this project. Adding additional requirements therefore appears untimely.

In view of the above, we deem it unnecessary to go beyond the requirements provided by the IASB's standards. Far from providing any useful information for investors, doing so – especially as early as 2003 – would result in more confusion for the users at a greater cost for the industry and would therefore be extremely counter-productive.

These general comments are relevant to all answers below.

CESR questions 5 and 6

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?
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?

CEA answers to questions 5 and 6

CEA does not agree for the reasons outlined in "General Comments and answers to questions 1 to 3" above, especially as there is currently no finalised standard and insurance companies are already facing an extremely tight timeframe. There should be no obligations for insurance companies to disclose before the first publication under IAS/IFRS.

CESR questions 7 to 10

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?
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?
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?

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?

CEA answers to questions 7 to 10

We support that it is not appropriate to present financial data for the first and third quarters in a manner different from the six-month report. Two different methods of presentation would only confuse users and would require an explanation of the differences in the accounting principles.

Correspondingly, we do not support application of national provisions mixed with the valuation under IAS/IFRS provisions. This would only add to costs, because the practice involved would be an entirely new model of presentation devised for application in the 2005 interim reports only. Consequently, insurers should have a choice between two alternatives, national provisions or IAS 34 supplemented by reconciliation information in accordance with IFRS1 where the differences are material.

Additional benefits/costs

Under IAS 34, interim reports may not be referred to as IAS reports unless all the standards have been complied with. Although a great number of the changes may not be material for net profit and equity, the adjustments need to be made in order to produce line item data. Changing the quarterly comparative figures would result in unnecessary costs, with overlapping accounting, because the official consolidated accounts for 2004 will still be prepared in accordance with national provisions. Moreover, reporting for the first and second quarters may require separate accounting of the items to be restated, because new systems may not yet be available at the time, owing to delays in the completion of the standards. It is not even prudent in all respect to automate comparative data processing. According to the transition standard, IFRS1, each IAS report for 2005 has to be accompanied by reconciliation data for the relevant quarter of 2004.

Auditing and reliability of data

The 2005 IAS/IFRS financial statements, accompanied by comparative figures for 2004, will not be signed or audited until 2006. The first interim report for 2005, instead, will have to be released as early as May 2005. As there are many points that need interpretation in the new standards, a great deal of more time will be needed for preparing the first IAS/IFRS accounts in particular to ensure that the points that need interpretation can be discussed with the management (fair and true view) and the auditors. This is the only way to ensure reliability of the information.

Timetable

If the 2005 interim reports were prepared under present national provisions, we would get almost an extra year for crafting the IAS/IFRS changes. This extra time would not only increase reliability of the data but also make it possible for insurers to make more sustainable choices and save costs. The long-range aim is to have the same accounting practice applied to both individual accounts and consolidated accounts to avoid costly multiple accounting.

CESR questions 11 and 12

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?
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?

CEA Answers to questions 11 and 12

When there is no obligation to present three years comparative figures, we are not in favour of presenting profit and loss account, balance sheet or cash flow statements again in accordance with local GAAP, because the accounting structures may be so different that the data would not be comparable. In such case, repetition would only bloat the accounting material, already extensive. On the contrary, if there is an obligation to present 3 years comparative figures, then we support CESR's proposal.

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