

February 6, 2003

Mr Fabrice Demarigny  
Secretary General  
CESR  
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E-mail: [secretariat@europefesco.org](mailto:secretariat@europefesco.org)

Dear Mr Demarigny,

**Re: CESR consultation on Principles of Enforcement of Accounting Standards in Europe**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the proposed *Statement of Principles of Enforcement of Accounting Standards in Europe*. EFRAG welcomes the paper and believes that high quality uniform financial reporting is key to the creation of an efficient European capital market. It will enhance the usefulness of financial information published throughout Europe. To achieve uniform financial reporting, co-ordination of the various enforcement practices throughout Europe is necessary.

We welcome Principle 20, which states that no general application guidance on IFRS will be issued by the enforcers. Inevitably, however, an act of enforcement will, to some extent, be viewed as an interpretation of the standards. The quest for application guidance and interpretations of IFRS can be expected to be extensive in the coming years. The current dispersed European enforcement practices could be seen as a threat to the accomplishment of uniform enforcement throughout Europe. EFRAG recognises the need for strong coordination as being key to effective enforcement (Principle 20). The immediate priority must be to address the enforcement of accounting standards for listed companies. However, we believe that an appropriate and effective enforcement system is also required for other European companies reporting under IFRS, even though they are not within the jurisdiction of CESR.

We are aware that in some countries (but not in all) a system of pre-clearance will be available whereby reporting entities can obtain advance approval of the accounting they propose to use. We are concerned that a practice of pre-clearance operating in different countries poses a threat to uniform interpretation and a risk of regulatory arbitrage as companies listed in different countries may choose where to seek pre-clearance. We foresee a significant growth in companies seeking pre-clearance and believe that steps should be taken to contain this as far as possible. It is important that those providing pre-clearance should be well versed in the accounting standards, official interpretations provided by IFRIC and precedents already provided

by pre-clearance and other enforcement decisions given throughout Europe. To avoid unnecessary and inappropriate applications for pre-clearance and, in particular, to preserve among both preparers and auditors a sense of personal, professional responsibility, we believe that companies should always be encouraged to make their own assessment of the proper application of International Financial Reporting Standards together with their auditors. Pre-clearance should only be sought in exceptional and well defined circumstances and then only when submitted by the company with the support of its auditors.

All enforcement decisions, whether pre-clearance or after publication of the financial statements, should be clearly documented and publicised. It should be made apparent that they apply to the very specific circumstances for which the decision was given and, although they form a precedent, that precedent will be overruled by any subsequent standard or IFRIC interpretation or, indeed, by any further guidance resulting from co-ordination measures. Decisions should not only be well documented but published centrally so that consistent responses can be achieved.

EFRAG is mandated to identify issues for which the IASB general interpretation guidance is not sufficient to ensure consistent application of IFRS throughout Europe. Its constitution provides for cooperation with European organisations, including securities markets supervisors, in identifying implementation issues. CESR is an active observer at EFRAG's Technical Experts Group meetings. We believe that EFRAG has a role in the exchange of application guidance and interpretation of IFRS within the enforcement process, in particular through being kept informed of frequent references to the same issue and decisions turning on subtle or complex interpretations of IFRS. Such an involvement of EFRAG can help prevent a drift towards multiple interpretations and applications of IFRS throughout the European Union.

Principle 16 contains a definition of materiality which is different from the IASB Framework definition. We believe that CESR should consider adopting the IASB definition of materiality for the sake of consistency.

We hope that the above comments are helpful in taking forward CESR's important initiative to strengthen the European financial reporting infrastructure which underpins the confidence in the reliability of financial information. Mindful of our own participation in that infrastructure, we would be happy to discuss further with you the role and involvement of EFRAG.

Yours sincerely

Johan van Helleman  
EFRAG, Chairman