

RA/ASC/br

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E-mail: secretariat@europefesco.org

Mr Fabrice Demarigny
Secretary General
CESR
11-13 Avenue de Friedland
F-75008 PARIS
FRANCE

CA HOUSE
21 HAYMARKET YARDS
EDINBURGH EH12 5BH
PHONE 0131 347 0100
FAX 0131 347 0105
E-MAIL enquiries@icas.org.uk
WEB <http://www.icas.org.uk>

Dear Sir

CESR CONSULTATION PAPER PROPOSED STATEMENT OF PRINCIPLES OF ENFORCEMENT OF ACCOUNTING STANDARDS IN EUROPE

The Institute's Accounting Standards Committee has considered the above Consultation Paper and I am pleased to set out its comments below.

In general the Committee supports the introduction of the Statement of Principles. However it is concerned that the Statement as drafted does not appear to make provision for any mechanism to ensure the accountability of enforcers at National and European levels. The Committee considers that it is appropriate and necessary for the Statement of Principles to incorporate such a mechanism.

In addition, we have some comments on specific principles as follows.

Principle 15: The Committee believes that this principle would benefit from further clarification. The Committee notes that elsewhere in the consultation paper, the guidance states that "where applicable, auditors are required to act as a first external line of defence against misstatements by expressing their opinion on the financial information based on their audit." However, the detailed list of methods of enforcement suggests that CESR envisages a role for enforcers that substantially overlaps with the role of auditors, and may indeed be interpreted as providing for the replacement of auditors by the relevant enforcement body itself. We believe that this may cause confusion, that it would represent an unnecessary duplication of effort, and that it could result in a significant increase in compliance costs for companies.

Principle 17: We believe that this principle would also benefit from further clarification. The principle envisages that the enforcers will be able to take actions to improve market confidence and integrity, and that sanctions will be applied by the national legislation. However, the principle does not make clear how this interrelationship should work in practice. For example, should enforcers be able to apply sanctions in their own right and should the ability of national legislation to apply sanctions to companies covered by the Statement of Principles only be exercised at the behest of the enforcers?

Principle 20: The Committee agrees that it is desirable to promote harmonisation of enforcement practices and to ensure a consistent approach of enforcers. However, we are concerned that, in practice, it will be possible for different enforcers to take their own decisions without reference to others, as the guidance recognises that exchange of information among enforcers will be limited by technical feasibility time and confidentiality constraints.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely

RICHARD ANDERSON
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee