

Québec, October 30, 2003

Commissioner Frederik Bolkestein  
European Commission  
Rue de la Loi  
B-1049 Brussels  
Belgium

Alexander Schaub  
Director General, International Market  
Rue de la Loi  
B-1049 Brussels  
Belgium

David Wright  
Director, Internal Market Directorate General  
Directorate G – Financial Markets  
Rue de la Loi  
B-1049 Brussels  
Belgium

Mr. Fabrice Demarigny  
Secretary General  
CESR (Committee of European Securities Regulators)  
11-13 Avenue de Friedland  
75006 Paris  
France

**Re: Proposed EU Prospectus Directive  
Request for clarification on behalf of Financement-Québec and  
Hydro-Québec**

---

Dear Sirs:

In March 2003, Québec requested some clarification on disclosure requirements for non EU sovereign issuers. In May 2003, Commissioner Bolkestein replied that no restatement of third country financial statements was intended to be imposed and that a detailed schedule for minimum information to be disclosed by sovereign issuers in their prospectus would be adopted by CESR.

In response to the CESR Consultation Paper dated July 2003 relating to CESR's Advice on Level 2 Implementing Measures for the Prospectus Directive, we are seeking further clarification as to the status of government corporations (public issuers). We acknowledge that the meaning of ownership of agent or mandatary in EU Member States

may be somewhat different than in non EU countries. However, in our view, detailed disclosure requirements under the Prospectus Directive are directed at corporate issuers as opposed to public sector issuers such as Financement-Québec and Hydro-Québec, which are both wholly owned by Québec.

Financement-Québec and Hydro-Québec have debt securities outstanding in the European Union market. Borrowings by Financement-Québec and Hydro-Québec must be authorized by the government of Québec and are **guaranteed directly and unconditionally** by Québec (a non-EU sovereign issuer). Financement-Québec and Hydro-Québec are mandataries (the civil law equivalent of an agent) of Québec. Financial statements of Financement-Québec and Hydro-Québec are audited respectively by the Auditor General and independent external auditors, and the audit reports, together with the annual reports and financial statements, are filed with the National Assembly of Québec.

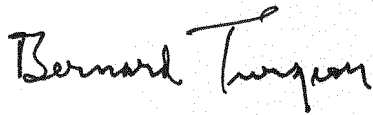
Does CESR contemplate a special schedule for state-guaranteed issuers which, in our view, would be more appropriate for Financement-Québec and Hydro-Québec? According to Article 7 of the EU Prospectus Directive, the public nature of the issuer must be taken into account; however, the meaning of "public nature" is unclear. No definition thereof is found in the draft of the Prospectus Directive or in any related documents. Should Financement-Québec and Hydro-Québec not be considered as such, being mandataries of a sovereign issuer? Could any general information already disclosed by Québec, their guarantor, in Europe and in other markets be incorporated by reference into the documentation of Financement-Québec and Hydro-Québec?

Financement-Québec and Hydro-Québec understand that no additional information would be required for financial statements of non-EU issuers prepared according to local GAAP "equivalent" to International Accounting Standards. However, equivalence to IAS required by the EU Prospectus Directive would imply complicated and costly changes in the preparation of their financial statements, or require a cumbersome narrative description of the differences between the local GAAP and IAS. The financial statements of Financement-Québec and Hydro-Québec are prepared in accordance with Canadian GAAP. We believe that we should continue to use these accounting standards in the preparation of financial statements of Financement-Québec and Hydro-Québec and that reconciliation to IAS should not be required. Would you kindly advise us if this is not appropriate for CESR?

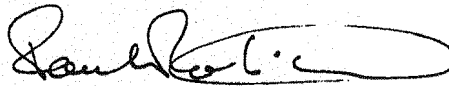
Financement-Québec and Hydro-Québec have many concerns regarding the proposed EU Prospectus Directive. If "Minimum Disclosure Requirements" are to apply to the "Registration Documents for Securities issued by Members States, Non-EU States and their regional or local authorities", could they not apply as well to those for securities which are unconditionally and irrevocably guaranteed by Québec?

We are looking forward to your response on the various issues we have raised in connection with Prospectus Directive.

Sincerely,



Bernard Turgeon  
Associate Deputy Minister  
Budgetary Policy and Financing  
Ministère des Finances



Paul Robillard  
Corporate Treasurer  
Hydro-Québec

Enclosures:    Request of clarification for Québec (March 31, 2003)  
                    Answer to Québec from M. Bolkestein (May 23, 2003)



Québec, March 31<sup>st</sup>, 2003

Commissioner Frederik Bolkestein  
European Commission  
Rue de la Loi  
B-1049 Brussels  
Belgium

Alexander Schaub  
Director General,  
International Market  
Rue de la Loi  
B-1049 Brussels  
Belgium

David Wright  
Director, Internal Market Directorate General  
Directorate G - Financial Markets  
Rue de la Loi  
B-1049 Brussels  
Belgium

**Re: Proposed EU Prospectus directive of the CESR**  
**Request of clarification regarding non-EU sovereign issuer**

Dear Sirs:

Québec and its agencies have been frequent issuers of debt securities on the European Union market. At the present time, Québec has outstanding over 140 issues totalling 19\$CA billion, many of which are listed on EU stock exchanges.

In the current draft of the EU Prospectus Directive, all foreign issuers would have to conform with the International Accounting Standards (IAS) and audit standards. Since IAS is related to corporations, we believe that sovereigns, crown agencies, state-guaranteed entities and local authorities do not have to conform with such standards.

Taking into account Québec and its agencies participation in the regulated EU market and the disagreement to be caused to EU investors, Québec is asking you an official confirmation to the effect that Québec, its agencies, its regional and local authorities and their agents and state-guaranteed entities are exempt from requirements of audit standards and from producing financial statements in accordance with IAS for issuance of debt securities in the EU. This would be consistent with the treatment conceded to Member States and similar entities of the Member States in the proposed Prospectus Directive (Article 1, paragraphs (2)(b) and (c)). Without such exemption, we could be precluded from offering debt securities in the EU and be forced to withdraw our debt securities from EU stock exchanges.

Sincerely,

Director General  
Financing

Daniel Doyon

Frits Bolkestein  
Member of the European Commission

Rue de la Loi 200 - B-1049 Bruxelles  
Werstraat, 200 - B-1049 Brussel  
Tel. (32-2) 298.07.00  
Brussels, 23.05.2003

Dear Mr. Doyon,

Thank you for your letter in which you set out your concerns on the proposed Prospectus Directive and its future implementing measures.

Let me clarify the current situation. Your comments are only relevant to issuers whose securities are listed on 'eurobonds' segments of certain EU stock exchanges. Currently, a prospectus drafted for listing such securities is covered by national, rather than Community legislation. Current Directive 2001/34/EC in its Article 27 authorises a Member State to opt for a less stringent disclosure regime for the wholesale market. However, few Member States have made use of this option. The Commission has proposed to include 'eurobonds' within the scope of EU legislation so that they may benefit from a harmonised legal framework at Community level. This is in line with the position advocated by the International Primary Market Association.

With regard to your comments on IAS financial reporting, there is, however, nothing in the proposed Prospectus Directive that would impose as such a full restatement of third country financial statements to EU accounting standards, pursuant to the EU Regulation on the adopted international accounting standards which will enter into force in 2005. Furthermore, it is certainly not the intention of the Commission to impose IAS standards on EU or non EU sovereign issuers. Community legislation on accounting is limited to companies and not designed for public sector accounting.

The exact nature of the financial information sovereign issuers will have to include in their prospectuses has not yet been determined. However, it will certainly not be the accounting standards adopted by the EU Commission pursuant to the Regulation on the adoption of international accounting standards. The Committee European Securities Regulators is currently reflecting on how to advise the Commission on the minimum information items to be disclosed by sovereign issuers in their prospectuses.

...//.....

Mr. Daniel Doyon  
Director General  
Financing  
Ministère des Finances de  
l'Economie et de la Recherche  
12 rue Saint-Louis  
Québec, G1R 5L3  
Canada

The difference between EU and non EU sovereign issuers already exists in current Community legislation and has not been questioned in legislative debates on the new prospectus Directive. Concerning the minimum detailed information items to be included in prospectuses for sovereign issuers, a schedule detailing minimum requirements will be adopted as an implementing measure for Article 7 of the proposed Directive. However, for the time being, we have no reason to think that EU issuers will be subject to differentiated prospectus content.

I can reassure you that we are taking fully into consideration the needs of certain wholesale markets, notably that for eurobonds issued by non EU sovereign issuers. I hope that the enclosed confirmation that the EU Regulation on IAS will not apply to Canadian provinces clarifies a possible misunderstanding. Thank you again for your comments.

Yours sincerely,

Frans Knuysen