



November 20, 2003, Paris

To M. Fabrice DEMARIGNY
Secretary General
Committee of European Securities Regulators

Société Générale Group's response to the CESR's consultation paper "Draft recommendation for additional guidance regarding the transition to IFRS"

The Société Générale Group is a major international banking and financial services group based in France, and ranks among France's leading banks. At September 30th 2003, the Group had a market capitalisation on the Paris Bourse of some EUR 25 billion, the 10th largest on the stock exchange, and approximately 300,000 shareholders.

Société Générale would like to thank the CESR for being given this opportunity to state its opinion on the process for ensuring the transition from French GAAP to IAS/IFRS between December 31st 2003 and the end of the 2005 financial year.

We believe it to be of primordial importance that companies, investors and shareholders be prepared as soon as possible for this major change. We are grateful to the CESR for this initiative: we agree both with the objectives identified and with the key issues the Committee has highlighted.

As a general opening remark, **Société Générale considers that the CESR should incorporate into its recommendations the very specific issues impacting on the adoption of IAS/IFRS by European financial institutions (banks and insurance companies)**. Indeed, major standards applicable to these institutions, namely IAS 32 and 39, are still not available in their definitive format and are subject to ongoing discussions within the IASB. What is more, these standards will in all likelihood only come into force as of January 1st 2005 without retroactive effect and without the need to present comparative data for the prior period. Given, on the one hand, the additional time required for the adoption of these standards by the European Commission, and on other hand, the time required by companies to implement these standards (changes to information systems, training initiatives, etc.), **the CESR should explicitly exempt financial institutions** from the need to supply 2004 comparative data in 2005 where a given standard is not in force on January 1st 2004 (in particular IAS 32 and 39).

Introduction

Question 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?

Yes, we consider this approach necessary to ensure a harmonisation of the practices of European listed companies in this area.

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

The application of the new standards demands substantive changes, notably related to the adaptation of information systems and training initiatives. Consequently, it is useful to encourage companies to carry out as much of the groundwork as possible upstream of the transition.

Question 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?

We agree in principle to a progressive approach to communicating about the transition process between December 31st 2003 and December 31st 2005, in accordance with the timetable propose by the CESR.

Given the more limited volume of information published during half-yearly closings by French companies, **we believe it preferable to communicate on the 2004 financial year when closing the annual accounts.**

We do not consider it appropriate to impose an interim communication obligation during the 2004 quarterly publications.

1 – Publication of the 2003 annual financial statements

Question 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?

We agree with the idea of providing as of the 2003 annual financial statements **purely descriptive** information on the management of the transition process within our Group and on the main changes in accounting policies brought about by the move to IAS/IFRS, **to the exclusion of any comments on standards that are not in force on January 1st 2004.** Indeed, standards that will in all likelihood be applicable as of January 1st 2005, in particular IAS 32 and IAS 39, will not yet have

been published in their definitive version at the time of publishing our 2003 annual financial statements. In addition, some standards will require amendments to be made to earlier standards. **We draw the CESR's attention to the fact that communicating too early could result in the market being given information that could subsequently prove false.**

We believe that this information should be given in the Group's management report rather than in the annual financial statements.

2 – Publication of the 2004 annual financial statements

Question 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?

Listed companies will only be obliged to publish their consolidated financial statements in accordance with IAS for those financial years beginning January 1st 2005 (Article 4 of Regulation 1606/2002).

However, we share the CESR's view that it is preferable to communicate earlier on the impact of the transition to IAS on the 2004 annual financial statements (see response to Question 3).

Nevertheless, we consider that it is incumbent on companies to decide on the information to be communicated when publishing their 2004 annual financial statements: quantified information on the standards applicable as of January 1st 2004 (notably excluding IAS 32 and 39) or a descriptive presentation depending on changes to the IAS reference framework and on how far advanced each company is in its preparation, along the lines of the information given at the time of publication of the 2003 annual financial statements.

Furthermore, we believe it appropriate to keep the communication of the 2004 financial statements under local GAAP and under IAS separate in order to avoid any confusion in the analysis of data given to the market.

In any case, we believe that **the information on the 2004 opening and closing balances should be presented at the very latest during the presentation of the first 2005 interim accounts** (quarterly or half-yearly).

Question 6:

6.1 - Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS 1 for defining which quantified information should be disclosed as a result of the recommendations in § 11 and § 12?

6.2 - Do you believe other disclosures should be envisaged?

6.3 - Do you agree with inclusion of such information in the annual report or in the notes to the financial statements?

6.1 On the assumption that quantified information on the impact of the transition to IAS/IFRS on the 2004 annual financial statements **should** be presented when publishing the 2004 annual financial statements (see answer to Question 5), **it should only cover the opening balance at January 1st 2004 and the main 2004 P&L items (net banking income, operating income, net income) prepared in accordance with the published standards applicable as of January 1st 2004.**

In order not to push back the publication date of companies' 2004 annual financial statements, we recommend not imposing the obligation to provide information on the 2004 closing balance under IAS when publishing the 2004 annual financial statements.

On the other hand, we do not believe it desirable to give any information on the cash flow statement where banking institutions are concerned (information not required under French regulations and not pertinent).

6.2 No, given that it concerns a transition phase.

6.3 In our view, this reconciliation, if required, should be included in the notes to the 2004 annual financial statements.

3 – 2005 interim financial statements

Question 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 reporting, i.e. IFRS, in the way indicated hereunder?

We agree with the principle whereby any interim financial information published after January 1st 2005, **where such information is obligatory**, should be prepared in accordance with IAS/IFRS.

However, **we consider that these interim accounts must be prepared according to the published IAS/IFRS in force at January 1st 2005 and not at the December 31st 2005.** Indeed, we believe that it is not technically feasible to take into account during interim closings standards that are set to be published later in 2005 and which should be applied retroactively from January 1st 2005.

In this respect, in general, we would draw the attention of members of the CESR to the fact that the standards published during the course of the financial year would at the very earliest only be applicable from January 1st of the following year.

3.1 –2005 quarterly financial statements

Question 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?

See response to Question 7.

We would draw the CESR's attention to the fact that the information required during publication of quarterly financial statements is extremely limited under French regulations. We do not want the market authorities to raise the level of required information.

3.2 – 2005 half-yearly financial statements

Question 9: Do you agree with the proposed encouragement for European listed companies to either fully apply IAS 34 for half year 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?

See response to Question 7.

3.3 – Comparative figures

Question 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 statements over 3 successive periods the restatement of the earliest period could not be required?
- E) indicative format for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

A) We shares the CESR's opinion that it is necessary to provide comparative figures for 2004 prepared in accordance with IAS when presenting financial statements in 2005.

However, as certain standards (IAS 32 and 39) will be applicable as of January 1st 2005 without retroactive effect, **we consider that it is not obligatory to provide full 2004 comparative figures based on the standards in force at January 1st 2005.**

We agree with proposals B, C and D.

E) We do not find the **indicative format to be appropriate** since it supposes that the format of the income statement and the balance sheet are comparable under French GAAP and IAS/IFRS, which will not be the case (impact of reclassifications). **We consider that it is incumbent on each profession to develop a suitable presentation model according to the specific characteristics of its sector.** In our case, a presentation defined within the French Banking Federation (FBF) and the European Banking Federation (FBE) appears adequate in our opinion.

4 – 2005 annual financial statements

Question 11: Do you agree that, in addition to the presentation of comparative information in conformity with IFRS 1 (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?

See responses to Questions 7 and 10.

Question 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 earliest period? If yes, do you agree with the indicative format for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

See responses to Questions 7 and 10.