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PRESS RELEASE

CESR publishes the technical advice on equivalence of Canadian, Japanese and US GAAP

CESR publishes today its final technical advice (Ref. CESR 05-230b) for the European Commission on equivalence between Canadian, Japanese and US General Accepted Accounting Practices (GAAP) and International Financial Reporting Standards (IFRS).

Having received generally supportive comments during the public consultation on CESR's overall assessment of equivalence, CESR has confirmed the premise of its initial technical assessment of equivalence and the conclusion that, considering the needs of investors on EU financial markets, the three third countries GAAP, each taken as a whole, could be considered as equivalent to IFRS subject to a number of remedies (essentially disclosures)

In order to address particular concerns expressed by respondents, CESR's final advice has been revised to clarify further, the way companies reporting under these GAAP would be expected to provide additional information (remedies) to EU financial markets, for transactions or events recognised under these GAAP that are material and relevant for investors' decision making. To assist, the concepts of materiality and relevance have also been further explained. One specific element revised in the framework for the application of the remedies, is to gather together the different types of disclosure proposed in the draft advice into only two types of clearly distinguishable disclosures. CESR has also stipulated with further clarity that the criteria referred to by CESR for assessing the significance of GAAP differences are not expected to be used by issuers and auditors respectively for the application and audit of remedies.

A key element of CESR's conclusion is that companies reporting under Canadian, Japanese and US GAAP are, under no circumstances, expected to do a complete reconciliation of their financial statement into IFRS. Rather, they are primarily expected to apply remedies (in the form of disclosures) in relation to the list of significant differences provided in the advice, which is expected to be complete in the view of those differences commonly found in practice or, known to be significant as such, by the financial and audit community. Taking account of comments received, the final advice has streamlined the approach to situations where an accounting issue is not included in this list of significant GAAP differences. Now under the final advice, the scope of application of these situations has been ring fenced. They are expected to be exceptional in occurrence and, when they occur, they should be covered by additional disclosures when related to transactions or events that could be material and relevant to investors' decisions.

CESR notes that respondents to the consultation had only limited comments on the technical analysis of differences between reporting standards. These comments have been duly considered and reflected in the final assessment of equivalence. Examples of these changes are related to the status of Qualifying Special Purposes Entities (QSPEs) and IAS 36, or some specific differences for Japanese GAAP and Canadian GAAP that have been removed from the list on the basis of additional information received.

It should be noted that any exercise of GAAP comparisons is subject to adaptation over time as it represents an assessment of the standards at a given moment. As such the assessment of equivalence was based on the standards in place in the third countries up to 1 January 2005 (as requested by the European Commission). Throughout the finalisation of this work, CESR has collected evidence that



important changes will occur in third countries GAAP, which will solve many of the differences highlighted in the advice, in particular as a result of the convergence projects that are underway between the IASB and the standard setters in the three countries considered. Convergence towards adoption of high quality international reporting is essential for fostering the integration and efficiency of global capital markets and CESR is hopeful that these projects will be taken forward as a matter of priority over the next months and years.

As requested by the European Commission, CESR has also included, within the technical advice, a description of the enforcement mechanisms which are in place in each country. This description is essentially based on the information received from Canada, Japan and the US and is not an assessment of how enforcement works in practice. Effective enforcement mechanisms of financial information however, are a key element in establishing an appropriate framework within which, investment decisions can be taken in a secure environment, and are therefore critical for investor's confidence.



Notes for Editors

1. Both the Prospectus Regulation and the Transparency Directive state that third country issuers (non-EU issuers), who have their securities admitted to trading on an EU regulated market, or who wish to make a public offer of their securities in Europe, will be required, as from 1st January 2007, to prepare and present the financial statements that they publish on the basis of EU endorsed IAS/IFRS accounting standards, or, on the basis of the third country's national accounting standards if they have been declared as equivalent to IAS/IFRS. In particular, the Prospectus Regulation and Transparency Directive require the European Commission to establish a mechanism and to take the necessary decision as to whether a given third country GAAP is equivalent to IAS/IFRS. For this reason, the European Commission requested in June 2004, that CESR prepare technical advice which will assist them in reaching the final assessment. Where a third country GAAP is not found to be equivalent, the third country issuer will be asked to either restate their accounts in accordance with IAS/IFRS, or to take some remedial action.
2. The preparation of CESR's technical advice was developed within CESR by the operational group, CESR-Fin, chaired by John Tiner, Chief Executive of the UK FSA, and through its two sub-committees on endorsement (SISE) and enforcement of financial information (SCE). SISE is chaired by Mr Paul Koster, Commissioner at the Dutch Authority for the Financial Markets (AFM). The SCE is chaired by Mr Lars Østergaard, Director at the Finanstilsynet in Denmark (Danish Financial Supervisory Authority).
3. CESR began its work on the mandates received from the European Commission by consulting publicly on the concepts which would underlie its approach in the assessment of equivalence between certain third countries' GAAP and IAS /IFRS. These were described in the final concept paper published on 3 February 2005 (Ref. CESR/04-509C). CESR published on the 27th April 2005 the draft technical advice on equivalence and welcomed comments from all interested parties by 27th May 2005. An open hearing was also held on 18th May at CESR's headquarters in Paris.
4. To prepare CESR's advice, CESR also formed a consultative working group of industry experts which have met with the expert group on many occasions. The following industry experts form the Consultative Working Group on Equivalence:

Mr Antoni F. Reczek, PwC, **Mr Freddy Méan**, Petrofina, **Ms Lynda Tomkins**, Ernst & Young, **Mr Per Thorell**, Ernest & Young, **Mr Peter Sampers**, Philipps International B. V., **Dr Dieter Silbernagel**, Allianz Lebensversicherungs AG, **Mr Harald Petersen**, Schutzgemeinschaft der Kapitalanleger e.V., **Mr Laurent Decaen**, Deloitte, **Ms Sue Harding**, Standard & Poor's, **Mr Frederick Mifsud Bonnici**, PwC, **Mr Mark Merson**, Barclays Bank PLC, **Mr Ralph Ter Hoeven**, Deloitte Netherlands, **Mr Jan Buisman**, PwC, **Mr Olivier Azieres**, Deloitte, **Mr Stephane Lagut**, Ernst & Young, **Ms Paula Presta**, KPMG, **Ms Conie Tang**, KPMG.
5. As underlined in the technical advice, academic research formed an important factor in determining CESR's approach and considerations of equivalence. Specifically the input and academic guidance in this process provided by C. Leuz has been of significant value to the process.
6. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:
 - Improve co-ordination among securities regulators.
 - Act as an advisory group to assist the EU Commission, in particular in its preparation of draft implementing measures in the field of securities.



- Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
- The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.
- Each Member State of the European Union has one member on the Committee. The members are nominated by the Member States and are the Heads of the national public authorities competent in the field of securities. The European Commission has nominated the Director General of the DG Market, as its representative. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

7. For further information please contact:

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