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**PRESS RELEASE**

**CESR publishes its advice to the European Commission on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries**

CESR publishes today its advice to the European Commission "*CESR's advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries*" (Ref. CESR/07-289).

In accordance with the mandate of the European Commission, CESR provides in this advice a mechanism for determining equivalence of the generally accepted accounting principles of third countries to IFRS, as adopted in the EU.

The key elements in the CESR's proposal are the following:

- The national standard setter (and/or another suitable public body) should assess whether the disclosures, measurement and recognition principles, and financial statement presentation required by the third country GAAP concerned, are materially the same as IFRS and where they are not, an assessment of the differences.
- If there are no significant differences between the third country GAAP and IFRS (for example, where a convergence programme has reached a point where no material differences exist any more), such GAAP may be deemed equivalent without the need for additional rectification disclosures.
- Even in cases where there are significant differences under the two sets of accounting principles, the third country GAAP may be considered equivalent to IFRS if those differences identified can be rectified at company level by non-complex disclosures.
- Any additional non-complex disclosures should be subject to audit.
- Prior to giving any advice to the Commission on whether to accept an equivalence assessment, CESR would seek reactions from market users regarding the third country GAAP and the proposed rectifications via public consultation.
- Once all other steps have been fulfilled, and using the definition of equivalence CESR has already provided, an "overall" assessment of equivalence should be made in the final instance by the European Commission via a comitology process.
- For the purposes of establishing equivalence, CESR assumes that third country GAAPs are properly applied including the provision of any rectifying disclosures necessary. CESR further assumes that the necessary filters for ensuring market confidence are in place for third country issuers using or participating in the EU capital markets.



- Finally, CESR considers that an assessment of the reliability of the audit conducted on the financial statements of issuers using an equivalent GAAP should be a step in the mechanism. The assessment of the audit filter is dealt with exclusively through the assessment of compliance with the 8<sup>th</sup> Directive, including any transitional measures the European Commission may introduce.

In addition to its proposed mechanism for determining equivalence, CESR suggests the European Commission considers extending the existing transitional measures for those GAAPs currently converging to IFRS if certain conditions are met. Should the Commission adopt such transitional measures, CESR would recommend they not be extended beyond 2012.



**Notes for Editors:**

1. Within CESR, the operational group CESR-Fin chaired by Paul Koster, Commissioner of the Netherlands Authority of Financial Markets (AFM) has been charged with the preparation of the CESR's advice.
2. 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.
3. Each Member State of the European Union has one member in 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.
4. For further information please contact:

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