

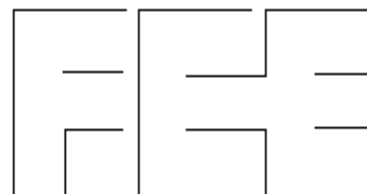
Date  
3 June 2005

Le Président

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des Experts  
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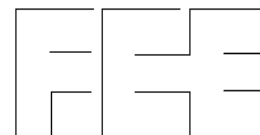
Dear Mr Demarigny,

Re: CESR Draft Technical Advice on Equivalence of Certain Third Country GAAP and on Description of Certain Third Countries Mechanisms of Enforcement of Financial Information

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) welcomes the opportunity to provide you with our views and thoughts on the CESR consultation paper on Draft Technical Advice on Equivalence of Certain Third Country GAAP and on Description of Certain Third Countries Mechanisms of Enforcement of Financial Information. We welcome CESR's efforts and commitment in completing the EC mandate.

#### General

2. Having considered all the complex issues that we have set out below and in particular the anticipated convergence between GAAPs, in our opinion, it should be discussed whether, during an interim period, companies using Canadian, Japanese or US GAAP could be allowed to list in Europe without having to provide remedies in the form of additional disclosures. Under this approach, users of financial statement would be clearly aware that the financial statements are not equivalent to IFRS financial statements. The regulation should be combined with a proper sunset clause of (say) five years to review the equivalence assessment and to ascertain that those GAAPs have sufficiently converged with IFRS to be regarded as equivalent without the need of requiring further remedies. However, this should not constitute an automatic mechanism for future GAAP assessments. Each national GAAP should individually be assessed particularly the extent to which it is part of a convergence project and the quality of the specific national GAAP.
3. We also welcome the recent progress announced by Commissioner McCreevy and the SEC setting out a roadmap towards full equivalence which is aimed at eliminating the reconciliation statement to US GAAP required of companies using IFRS possibly as soon as 2007, but no later than 2009. FEE supports the efforts taken to remove the reconciliation statement for foreign companies in the US (and elsewhere) using IFRS.
4. The present wording, in particular the "catch all" requirement in paragraphs 17 and 101, is seen by some jurisdictions as resulting in a requirement to prepare a full reconciliation and to keep full IFRS records, in order to enable management to assert what the significant differences are and for the auditor to report on that assessment. This seems at odds with the progress recently announced.
5. We are not in a position given the very short timeframe to comment on the detailed assessments of Canadian, Japanese and US GAAP.



6. It is our understanding that the decision on Canadian, Japanese and US GAAP being equivalent, subject to meeting four conditions and the proposed remedies, is a strategic decision, which takes account of the current and anticipated convergence activity of these three GAAP and IFRS. However, we see the risk that, based on CESR's assessment and the proposed remedies, users of the financial statements of Canadian, Japanese, or US companies, could get the wrong impression, that they have the same information as would have been provided by full IFRS financial statements.

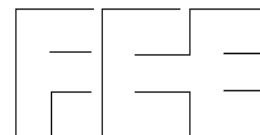
As set out in our letter of 15 December, from a strictly technical point of view, equivalence of financial statements has to be assessed by taking into account the specific circumstances of the enterprise. CESR acknowledges this in its draft advice and, therefore, does not claim to provide an exhaustive list of differences between third country GAAP and IFRS. There will almost always be (significant) differences between specific third country GAAP and IFRS when assessing equivalence at the entity level. Under the specific circumstances of the economic position and transactions of the reporting enterprise the differences between the reporting standards might result in material differences in the financial statements prepared under the specific circumstances. Therefore, the equivalence of the financial statements in respect of each individual case may or may not be important.

We understand that those issues considered by CESR and assessed as insignificant in their report need no further consideration by management and auditors, even where they could be significant in individual cases. This contrasts with the "catch all" requirement of paragraphs 17 and 101, and can be seen as another indication that the "catch all" requirement goes too far and is too burdensome, both for management and auditors.

7. CESR's mandate required a general assessment of the equivalence of national GAAP and IFRS that the financial statements should lead to similar economic decisions in similar situations. Accordingly, equivalence as a matter of principle can only be ensured by an explanation of significant differences between the financial statements based on third country GAAP and IFRS financial statements on a company per company basis. Some claim that, in order to be able to assess these unidentified differences, there is a need for companies to keep full IFRS records in addition to national GAAP. CESR needs to give close consideration to such implications, since they are unintendedly burdensome to companies and not in line with the overall spirit of convergence, especially given the fact that such reconciliation may only be needed for a very short period, since the equivalence requirements in the Prospectus and Transparency Directives come into force from 2007. We suggest that CESR considers bringing this to the Commission's attention in the final advice and refer to our recommendation in paragraph 16. There is a clear risk that this in fact constitutes the introduction of full IFRS (by the backdoor).
8. CESR needs to develop further guidance on industry specific issues, as these may influence the conclusions of the table presented on pages 9 and 10 of the report.

#### Audit Aspects

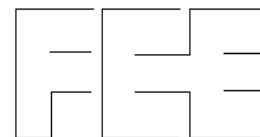
9. The CESR draft advice does not intend to provide an exhaustive list of differences between third country GAAP and IFRS. However, issuers are expected to address situations not found in the advice (specific remedies applicable to GAAP differences that appear significant in their specific case – the so-called GAAP differences not identified in the report – in this letter referred to as unidentified differences). The unidentified GAAP differences pose a problem for management and the companies' auditors. Therefore, in our opinion the draft technical advice is unduly burdensome for preparers and auditors in respect of shifting the responsibility and liability to the Canadian, Japanese and US auditors and preparers. As no guidance is provided how these differences and notably their completeness are to be assessed, a full reconciliation may, given the legal circumstance for preparers and auditors in at least some of the countries concerned, be the only satisfactory solution. It is doubtful whether this would pass the objectives of the Commission and a cost-benefit test.



10. Paragraph 17 of the Executive summary and paragraph 106 require that “As part of the auditors’ attestation of remedies, auditor’s involvement is also required in those situations for evaluating the possible entity-, industry- or event- specific circumstances that, to the knowledge of the auditor, could lead to the conclusion that there are other GAAP differences that are significant for investors’ decision”. We are firmly of the opinion that – if those issues should be identified at all – the primary responsibility should be with the preparers to provide this type of information.
11. The draft advice uses both the term “assurance” and “audit”. We believe that the use of the term “audit” as for instance in paragraph 104 is misleading as the assurance of remedies is not within the framework of audit of financial statements. We would prefer to use only the term “assurance”. IAASB should be involved in providing guidance on the level of assurance and the assurance opinion.
12. CESR should call on the IAASB to issue guidance as to whether there should be two separate reports by the auditors and to agree the level of assurance provided within the IAASB “International Framework for Assurance Engagements”. Paragraph 45 of ISA 700 (Revised) “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” offers the possibility to include ‘other matters’ in the audit report on the financial statements. It should be considered whether this paragraph model could be used for the report on the remedies as two separate reports may be confusing to the reader.

#### Specific Issues

13. We agree with the overall importance for filters to be in place for interpretation and application of the standards, such as corporate governance, auditor oversight and appropriate enforcement mechanisms together with similar filters at company level. We note that CESR’s conclusion on equivalence is based on the assumption that the filters on country as well as company level, including internal control, are in place and function. Although assessment of these filters is beyond the CESR mandate, it would be helpful were CESR to indicate the next step to be taken in the process, presumably by the European Commission. The question as to what should happen if the filters are not appropriate needs to be addressed, as should the questions by whom and when action is initiated.
14. The document uses the term “significant” in relation to investment decision and the term “material” in relation to the financial position and financial statements of the company. However, paragraph 3 of the Executive Summary seems to contradict this distinction since it indicates that both terms are the same. The advice needs to make clear whether there is a difference between “significant” and “material” as used in the IASB Framework, also given the fact that there is very detailed guidance on materiality in US GAAP.
15. Para 91 indicates that remedies apply to each financial reporting (annual and interim). Moreover, paragraph 95 indicates that all identified remedies should also be applicable to interim financial statements provided, in the sense that, when a remedy on a specific item is required, that remedy should also be applied when providing interim financial statements. This is understood also to apply to quarterly financial statements even though these are not required in the EU for EU listed companies. However, we note that the assessment of IAS 34 with its parallel standard in the GAAPs concerned is still outstanding. We also note that the US does not require a reconciliation statement for interim financial statements for foreign registrants. In accordance with the reasoning set out in paragraph 16 of this letter, we are of the opinion that CESR should not extend its remedies to interim financial statement, under similar conditions.
16. It is essential to facilitate application of the CESR technical advice in a practical manner.
17. We would like to reiterate the observations set out in paragraph 2 that it should be discussed whether, during an interim period, companies using Canadian, Japanese or US GAAP could be allowed to list in Europe without having to provide remedies in the form of additional disclosures.



We would be pleased to discuss with you in more detail any of the issues raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with a large initial 'D' and 'D'.

David Devlin  
President