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**PRESS RELEASE**

**CESR consults on the concepts it will use to measure  
equivalence between third countries GAAP and IAS/IFRS**

Following receipt of a mandate from the European Commission (Ref: CESR/04-305), CESR has begun its work by setting out the concepts which will underlie its approach to the assessment of equivalence between certain third countries' GAAP and IAS /IFRS. The principles set out in this paper are open for comment from interested parties by 22 December 2004.

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 1<sup>st</sup> 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 has requested CESR to 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. The Commission mandate also requested CESR to describe the enforcement mechanisms in place to ensure that the third country GAAP in the US, Canada and Japan are respected

The European Commission has requested CESR's advice by 30 June 2005 to allow sufficient time for parties affected by the application of the Prospectus Directive (which will take effect from 1 July 2005) and the Transparency Directive (expected to apply from the Autumn of 2006) to adapt if necessary. An updated indicative work plan is attached.

This concept paper sets out the basis upon which CESR will approach the analysis of equivalence and forms the first step in developing CESR's final advice to the European Commission. Once these basic parameters are established, CESR will then conduct the technical part of the equivalence assessment under the EC mandate, in accordance with the mandate and the principles set out in the concept paper.

Some of the key proposals set out in CESR's 'Concept Paper' are:

- that equivalence should not be interpreted as requiring the third country GAAP to be identical; CESR believes that a third country GAAP can be declared as equivalent to IAS/IFRS when financial statements prepared under such third country GAAP enable investors to take a similar decision in terms of whether to invest or divest;
- that CESR's approach to assessing equivalence will be to limit its analysis to the difference commonly found in practice or known to be significant as such by the financial and audit community in Europe and in third countries. If a convergence program is underway in the third country this will also be taken into account as helpful input;

- the assessment process is likely to result in three potential outcomes. At one end of the spectrum, a third country GAAP may be found equivalent and no adjustment is needed. At the other end, there may be a finding of non- equivalence under which restatement is the only solution. However, between these two extremes, there might be range of instances of partial equivalence which could be solved by a hierarchy of potential remedies. The concept paper describes the potential remedies which might be appropriate, depending on the nature of the difference between the accounting models. These include: additional disclosures; statement of reconciliation or, supplementary statement. CESR proposes that in the first instance, the company with the endorsement of the auditors, should make an initial judgement as to which remedies to apply. This judgement should be made on the basis of guidance provided by the relevant competent authority as defined by the Prospectus Regulation and the Transparency Directive and taking into account, the specific circumstances of the company.
- in describing the third countries enforcement mechanisms as requested by the European Commission, CESR's confirms in the concept paper that it is not its task to make an assessment of the effectiveness and efficiency of such mechanisms, nor to evaluate the quality of enforcements systems in third countries. In order to prepare the description of enforcement systems in place, CESR will use as a benchmark the principles identified in CESR Standard No 1 on Financial Information- Enforcement of Standards on Financial Information (published in April 2003) (Ref:CESR/03-073). This Standard identifies the key characteristics that enforcement mechanisms of financial information should have in Europe in order to fulfil this purpose.
- CESR proposes the objective should be to find out whether and how the main issues which can be considered relevant for enforcement, such as, purpose, independence, powers, resources, selection methods, actions etc. are incorporated in the third country's enforcement mechanism.

In order to prepare CESR's advice on equivalence, CESR will engage the relevant third countries' standard setters and regulatory agencies in an ongoing dialogue throughout the process in order to ensure an appropriate and meaningful understanding of the third country frameworks.

Reactions to this concept paper can be submitted online by 22 December 2004 through CESR's website ([www.cesr-eu.org](http://www.cesr-eu.org)) under the section 'Consultations'. In addition, CESR will hold an open hearing on 23 November 2004 from 2 pm to 5pm at the CESR Premises in Paris to enable interested parties to express their views on the draft concept paper. To register, please visit the CESR website and book via the section 'Hearings'.

Following the close of the consultation, the responses received will be made available on the CESR website and a final concept paper will be published. CESR will then move on towards preparing its draft technical advice on equivalence and the description of the enforcement mechanism (see the attached updated indicative timetable for further information).

## Notes for Editors:

1. This work will be taken forward within CESR by the operational group, CESR-Fin, chaired by John Tiner, Chief Executive of the UK FSA, which will prepare, through its two sub-committees on endorsement (SISE) and enforcement (SCE), the technical advice to be submitted to the European Commission.
2. CESR-Fin is a permanent operational group of CESR members active in the area of financial reporting. CESR-Fin plays a key role in the endorsement and enforcement of IFRS standards as well as in the area of audit in Europe. CESR-Fin has established two permanent sub-committees, one dealing with issues related to the enforcement of financial reporting under IFRS (the Sub-Committee on Enforcement [SCE]), and the other one dealing with issues related to the endorsement of IAS/IFRS in Europe (the Sub-Committee on International Standards Endorsement [SISE]). CESR-Fin has also recently set up an Audit Task Force to deal with issues related to the audit of financial statements. The SCE is chaired by Mr Lars Østergaard, Director at the Finanstilsynet in Denmark (Danish Financial Supervisory Authority). SISE is chaired by Mr Paul Koster, Commissioner at the Dutch Authority for the Financial Markets (AFM). The Audit Task Force is chaired by Philippe Danjou, Director of Corporate Accounting at the French Autorité des Marchés Financiers (AMF).
3. 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.
4. 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.
5. For further information please contact:

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Indicative CESR Work Plan for the mandate on equivalence between certain third country GAAP and IAS/IFRS

