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PRESS RELEASE

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

CESR publishes today for consultation its draft technical advice to the European Commission (Ref: CESR/05-230). This finds Canadian, Japanese and US Generally Accepted Accounting Practice (GAAP), taken as a whole, to be equivalent to International Financial Reporting Standards, subject to a number of additional disclosures.

John Tiner, Chairman of CESR-Fin (the operational group of CESR which developed the advice) and Chief Executive of the UK Financial Services Authority, said:

"I believe the advice on which CESR is consulting today, represents a measured and technically robust assessment recognising the objective of more open global capital markets which secures the protection of investors. Our assessment of Equivalence has been predicated on real world outcomes of investor behaviour, where significant differences in Accounting Standards are handled through disclosure and not reconciliation. We would urge the authorities in the third countries to address, as a matter of priority, the most significant differences, which relate generally to business combinations and group consolidations".

CESR's assessment of equivalence is subject to the following:

- That companies which have subsidiaries such as Special Purpose Entities (SPEs) which are not consolidated for third country GAAP purposes, but are required to be consolidated for the purposes of IFRS, report a pro-forma balance sheet and profit and loss account on their local GAAP basis, but including the unconsolidated subsidiaries.
- That companies reporting under Japanese GAAP which have either accounted for mergers by the pooling of interest method and/or have consolidated subsidiaries on the basis of GAAPs which are not consistent with either IFRS or any of the third country GAAPs, report a pro-forma balance sheet and profit and loss account on the basis of IFRS covering business combinations and consistent accounting policies, respectively.
- That Japan and the US adopt accounting policies for the expensing of stock options on a basis equivalent (i.e. not necessarily identical) to IFRS, for implementation on or before 1 January 2007. CESR understands that Japan is indeed considering proposals to adopt such a standard according to this timetable and the US has recently adopted such a standard.
- That in respect of certain specified IFRS standards there may be additional disclosures of sometimes a descriptive nature and sometimes a quantitative nature.

However, the draft advice emphasises that an assessment of these standards alone will not be sufficient to afford appropriate protection of investors.

Paul Koster, Chair of CESR-Fin's sub-committee on endorsement and Commissioner at the Dutch Authority for the Financial Markets, said:

"CESR considers rigorous interpretation and application of accounting standards as critical as the quality of accounting standards itself. Therefore our conclusion on equivalence cannot rest on these standards alone. It is crucial that effective filters are in place for the interpretation and application of the standards, such as corporate governance, auditor



oversight and appropriate enforcement mechanisms in the home country of the issuer. It is also vital that effective filters are in place at the company level."

Report On Enforcement Mechanisms

As requested by the European Commission, CESR has also published, within the draft technical advice, a description of the enforcement mechanisms which are in place in each country.

Lars Ostergaard, Chair of CESR-Fin's sub-committee on enforcement of financial information and Director at the Danish Financial Supervisory Authority, said:

"Our description is essentially based on the indications received from Canada, Japan and the US; no external verification of the responses received has been conducted. However, active enforcement mechanisms are a key element in the investment decision framework and so co-ordinating the approach of EU National Enforcers to the enforcement of financial statements of third country issuers, as for EU issuers, remains an important future area of activity for CESR.



Notes for Editors

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).

The European Commission has requested CESR's final 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. To prepare CESR's advice, CESR also formed a consultative working group of industry experts which have met with the expert group on three occasions.

CESR welcomes comments from all interested parties on the draft advice by 27 May 2005. These responses can be submitted online via CESR's website at www.cesr-eu.org under the section 'consultations'. An open hearing will be held on 18 May, from 2 to 6pm at CESR's headquarters in Paris. To book please visit CESR's website and register online via the section hearings.

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's draft advice, published today for consultation, marks the completion of CESR's assessment of the equivalence of GAAP in the US, Canada and Japan with IFRS in accordance with the mandate received from the European Commission.

A summary of the current major GAAP differences is set out in a table in CESR advice (on page 8). However, the list should not be considered exhaustive. It is also important to stress that some of the GAAP differences labelled as significant (and for that reason requiring the application of a remedy) in this draft advice are in many cases included in convergence or improvement projects already underway within the third countries themselves. It can therefore be expected that many of these differences are likely to disappear over the coming years. Accordingly, proposed remedies might become obsolete. The areas where such changes are likely to arise are described under each countries assessment in Chapter 1, Section 2 and were identified on the basis of information received from each countries response to a CESR's questionnaire (page 37 para.126 for Canadian GAAP; page 56; para.140 for Japanese GAAP; and page 73 para.155 for US GAAP).

CESR sets out the remedies that might apply in differing circumstances (these are described in greater detail on page 19, paragraphs 75 to 95, and their role in relation to each difference identified can be found respectively under each third countries assessment). As set out in CESR's Concept paper, the need to apply these remedies should be judged by the issuers and their auditors on the basis of whether they are material to the financial position of the company and so would be significant for the purposes of investors.

CESR's outcome-based approach to the GAAP equivalence, as a form of direct comparison of standards, has been predicated on the basis that investor's decision should be unaffected by the use of different accounting standards when assessing their buy, hold, sell investment decision.

Further background regarding the European Commission's mandates: 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 CESR to prepare technical advice which will assist them in reaching the final assessment in June 2004. 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. CESR's advice must be submitted to the European Commission 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.

The European Commission's 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 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

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.

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