

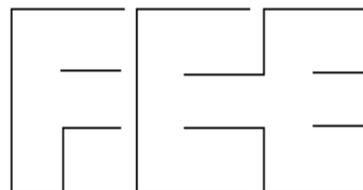
Date
21 November 2003

Le Président

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cc Alexander Schaub
David Wright
Christopher Huhne

Dear Mr Demarigny,

Re: CESR Prospectus Consultation

Further to our responses to you in respect of earlier consultations in relation to proposals for Level 2 implementing measures for the proposed Prospectus Directive, we are pleased to respond to your latest request for written comments on texts for additional possible implementing measures published in July 2003 (CESR 03-210b).

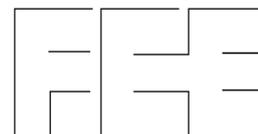
We have focussed our response on the proposals concerning financial information requirements in a prospectus. We have no comments to make in relation to the other elements of this consultation paper.

We are pleased to note that you have taken account of a number of our comments expressed in responses to you on earlier consultations.

Our responses to the specific questions posed in the consultation paper are set out in the Appendix to this letter. In addition, we note that there are a number of serious practical considerations arising from these proposals that we would wish to make, principally in relation to the form of presentation of new IAS financial information and the auditing implications of presenting such new IAS financial information. We have commented on these in our detailed responses appended.

We believe that, consistent with our comments regarding the presentation of pro forma financial information and profit forecasts, the development of guidance addressing these practical considerations is an extremely important element in developing a pan-European capital market. We are concerned that if these matters are not addressed it will leave issuers with a difficult task in determining how the financial information should be presented in a prospectus.

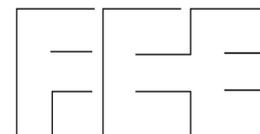
We note that you have not referred to the determination of "equivalent" accounting and auditing standards as would appear to us to be necessary for many non-EU issuers, a significant number of which currently use or reconcile to US GAAP. We believe that it is essential that the issue be subject to public debate and consultation. As a first step, we believe that you should ascertain what existing practice is across your members in this regard.



In conclusion, there are a significant number of issues arising from this consultation paper and in its practical implementation. We are ready to support CESR's work in addressing these issues and in preparing discussion papers on the need for any related professional guidance that may be appropriate for accountants reporting on financial information to be included in prospectuses.

Yours sincerely,

David Devlin
President



Responses to specific questions

Financial information requirements in prospectuses

56 *What are your views on the costs of providing reconciliation as compared with a full restatement?*

Clearly the costs of moving from one set of accounting principles to another varies depending on the extent of differences in those principles and on how they would apply to the issuer concerned. Consequently, it is very difficult to generalise as to the costs involved. To illustrate, a difference in revenue recognition policy can entail having to recalculate revenue by reference to individual contracts as in such circumstances it may not be possible to apply any “broad brush” assumptions as to the impact of the change in policy.

The answer further depends on the form and content of any reconciliation that may be required. In addition to the numbers of periods to be reconciled referred to in paragraph 49 of the consultation paper, there are three main forms that could be required, in addition to requiring description of the differences without any quantification. These are described, as follows:

- At the minimum, a reconciliation can quantify the impact of any accounting policy differences on key financial statement components such as the earnings and net assets of a company for each period of financial information presented.
- At the next level these differences can be allocated to their respective line items in the balance sheet and profit and loss account for the latest of the periods of financial information presented.
- At the maximum, the disclosure above can be augmented by requiring any footnote disclosures required by IFRS but not included in the issuer’s local GAAP financial statements.

The latter form mirrors that required by the United States Securities and Exchanges Commission of foreign registrants under “item 18” of Regulation S-X.

Whilst at the maximum level identified there would be a small reduction in cost from that which would be incurred were full IFRS financial statements to be prepared, at the minimum level the cost difference could be significantly larger.

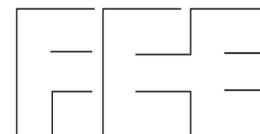
A further cost complication arises in that it is unclear what form of assurance by an issuer’s auditors you anticipate requiring if a reconciliation approach is permitted. The difference in overall cost from that which would be incurred from requiring full restatement would be impacted by any such assurance.

Clearly, as a reconciliation cannot be audited as a standalone item, it should be incorporated in the financial statements if audit level assurance is to be provided. We note that the practical issues with this where the financial statements have already been published would need to be addressed.

57 *What are your views on the most appropriate way to present the financial information?*

With regard to the four options discussed, we believe, that any recommendation from CESR should clarify that the IAS Regulation but should not impose requirements beyond the IAS Regulation and especially IFRS1. Where an IFRS has provided concessions (e.g. IAS 32/39 no comparatives for 2004), this should not be modified through CESR guidance. In addition, we believe that the transitional implications of imposing this requirement on non-EU issuers who will not necessarily be preparing IAS accounts need to be addressed. However, it should be taken into account that the requirements for non-EU issuers should be equivalent with those applicable for EU-issuers.

Regarding the “four column approach”, as described in paragraphs 53 and 54 of the consultation paper, we want to note that this approach may not be practicable in all cases particularly where, for example,



the form of presentation of the local GAAP accounts is markedly different to that to be adopted under the IAS Regulation.

58 What are your views on the importance of comparability both within the audited historical track record and with the reporting standards that are to be adopted?

Our view is, consistent with that set out in the Consultation Paper, that comparability within the audited historical track record in a prospectus is paramount particularly at the time of an initial public offering. Accordingly, our preference is that all of the financial history at the time of initial application to trading on a regulated market should be on a basis consistent with that which applies to all companies traded on regulated markets; that is for EU issuers under IAS Regulation.

However, we acknowledge that the other alternatives set out in the Consultation Paper may have particular advantages to issuers and be acceptable to investors. As a practical compromise, we accept that option 2 may well be the route chosen that best balances the needs of investors with the costs to issuers of providing the information required. This would require however in some countries an amendment of the existing liability requirements for auditors, suitably reflecting the limited responsibilities for the restated financial statements under IFRS.

Specifically, we welcome the language you have drafted as a way of achieving in a simple and concise way the correct reporting principle by for example ensuring that issuers making a public offer but not seeking admission to a regulated market will not be required to adopt IAS should they choose not to do so.

However, we believe that the text in paragraph 20.1 to Annex A requires amendment because as currently drafted it requires the current year's version of the applicable accounting principles to be used which, in a time of change, would lead to existing EU issuers to have to restate their previously published accounts whenever they wished to issue securities.

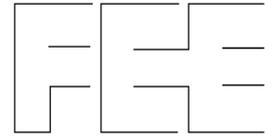
We suggest below an alternative text that we believe better achieves the desired objective:

“Where the accounting standards and policies and legislation applicable to the issuer’s next annual financial statements are [materially] different from those adopted by the issuer in its latest audited financial statements, the issuer must present audited historical financial information for the latest financial year, together with comparative financial information for the preceding year, in accordance with IFRS1 and the forthcoming CESR recommendation on transition to IFRS. In such circumstances, the issuer need not present the historical financial information in respect of the latest financial year as reported in its latest audited financial statements.”

In addition, we note that particular consideration needs to be given to the impact of the reporting standards that are to be adopted on existing issuers through the period leading up to the effective date for the implementation of the IAS Regulation where, if the Prospectus Directive is to apply to prospectuses issued after 1 January 2005, then the draft text would require preparation of IAS financial information for 2004 and 2003. It cannot be the intention that the Prospectus Directive provides for earlier IAS adoption than set out in the IAS Regulation.

59 What are your views on how this should be achieved?

Ideally all periods presented in financial information in a prospectus should be on the same basis in order that investors can properly understand the financial performance of the issuer. With respect to Option 1 as well as Option 2, we are concerned about the implications of the possibility of a disconnection between audited historical financial statements already published and those presented in the prospectus for the same period. These implications need to be considered. In particular, there is the need to clarify, what is meant by "three years" and "two years" audited historical financial information. Three years financial information could be read in "US context" following IOSCO Disclosure Standards in the sense of "comparative financial statements" that cover the latest three financial years or it could be read in a European sense. Most European accounting frameworks based



on EU Company Law, as well as IAS 1, do not require "comparative financial statements" but only "corresponding figures". The audit reporting requirements under ISA 710 in relation to "comparative financial statements" and "corresponding figures" differ in that for "corresponding figures" the audit report only refers to the financial statements of the current period whereas for "comparative financial statements" the audit report refers to each period for which financial statements are presented.

60 Do you agree with the approach taken in relation to issuers of debt securities? If not, please state reasons.

We believe that consideration should be given to requiring only the reconciliation of a debt issuer's financial information from national GAAP to IAS.

The reasons for this are that in many cases the debt instrument covenants are measured against national GAAP. In addition, such issuers will not be structured to finance the cost of the preparation of IAS financial information.

Non EU issuers

69 What are your views on extending this treatment to EU issuers for the types of securities identified?

In many cases this treatment will be effectively available to many EU issuers, particularly SMEs through the fact that they will fall outside the scope of the IAS Regulation either because they are not traded on regulated markets or because they are single companies and therefore do not present consolidated accounts. Accordingly, we do not see the need to further extend the exemption to EU issuers.

70 Are there any other types of issuer where you believe that the different requirements should apply?

We are content with the scope of securities to which the different requirements should apply being high denomination debt securities, asset backed securities and depository receipts.