

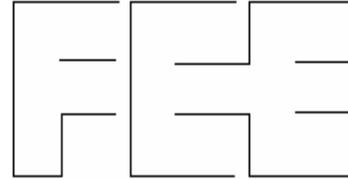
Date  
14 May 2007

Le Président

Fédération  
des Experts  
Comptables  
Européens  
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Mr. Fabrice Demarigny  
Secretary General  
Committee of European Securities Regulators  
11-13 avenue de Friedland  
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Dear Mr. Demarigny,

Re: Consultation on the Mechanism for Determining the Equivalence of the Generally Accepted Accounting Principles of Third Countries

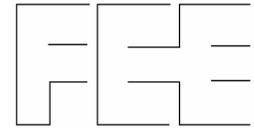
1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) welcomes the opportunity to provide you with its views and thoughts on the CESR Consultation Paper on the Mechanism for Determining the Equivalence of Third Country GAAP with Endorsed IFRS. We welcome CESR's efforts and commitments in completing the European Commission's ("EC") mandate.
2. In this instance CESR has to work towards the very tight deadline set by the EC. However, a period of three weeks is too short for an organisation such as ours to submit an official point of view respecting our full due process. This truncated comment period should not form a precedent for future consultations. We are strongly of the opinion that it is both in CESR's own interest and in the EC's interest for CESR to have a robust due process. The EC needs to give CESR the opportunity to have an adequate consultation of which a robust due process is an essential element.

*Question 1: Do you agree that CESR's suggested method for handling applications for equivalence is the best way? In cases where the standard setter is not in a position to initiative and/or substantiate an application, do you have any concrete suggestions as regards the solution of such a situation and in particular, who could undertake the abovementioned assessments?*

3. We agree with CESR that the substantiation of equivalence and the detailed analysis of differences between third country GAAP and endorsed IFRS should be carried out by the standard setter seeking equivalent status of its GAAP. Only in exceptional circumstances, can the national standard setter leave "this burden of proof" to others, for example, the national (capital market) regulator. In those circumstances the regulator works on behalf of [and under supervision of] the national standard setter which retains responsibility for the application. If the assessment of equivalence cannot be carried out by the national standard setter (or the regulator on its behalf) equivalence should not be granted.
4. In our opinion where the third country GAAP is closely based on IFRS or directly derived from IFRS, it should not be necessary to go through the entire equivalence mechanism.

*Question 2: Do you think that CESR should publish guidance on the information that it would consider satisfactory to ensure an informed decision?*

5. We support CESR providing guidance on the information it would expect from national standard setters in order to achieve a consistent and objective approach.



### Remedies for Significant GAAP Differences

6. We remain to be convinced that identified significant differences between measurement and recognition principles can be rectified (at company level) by non-complex disclosures (para. 16). Furthermore, CESR states (para. 17) that such disclosures should not be so numerous or fundamental as to render the original accounts meaningless or too difficult. It is generally accepted that disclosures cannot form a substitute for correcting an inappropriate accounting treatment.
7. It is unclear whether the non-complex disclosures referred to by CESR are meant to be quantitative or qualitative in nature. If they are meant to be quantitative such disclosure becomes very close to a reconciliation (but only be called different). If they are meant to be qualitative the readers are still lacking a means to assess the significance of the differences and the impact on the financial position and performance of the company.
8. The paper should explicitly acknowledge that the equivalence mechanism is a two step approach: the equivalence assessment and determination of differences takes place at the level of national GAAP. The national standard setter needs to have a model for the non-complex disclosures as application material related to third country GAAP. The actual rectification will depend on the individual company's circumstances that determine the significance of the differences in that case.

### CESR Consultation and Assistance to the EC

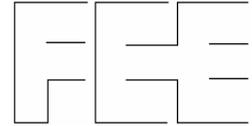
9. As discussed in paragraph 2 above, CESR should always allow for a sufficient consultation period respecting its own due process and that of the consultees, many of which are European organisations. In our opinion a worthwhile consultation needs to have an adequate consultation period regardless of the deadlines imposed by the EC. A robust due process adds to the credibility of CESR.

### EC Determination of Equivalence – Definition of Equivalence

*Question 3: Which of the two approaches indicated above (and in the Appendices) do you think is most appropriate? Please provide your reasons.*

*Question 4: recital 8 of the Commission regulation 1787/2006 and recital 7 of the Commission Decision 2006/891/EC of 4 December 2006 state that “the progress of the convergence process should be closely examined before any decision on equivalence is taken”. Do you think the existence of a convergence programme between the assessed third country GAAP and IFRS should play any role in the determination of equivalence, other than facilitating the comparison between the standards and identifying the necessary rectifications?*

10. We believe that both approaches are acceptable with the choice depending on the specific circumstances of the applicant country. Countries that are already on the track of convergence could get a “credit” compared to countries where there is no convergence. The equivalence assessment should in each of the circumstances be performed based on current reporting status. There needs to be sufficient evidence of convergence, whereby CESR could rely on the IASB assessment of convergence. The shortcut methodology should only be used when differences are not significant.
11. A question which is not addressed in the consultation paper is the reference to the applicable financial reporting framework. In our opinion the reference should remain to third country GAAP rather than to endorsed IFRS. The equivalence remedies are not sufficient to claim that accounts are prepared in compliance with endorsed IFRS.



### Filters at Country and Issuer Levels

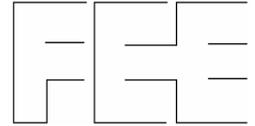
*Question 5: Do you agree that filters are important and that they should be reflected in any equivalence mechanism? If so, do you think the CESR's model correctly reflects how consideration of the filters should be incorporated into the mechanism?*

12. We query the appropriateness of using the word “filter” which is used by regulators in different circumstances. For example, CEBS uses the term “prudential filter”, which has nothing to do with audit but indicates that certain changes need to be made to IFRS information in order to make this information satisfactory for prudential purposes.
13. It is generally accepted that high quality financial reporting involves high quality financial reporting standards, external audit subject to appropriate quality assurance systems and effective external enforcement. High quality financial reporting standards by themselves are not sufficient. A detailed discussion can be found in the FEE Discussion Papers of 2002 on Enforcement of IFRS within Europe and of 2003 on European Enforcement Coordination. Therefore, we consider that, next to the audit requirement, the enforcement system in the third country cannot be ignored and should have a role in the equivalence assessment, whereby the CESR standards can form a basis. We believe that it should be considered whenever companies in other countries using third country GAAP, when this is considered to be equivalent, that the enforcement system to which the company is subject presents the quality features felt necessary in Europe. We agree that the assumption should be proper application of third country GAAP and proper enforcement, but this requires, in our view, at least a further investigation of the enforcement system. CESR needs to address the question as to what should happen if the measures are not appropriate as well as by whom and when action is initiated.
14. We agree that statutory audit has an important role to play. We have however some observations to make on paragraphs 27 to 29:
  - The Directive 2006/43/EC is no longer referred to as the “Eighth Directive” but usually as the (New) Statutory Audit Directive.
  - The Statutory Audit Directive is independent from which financial reporting GAAP is used. The requirements apply regardless from the GAAP under which the financial statements are prepared, be it IFRS or otherwise.
  - Equivalence under the Statutory Audit Directive (auditing standards, independence requirements, oversight systems) should not be confused with equivalence of third country GAAP with endorsed IFRS.
  - We are surprised to learn that CESR believes that compliance with the Statutory Audit Directive should be a relatively easy thing to establish concerning any jurisdiction that is applying for its GAAP to be recognised as equivalent.

Paragraphs 28 and 29 are confusing and do not add value to the paper. Therefore, we suggest omitting these paragraphs.

### Auditor Assurance Regarding the Remedies

15. In our view, it would be more appropriate to reformulate paragraph 31 by stating that the non-complex disclosures form part of the notes. This means that it is the responsibility of the management of the company to prepare the appropriate non-complex disclosures in the notes to the accounts. These disclosures would be – because they form part of the notes – automatically subject to audit.



Ongoing Information from the Standard Setter

*Question 6: Do you agree with this proposal? Do you have any suggestions as regards the procedure for providing the envisaged impact assessments which avoids a period of uncertainty for issuers while these are being made?*

16. We agree that the equivalence assessment needs to be regularly updated, both for new IFRS and for new local standards, by means of new impact assessments.
17. Any transitional period should take account of the European endorsement process period which is now extended with the additional advice of SARG and the new comitology procedure with scrutiny.

Enforcement in the EU of Equivalent GAAP

18. Enforcement is an important pillar in high quality financial reporting. Even though EU enforcers must have the powers to examine the financial statement to ensure that they are drawn up in accordance with third country GAAP and take appropriate measures in case of discovered infringements, the enforcement system, in the country requesting equivalence of its GAAP with endorsed IFRS, should also be taken into account (see paragraph 11 above).

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jacques Potdevin', written over a horizontal line.

Jacques Potdevin  
President