



The Committee of European Securities
Regulators

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Securities regulators and consistent
application and enforcement of IFRS

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Consistency : what do we mean ?

- **Issuing new money – Investors' information**
 - Prospectus Regulation EC 809/2004 : IFRS based financial data
 - Non EU issuers from 2007 onwards : IFRS or equivalent
 - CESR Recommendations February 2005 for consistent implementation of EU Regulation
 - **Ongoing Financial Reporting by listed companies**
 - Transparency Directive (from 2007) and IFRS Regulation (from 2005 or 2007)
- What degree of « IFRS Consistency » is desirable / achievable in the EU ?
- How soon can it be achieved ?

How to define consistency

Identical ? Similar ? Comparable ? Acceptable ?

- Ideal benchmark : **direct comparability of financial information** published by different issuers, from an investors decision perspective
- But ...
 - Judgment always involved in making economic assumptions (e.g, discounting rate)
 - Judgment in using management intents based accounting (e.g, IAS 39 HTM class)
 - ➔ Full transparency should allow the market to assess hypotheses and correct when « out of acceptable range »; sensitivity analyses are helpful
- Different industries can not be directly comparable
 - Specific industry accounting practices (e.g, revenue recognition)
- But direct comparability within an industry sector is highly desirable (e.g, capitalisation of R&D expenses by automobile or pharma manufacturers; revenue recognition by software developpers...)
- Similar business transactions should be treated in the same way when the circumstances / business purposes are identical
 - Consolidation perimeter and methods
 - In rare cases, using judgment may lead to different conclusions (e.g, merger of equals)

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Where are the risks of inconsistency ?

- ✓ Many options available in current IFRS = IFRS 1 FTA; permanent options (e.g, IAS 40 or FV option)
 - ➔ and presentations of financial performance will not be harmonized until ...2009 ?
- ✓ Areas not « covered » by current IFRS (e.g, concession services; application of the purchase method, insurance...)
- ✓ Economic assumptions underlying estimates = management's/auditors responsibility; NOT regulators
- ✓ Application of IFRS/IFRIC in complex / unusual situations - degree of judgment involved
- ✓ Understanding of the standards by the preparers and auditors when standards are unclear or contain inconsistencies

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Solutions ?

- Non GAAP/alternative performance measures is not the solution
- IASB needs a mechanism to carry out quick corrections of « bugs »
- IFRIC should have the resources to adapt its response to the evolving needs
- Provide help at the preparers level
 - ➔ Importance of « doctrine », guidance and industry-level coordination
 - ➔ National or EU level fora can be useful in achieving common understanding but should not result in an EU version of IFRS
 - ➔ Consistent positions expected within and among big audit firms
- Procedures to ensure consistent enforcement by regulators
 - ➔ Nature, scope and meaning of enforcement decisions
 - Ex ante : Approval of prospectuses (articles 13 and 21 of PD)
 - Ex post (article 24 (h) of TD)
 - Pre-clearance of accounting treatments available in certain member states
 - ➔ Coordination between regulators and others involved

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PRACTICAL IMPLEMENTATION OF CESRFin ENFORCEMENT STANDARDS

- Guidelines for Selection Methods : determining which issuers and documents to examine . Risk based approach; list of typical risk factors
 - ➔ approved in October, 2005
- Web based Database of enforcement decisions – since August, 2005
- Case materials for EECS – European Enforcers Coordination Sessions
- Guidelines for the publication of enforcement decisions
 - ➔ Expected to provide further benefits for the harmonisation of enforcement as well as for achieving a consistent application of IFRS
 - ➔ Publish all decisions taken except those which do not contribute to consistent application (e.g, simple accounting issue or mere repetition of earlier published decisions)

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Conclusion : achieving consistency will take time and efforts by all parties

- Transition 2005-2007 needs to be closely monitored to avoid market shocks
 - Need for a Regulatory and Standard setting pause – Stable platform 2005-2007
 - Robust and efficient Interpretation mechanisms
 - Consistency of enforcement decisions
 - Work to strengthen audit quality ; adequate guidance on specific audit issues
- Investors education on using IFRS – Who is in charge ?
 - Preparers have a key role to play in improving communication
- A shared responsibility :
 - Preparers and audit committees
 - Financial analysts
 - EU accounting profession / Institutes /Big accounting firms, etc..
 - Securities and other regulators / Audit oversight bodies
 - EU / USA and others concerned by IFRS