



30 Cannon Street, London EC4M 6XH, England
Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: November 2006, London
**Project: CESR/SEC memorandum of understanding
(Agenda Paper 4)**

[Home](#) | [Previous Page](#)

U.S. Securities and Exchange Commission

SEC and CESR Launch Work Plan Focused on Financial Reporting

Developing Cross Atlantic Financial Markets

FOR IMMEDIATE RELEASE
2006-130

Washington, D.C., Aug. 2, 2006 - The SEC and the Committee of European Securities Regulators (CESR) published today a joint work plan that will be implemented immediately. The work plan is a direct output from the December 2005 meeting between SEC Chairman Christopher Cox and CESR Chairman Arthur Docters van Leeuwen, at which they emphasized their desire to build on the dialogue between the SEC and CESR in a concrete and practical manner.

The work plan will serve to guide the SEC-CESR Dialogue in the immediate future. (See previous announcement relating to the SEC-CESR Dialogue at

<http://www.sec.gov/news/press/2004-75.htm>.) The main focus of the work plan is the application by internationally active companies of International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP) in the United States and the European Union, respectively. In addition, the staff of the SEC and CESR will forge a closer dialogue on the modernization of financial reporting and disclosure information technology, and regulatory platforms for risk management.

The close co-operation between the staff of the SEC and CESR on the application of IFRS and US GAAP in the United States and the European Union will promote:

- the development of high quality accounting standards;
- the high quality and consistent application of IFRS around the world;
- full consideration of international counterparts' positions regarding application and enforcement; and
- the avoidance of conflicting regulatory decisions on the application of IFRS and US GAAP.

In practical terms, as part of its regular review of corporate filings, the staff of the SEC will review issuers' implementation of IFRS in the United States. Staff of CESR Members also will continue to review US GAAP implementation by US issuers in the European Union. Under the work plan, the output of these reviews will be used in the following ways:

- The staff of the SEC and CESR-Fin, the expert group within CESR focused on financial reporting, will share information about areas of IFRS and US GAAP that raise questions in terms of high-quality and consistent application.
- Where appropriate, the staff of the SEC and the staff of CESR Members will consult on issuer-specific matters regarding the application of US GAAP and IFRS in order to facilitate a solution that contributes to the consistent application of US GAAP or IFRS by companies that are both listed in the EU and registered with the SEC. Protocols for the sharing of this confidential information between the staff of CESR members and the staff of the SEC will be established.

These two levels of discussion will help ensure that high standards are maintained and consistent financial reporting is achieved.

Chairman Cox said, "As our markets grow more sophisticated, so must the relationships among regulators. The work plan demonstrates the intention of the SEC and CESR to have a forward-looking dialogue on key emerging issues, as well as take practical steps to encourage high-quality and consistent application of IFRS. The result will be greater protection and better disclosure for investors, particularly as they seek investment opportunities across the Atlantic."

Arthur Docters van Leeuwen, CESR's Chairman, noted, "This work plan takes forward the relationship that the SEC and CESR have developed in a proactive and transparent manner. The introduction of IFRS in Europe provides a dynamic opportunity for convergence in the EU and a benefit to global financial markets. Through CESR, the SEC can now undertake a co-ordinated discussion with Europe's securities supervisors, and this dialogue should strengthen the application of financial reporting standards to the benefit of both investors and market participants both in the EU and across the Atlantic."

Ethiopia Tafara, Director of the Office of International Affairs, said, "This work plan represents the next step in the relationship between the SEC and CESR. Through the work plan, the SEC staff and CESR have greatly enhanced the framework for open dialogue and communication by which regulators share information to facilitate converged, or at least compatible, ways of addressing issues of common interest."

Fabrice Demarigny, Secretary General of CESR, said, "This work plan creates a constructive and practical cooperation framework between the EU and US securities supervisors in the enforcement of financial reporting. I believe it will significantly contribute towards decisions on the use of IFRS in the US and US GAAP in Europe."

#

SEC-CESR WORK PLAN

This work plan is designed to facilitate the realization of key objectives of the SEC-CESR Regulatory Dialogue. The work plan builds on the 17 December 2005 discussions between SEC Chairman Cox and CESR Chairman Docters van Leeuwen.¹ The staffs of the SEC and CESR will aim to achieve the objectives set forth in this work plan in order to facilitate transatlantic financial activity within a sound and protective framework.

There are three key issues covered by the SEC-CESR work plan:

- Implementation of IFRS and US GAAP by internationally active issuers;
- Modernization of financial reporting and disclosure; and
- Discussion of risk management practices.

For each item on the work plan there is a description of the goal of project and the next steps to be taken.

In addition, the SEC staff and CESR Expert Groups and Secretariat have identified a number of other issues to follow up on, such as credit rating agencies (CRA) and the proposed amendments to the SEC's rules on deregistration of foreign private issuers. Such items will be part of the agenda as general information points for the meetings between SEC and CESR. These and new issues can at any time be added to the work program, should developments call for more attention to these issues.

The next SEC-CESR dialogue meeting is proposed to be held during the course of the second half of 2006.

I. Use of IFRS and US GAAP by internationally active issuers.

- A. GOAL: Through operational and supervisory cooperation between regulators charged with overseeing financial information disclosed by internationally active issuers:
- Promote the development of high quality accounting standards;
 - Promote the high quality and consistent application of IFRS around the world, and as a result move toward achieving this milestone under the roadmap; and

- Recognizing that IFRS are principles-based standards, give full consideration to international counterparts' positions regarding application and enforcement;
- Seriously endeavor to avoid conflicting regulatory decisions on the application of IFRS and US GAAP.

Working toward these goals should help create the conditions that eliminate the need for reconciliation of IFRS to US GAAP in the United States.

- B. SEC STAFF / CESR-FIN NEXT STEPS: Establish confidential protocols for timely alert and exchange of information between the SEC staff and CESR-Fin, as follows:
1. The SEC staff and CESR-Fin will share views on the future development of IFRS and US GAAP including priorities, timetables and developments related to convergence. Further, they will discuss perspectives and efforts to facilitate consistent interpretation and application of IFRS across jurisdictions.
 2. The SEC staff will apprise CESR-Fin of policy developments related to the elimination of the need for foreign private issuers filing in the United States to reconcile IFRS financial statements to US GAAP by 2009 at the latest.
 3. CESR-Fin will apprise the SEC staff of policy developments related to the acceptance of US and the other national GAAPs in the European capital markets under the EU Transparency and Prospectus Directives.
 4. The SEC staff and CESR-Fin (or its relevant member) will exchange information relating to the topical areas within IFRS and US GAAP that their experiences and issuer review work have shown to be the most troublesome in terms of high quality and consistent interpretation and application.² These matters may be candidates for referral items to IFRIC.
 5. As needed, CESR-Fin may raise for discussion with the SEC staff issues arising in the US GAAP financial statements of non-US issuers whose securities are listed in the EU.
- C. SEC / CESR MEMBER NEXT STEPS: Establish confidential protocols for timely alert and exchange of information between the SEC staff and individual CESR Members' staffs.
1. As part of its consideration of an EU-dually-listed/registered issuer's request to the SEC staff for a formal consultation on the application of IFRS to a matter affecting financial statements not yet filed with the SEC, the SEC staff will consult with the relevant CESR Member's staff on that matter. In addition, as part of its evaluation of an EU-dually-listed/registered issuer's application of IFRS to a matter affecting financial statements previously filed with the SEC and following consideration of the issuer's responses, the SEC staff will consult with the relevant CESR Member's staff on that matter if i) it appears to the SEC staff that the matter under IFRS is novel or

unprecedented; ii) the issuer informs SEC staff that the staff's view on the IFRS matter is in conflict with a position of the relevant CESR Member; or iii) it appears that the SEC staff view on the IFRS matter could result in a significant change to the financial statements. These consultations will enable the SEC staff to understand and give full consideration to the relevant CESR Member staff's view on the application of IFRS to the matter. These consultations will be undertaken for the purpose of facilitating a solution that contributes to consistent application of IFRS by issuers.³

2. As part of its consideration of a US-dually-listed/registered issuer's request to a CESR Member for a formal consultation on the application of US GAAP to a matter affecting financial statements not yet filed with the CESR Member, the CESR Member's staff will consult with the SEC staff on that matter. In addition, as part of its evaluation of a US-dually-listed/registered issuer's application of US GAAP to a matter affecting financial statements previously filed with a CESR Member and following consideration of the issuer's responses, the CESR Member's staff will consult with the SEC staff on that matter if i) it appears to the CESR Member's staff that the matter under US GAAP is novel or unprecedented; ii) the issuer informs the CESR Member staff that the staff's view on the US GAAP matter is in conflict with a position of the SEC; or iii) it appears that the CESR Member staff view on the US GAAP matter could result in a significant change to the financial statements. These consultations will enable the CESR Member's staff to understand and give full consideration to the SEC staff's view on the application of US GAAP to the matter. These consultations will be undertaken for the purpose of facilitating a solution that contributes to consistent application of US GAAP by issuers.⁴

- D. MEETING SCHEDULE: Beginning in the second quarter of 2006, the SEC staff and CESR-Fin will meet at least semiannually as part of the regular SEC-CESR dialogue to discuss these matters, with additional meetings as needed and agreed to review developments and progress. In particular, ad hoc meetings, telephone calls and other communications will be arranged as necessary to discuss technical issues arising in the course of the SEC staff's and CESR's respective independent reviews of issuer IFRS and US GAAP financial statements.

II. Modernization of financial reporting and disclosure

- A. GOAL: Evaluation and identification of Information Technology (IT) solutions for disclosure and electronic storage of corporate information (including financial information).
- B. NEXT STEPS: SEC staff and the relevant CESR expert groups⁵ will exchange views on policies favoring the use of technology and IT networks in disclosure/ storage of financial information, including the use of interactive data.
 1. *Information sharing regarding current IT developments:* In the 2nd half of 2006 and continuing as appropriate, the SEC staff and the relevant CESR expert groups will schedule additional videoconferences in which the relevant experts will update each other on regulatory developments in relation to IT projects related to

electronic disclosure/storage of financial information.

2. *Use of interactive data software:* In the 2nd half of 2006 and quarterly thereafter, SEC staff and the relevant CESR expert group will meet via videoconference to exchange views and, where relevant, compare experiences with interactive data software, and potentially to coordinate feedback to those responsible for writing interactive data taxonomies and to software developers.
3. *Joint incentives to issuers to use interactive data software:* In the 2nd half of 2006 and quarterly thereafter, SEC staff and the relevant CESR expert group will explore the possibility of developing common incentives to offer to issuers that voluntarily file reports using interactive data.
4. *Future possible discussion:* Once fundamental strategic choices have been made in the US and in the EU on general architectures for storage of corporate information, one topic of future discussion will be possible forms of linkages between the SEC's EDGAR and European storage mechanisms.

III. Regulatory Platforms for Risk Management

- A. GOAL: Sharing of experiences with developing and implementing platforms for risk management by securities regulators.
- B. NEXT STEPS: Staff at the SEC and CESR will exchange views on their approaches to risk-based regulation. Initially, meetings will be held between the SEC and individual CESR Members, where the SEC and the different CESR Members shall be represented by their respective risk experts. The CESR secretariat will also be represented in these meetings.
 1. *Discussion of risk methodology:* Staff of the SEC and CESR will discuss methodology and tools for prioritizing risks they confront as regulators. CESR staff will discuss its tool for distinguishing risks that it is developing for the purposes of prioritizing its work. Also methodologies of individual CESR Members will be part of these discussions. The discussion will also cover the correlation of risk ranking with outcomes to determine whether the risk methodology is effective.
 2. *Discussion of actual risks:* The staff of the SEC and CESR will discuss risks that have been identified and ranked as high-priority, and the methodology that has resulted in the categorization of these risks as high-priority. Once common risks are identified, the SEC and CESR will discuss approaches to managing those risks.

Endnotes

¹ See Press Release 2005-177, available on the SEC website at:

<http://www.sec.gov/news/press/2005-177.htm>.

² Considering that in Europe, the review of financial statements is carried out by the respective Member State accounting enforcement authorities (EU National Enforcers), the contribution of CESR-Fin to this part of the discussion will be based on the regular coordination meetings held by CESR-Fin among EU National Enforcers (i.e., the European Enforcers Coordination Sessions - EECS).

³ In the event that the SEC staff and relevant CESR Member's staff, after consultation, ultimately reach different views on the application of IFRS to a particular matter, the SEC staff and relevant CESR Member's staff will consult regarding any communications regarding the matter to be made to the relevant issuer or others, as appropriate.

⁴ In the event that the CESR Member's staff and SEC staff, after consultation, ultimately reach different views on the application of US GAAP to a particular matter, the CESR Member's staff and SEC staff will consult regarding any communications regarding the matter to be made to the relevant issuer or others, as appropriate.

⁵ CESR will in these discussions be represented by the Transparency Expert Group, CESR-Tech and the secretariat.