



### SUBCOMMITTEE ON INTERNATIONAL ACCOUNTING STANDARDS ENDORSEMENT

**SISE**

October 30, 2002

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Dear David,

#### **Re : Exposure Draft on First-Time Application of IFRS**

The Committee of European Securities Regulators' Standing Committee on Accounting (CESRfin) has, through its subcommittee on endorsement of International Accounting Standards (SISE), considered IASB's ED on First-Time Application of IFRS. We usually convey our messages on your proposals through the Technical Experts Group of EFRAG. But as the ED's proposed requirements are of major importance to securities markets regulators, SISE concluded that those issues should preferably be dealt with directly with you. In this respect, we have the following comments to make.

In compliance with the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards<sup>1</sup>, for each financial year starting on or after January 1st, 2005 companies governed by the law of a Member State shall prepare their consolidated financial statements in conformity with the International Accounting Standards adopted at the European level (endorsed IASs or endorsed IFRSs), if at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State (article 4)<sup>2</sup>.

Approximately 7000 European listed companies and indirectly many more consolidated subsidiaries will be affected by this regulation.

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<sup>1</sup> Official Journal L 243 , 11/09/2002 P. 0001 - 0004

<sup>2</sup> By way of derogation from Article 4, Member States may provide that the requirements in Article shall only apply for each financial year starting on or after January 2007 to those companies :

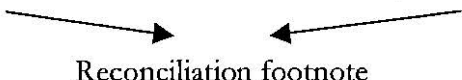
- (a) whose debt securities only are admitted on a regulated market of any Member State ; or
- (b) whose securities are admitted to public trading in a non-member state and which, for that purpose, have been using internationally accepted standards since a financial year that started prior to the publication of this regulation in the Official Journal of the European Communities.

An extremely important matter is the comparability of financial information during the transition phase. We have discussed this matter in our subcommittee and reached the following conclusions.

In the annual report prepared for the year 2005, the 2004 comparative figures should be presented under endorsed IFRSs together with the previously published data for 2004. This information should preferably be displayed on the face of the financial statements; if this presentation is not possible<sup>3</sup>, the information regarding previously published data<sup>4</sup> may be provided in the notes. A detailed note to the financial statements should explain the nature and amount of reconciling items for the year 2004. This disclosure should explain significant reconciling items affecting the profit and loss account, the balance sheet captions and the shareholders' equity (as required by the ED).

Indicative format :

Items in the financial statements	Year 2005 Under IFRS	Year 2004 Under IFRS	Year 2004 As published under previous GAAP


  
Reconciliation footnote

If an issuer is required by national rules<sup>5</sup> to publish financial information for three successive periods (i.e. from 2003 to 2005), IASB's ED's (§ 29) expects all comparatives to comply with IFRSs, which would result in the extra burden of restating 2003 to IFRS and auditing them accordingly. This would be not only burdensome, but also technically difficult as the standards applicable for the restatement of 2003 will not be available before 2004 (as a result of the current Board's work program). For these reasons, SISE does not recommend in this specific circumstances that the first period presented be restated in conformity with endorsed IFRSs ; instead, the previously published information for 2003 may be unchanged and hence will be directly comparable to the middle period (2004) presented under the two formats, which will used as a "bridge year".

Indicative format :

Items in the Financial Statements	Year 2005 Under IFRS	Year 2004 Under IFRS	Year 2004 Under previous GAAP	Year 2003 Under previous GAAP

The benefits of such an approach are as follows :

- it is usually the way the information is presented in case of a major acquisition (proforma column) ; so the users of financial statements are used to this type of presentation ;
- it enables a clear disclosure of elements presented under IFRS and under previous GAAP ; as there is no possible confusion between the two sets of financial data, the

<sup>3</sup> Because of a change in the format, for example.

<sup>4</sup> I.e. information published under previously used GAAP.

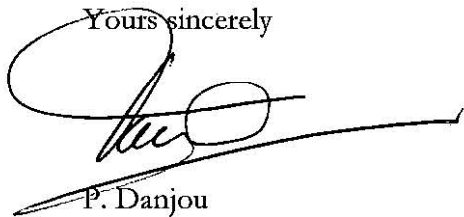
<sup>5</sup> e.g. by the rules governing the preparation of IPO prospectuses or annual reference documents.

information published is as understandable as possible by the users of financial statements ;

- the "bridge approach" for 2004 allows the comparability of financial statements during the transition phase as required by regulators ;
- it avoids presenting five columns of data which is not convenient ;
- the IFRS applicable as of the beginning of 2005 will most likely not be finalised and published by the end of 2002 ; there are still major projects (revision of IAS 39, Business Combination phase I, Share-based payments...) to be finalised by 2003 or 2004. In this respect, requiring the reconciliation to IFRS as from the beginning of 2004 only seems more reasonable and will enable the preparation of reliable figures ;
- it will ease the administrative burden for preparers and contribute to the successful implementation of this ambitious process.

Considering the importance of this change in accounting principles and the potential impacts on the European financial markets, we sincerely trust that this message will be taken into consideration by the Board when drafting the final standard.

Yours sincerely



P. Danjou  
Chairman of SISE

Cc : Secrétariat Général – CESR  
Secretary General – EFRAG  
Mr Karel Van Hulle – European Commission