

The Association of Corporate Treasurers
Comments in Response to

A Consultation Paper
CESR's technical advice on a mechanism for determining the equivalence of the
generally accepted accounting principles of third countries

Issued by the Committee of European Securities Regulators,
April 2007

May 2007

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the end of these comments and on our website www.treasurers.org.

Contact details are also at the end of these comments.

General

The ACT welcomes the opportunity to comment on this matter. Overall we support the advice of CESR that in order to qualify for equivalence the accounting principles of third countries should be sufficiently close to IFRS as to be capable of being supplemented by additional disclosures and that such disclosures are actually made.

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Response to specific questions

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 initiate 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?

We agree that the standard setter of the country seeking equivalence is in the best position to submit an equivalence application to the European Commission.

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

Since CESR has already considered the equivalence of GAAP in Canada, Japan and the US it would be helpful for CESR to provide guidance on the information necessary.

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

The CESR advice does not require there already to be a convergence programme progressing in order to meet the equivalence criteria. We agree that this is the most open and fair approach. Rather than consider the procedures in place the ultimate aim must be to ensure that investors have adequate information at an acceptable standard, and that if this can be provided through additional non complex disclosures, then subject to those disclosures being made the GAAP can be made equivalent.

We note that in para 16 of your paper you state that a reconciliation to IFRS is not sufficient to rectify any significant differences. Presumably you are seeking a complete restatement of the accounts and notes including all the required rectification adjustments. If this is done in full then the issuer will virtually be doing full IFRS accounts in any case. If this is your intention then we question whether this is strictly necessary. We would have thought that a reconciliation performed on income statement, balance sheet and cash flow would certainly be adequate. For companies seeking to do a 144a issue in the US capital markets a reconciliation to US GAAP is published and this sort of model, we would have thought, provides sufficient information.

The alternative approach in Appendix 2 allows equivalence if a satisfactory convergence programme is progressing, even, it appears, if the progress has not yet been sufficient to ensure investors have adequate information. This approach could easily give a premature equivalence approval. We therefore favour the route in Appendix 1.

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?

A programme of convergence identifying differences from IFRS will obviously help any assessment but even without an established programme it must be possible that the local GAAP could turn out to be relatively close to IFRS. Such a programme need not be an essential pre-condition.

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?

Some form of checklist or set of filters is probably needed in order to test that the accounts plus supplementary disclosures are satisfactory. The CESR mechanism on the face of appears to do this.

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?

You are right to consider the transition implications when new IFRS or local standards are issued. Issuers need a degree of certainty so we would propose that any decision on equivalence remains in force, notwithstanding any new standards issued, until such time as an informed assessment is undertaken as to whether equivalence can continue or that additional non-complex disclosures are required.

The Association of Corporate Treasurers (ACT)

The ACT is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences, publications, including The Treasurer magazine and the annual Treasurer's Handbook, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce, financial institutions and professional service firms.

Our guidelines on policy and technical matters are available at <http://www.treasurers.org/technical/resources/manifestosept2006.pdf>.

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