

November 20, 2003

Mr Fabrice Demarigny  
Secretary General  
CESR  
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E-mail: [secretariat@europefesco.org](mailto:secretariat@europefesco.org)

Dear Mr Demarigny,

**Re: CESR Consultation Paper European Regulation on the Application of IFRS in 2005: Draft Recommendation for Additional Guidance regarding the transition to IFRS**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the proposed *Draft Recommendation for Additional Guidance regarding the transition to IFRS*.

We support the general principle that information has to be provided as soon as it is available. However, the transition to IFRS is a particularly sensitive period and we believe it will be necessary to interpret that principle with care in order to avoid misunderstandings or confusion; in particular the publication of quantitative information at too early a stage or on a selective basis or of an insufficiently high quality would not be helpful.

We agree that narrative information about the transition plan given in the 2003 financial statements and updated information on this basis in 2004 will be highly useful for stakeholders. However, publishing quantitative information as soon as available may put companies at risk of having to restate that information later. This would reduce the usefulness of information given and harm the reliability of the information and the credibility of companies themselves. We do not think that the information reported for 2003, 2004 and 2005 should be presented piecemeal. Rather we believe it should be provided in a single change giving a full picture.

We hope that our responses to your questions, which are attached in the appendix, are helpful in taking forward CESR's important initiative to strengthen the European financial reporting infrastructure which underpins the confidence in the reliability of financial information.

Yours sincerely

Johan van Helleman  
EFRAG, Chairman

**Question 1**

Do you consider it useful that CESR Members provide recommendations to European listed companies on how to disclose financial information to the markets during the phase of transition from local GAAP to IFRS?

***EFRAG response:***

We acknowledge that the transition to IFRS and the disclosure of financial information is an important issue for companies affected by the Regulation. However, we believe that CESR should not require publication at an early stage of quantitative information on the impact of transition to IFRS if not all the standards are final. The information should be given as a complete picture rather than on an interim basis subject to further changes. The risk is that companies would have to restate information given early because estimates underlying the information published may prove to be wrong. Therefore, we regard qualitative comments on the project plan and the progress of the transition process as being the most useful information for financial statements for 2003 and 2004.

**Question 2**

Do you agree that European listed companies should be encouraged to prepare the transition from local GAAP to IFRS as early as possible?

***EFRAG response:***

Yes, we agree.

**Question 3**

Do you agree that those companies should also be encouraged to communicate about this transition process? If yes, are the 4 milestones identified by CESR for such communication appropriate?

***EFRAG response:***

Yes, we agree. The 4 milestones are appropriate as to their dates. Our views as to their content are given below.

**Question 4**

What are your views on an encouragement to listed companies to disclose narrative information about their process of moving to IFRS and about the major identifiable differences in accounting policies this transition will bring about? Do you consider it appropriate to include such information in the 2003 annual report or in the notes to the 2003 financial statements?

***EFRAG response:***

We agree that narrative information about the process of moving to IFRS is helpful insofar as companies can give details. Any quantitative information provided at this point should be in broad terms in order to avoid the risk of having to restate the information given in the following year

The information should be in the management report rather than in the notes to the financial statements.

**Question 5**

Do you believe that listed companies should be encouraged not to wait until beginning 2006 for communicating about the impact of the transition to IFRS on the 2004 financial statements if such information is available earlier? Do you agree that quantified information in this regard should be given as soon as possible?

**EFRAG response:**

We believe that despite the general principle that new information should be given as soon as possible, it is not appropriate to require publication about the impact of the transition to IFRS on the 2004 financial statements as early as possible. Although users could be helped by disclosures indicating the general nature of the changes in basis that are coming, quantitative information should normally be given only when it is complete and unlikely to be revised. This implies that piecemeal disclosures of the effect of changes to individual items should not be given in the absence of an indication of the effects of all changes.

We therefore support the recommendation for narrative information in 2003 and would prefer updated information in 2004 on the basis of the information provided for 2003. There should not be a recommendation to give quantified information for 2004.

**Question 6**

Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS1 for defining which quantified information should be disclosed as a result of the recommendations in § 11 and § 12? Do you believe other disclosures should be envisaged? Do you agree with inclusion of such information in the annual report or in the notes to the financial statements?

**EFRAG response:**

Since we disagree with paragraph 12, we believe such requirement is not appropriate.

**Question 7**

Do you agree with the principle that any interim financial information published as of 2005 by listed companies should be prepared using the accounting standards that are to be used by those companies for the 2005 year end financial reporting, i.e. IFRS, in the way indicated here under?

**EFRAG response:**

We agree that in principle interim accounts for 2005 should be based on the accounting standards expected to be applied for the year end financial reporting. However, although this may be conceptually right, we recognise that it could be burdensome and practically difficult for certain companies and we therefore recommend that there should be no mandatory application of IAS 34 *Interim Financial Reporting*.

**Question 8**

Do you agree that when listed companies do not elect to apply IAS 34 for quarterly information published in 2005, they should be encouraged to prepare and disclose financial data by applying IFRS recognition and measurement principles to be applicable at year end?

**EFRAG response:**

Yes, we agree.

**Question 9**

Do you agree with the proposed encouragement for European listed companies to either fully apply IAS 34 for half yearly reporting as from 2005 or, if this standard is not applied, to prepare the key half-year financial data that are to be published, in conformity with IFRS recognition and measurement principles to be applicable at year end?

**EFRAG response:**

Yes, we agree.

**Question 10**

CESR considered different possibilities for the presentation of comparative information for the corresponding period(s), but concluded that the above proposed solution could appropriately serve users of financial information without imposing too burdensome requirements on issuers. Do you concur with the proposed solutions? In particular, do you agree with the proposals that A) comparative figures should be provided and restated using same accounting basis as for the current year; B) previously published information for the previous period may be provided again; C) explanation of restatement of comparative figures should be given; D) in case of presentation of financial statement over 3 successive periods the restatement of the first (earliest) period could not be required; E) indicative format ("bridge approach") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

**EFRAG response:**

In principle we concur with A) to E).

However we believe it is difficult to recommend IFRS quantitative information for quarterly or half year information in 2004, even if it is right in principle. As mentioned above we are not convinced that requiring information on the basis of standards, which are not finally issued or endorsed, will lead to reliable information and therefore companies would have to restate information given in later periods. Moreover, we support the principle that draft standards may not be applied.

**Question 11**

Do you agree that, in addition to the presentation of comparative information in conformity with IFRS1 (i.e. prepared on the basis of IFRS provisions), it could be deemed useful to present again the comparatives prepared on the basis of previously applicable accounting standards?

***EFRAG response:***

Yes, we agree.

**Question 12**

Do you agree that, when presentation of financial statements over 3 successive periods is required, it would be acceptable not to require the restatement to IFRS of the first (earliest) period?

If yes, do you agree with the indicative format (“bridge approach”) for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

***EFRAG response:***

Yes, we agree in principle and with the proposed “bridge approach” in particular.