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CESR
11-13 avenue de Friedland
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Dear Sirs,

CESR consultation paper on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries

We are pleased to be given the opportunity to respond to the above consultation paper ("Consultation Paper"), albeit in an extremely short timeframe. We hope that future consultation papers will provide a more reasonable consultation period, given the importance of the issues concerned and the need to consult on these types of matters internationally.

Our responses to the questions in the Consultation Paper are as follows:

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 with CESR that standard setters would be the natural applicant and that their application to the European Commission for equivalence should include their own fair and considered assessment of whether disclosure requirements, as well as measurement and recognition principles, under their generally accepted accounting principles ("GAAP"), are materially the same as IFRS¹ and if they are not, the application should include an assessment of differences.

¹ As in the Consultation Paper, the term "IFRS" used in this response letter shall refer to IFRS as adopted by the EU.

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In the event the standard setter is not in a position to apply for equivalence in a timely manner, we suggest that other bodies such as regulators of securities exchanges or banking regulators, or failing which, a panel comprising users, investors and members of the audit profession, could fulfil this role. We would also suggest that in some cases it may be appropriate for issuers to initiate the process, providing that the assessment is carried out by appropriate experts. Overall, we believe that a certain level of flexibility as to the applicant should be introduced and that the accompanying assessment should be carried out by persons with the requisite level of detailed knowledge of domestic GAAP and IFRS.

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

Yes. We would suggest that CESR's published guidance be relatively high level and not contain detailed, prescriptive requirements. We would also suggest that CESR work with the European Financial Reporting Advisory Group (EFRAG) in order to develop this guidance, to reflect the views of a broader group of capital market participants and stakeholders.

We note that CESR considers that for the comparison of measurement principles, it is only necessary that the third country GAAP "be allowed under IFRS" for these to be considered acceptable. We agree. If there are significant differences concerning specific items but otherwise there is equivalence, such differences and their effects should be disclosed clearly in the notes to the financial statements, as would presumably be required under the CESR definition of equivalence², for example, an asset measured at cost should be shown at fair value in the notes to the financial statements, if so required by IFRS.

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

We agree with CESR that the short-cut route suggested in Appendix 2 is not acceptable. If the definition of equivalence is such that investors, or more specifically "informed private investors" (as mentioned in paragraph 17 of the Consultation Paper) should be able to make the same decision (i.e. to buy, sell or hold), it is the applicable standards and information available when the decision is taken by the investor that need to be considered, not an overall convergence plan for the future.

² "Third country GAAP would be equivalent to IFRS if investors should be able to make a similar decision irrespective of whether they are provided with financial statements based on IFRS or on such third country GAAP", CESR's advice to the European Commission on the work programmes of the Canadian, Japanese and US standard setters, the definition of equivalence and the list of third country GAAP currently used on the EU capital markets, 6 March 2007, p. 3, paragraph 2.

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We believe that CESR's approach outlined in Appendix 1 is the more appropriate route, subject to our comments in response to question 5 below as regards filters and to the two remarks that follow. First, we suggest that CESR illustrate what it means by "non-complex disclosures" with practical examples. We have noted that such disclosures would be in the relevant third country GAAP and that no "reconciliation" to IFRS would be required. Secondly, paragraph 24 and the CESR model as set out in Appendix 1 do not mention the assessment of the third country GAAP's recognition principles. We believe it is essential that the assessment of equivalence to IFRS include an assessment of the recognition requirements for all financial statement elements.

Question 4 – Recital 8 of Commission Regulation 1787/2006 and recital 7 of 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?

Whilst we believe that a convergence programme is, in principle, the optimal manner in which to facilitate comparison between standards and to identify necessary additions or explanations, we do not believe that its existence or progress should as such play a determining role in assessing equivalence of accounting principles.

As mentioned in response to question 3, given the definition of equivalence is that informed private investors should be able to make the same decision based on financial statements in IFRS or third country GAAP, it is the applicable standards at the time of that decision that need to be assessed, not whether a convergence program is in place for the future. Conversely, it would be unacceptable to pre-suppose that a third country GAAP is not equivalent because there is no such programme. Equivalence should be judged on the basis of actual accounting equivalence.

Question 5 – Do you agree that filters are important and that they should be reflected in any equivalence mechanism? If so, do you think CESR's model correctly reflects how consideration of the filters should be incorporated into the mechanism?

We agree with CESR that filters such as audit assurance and enforcement, the corporate governance rules of reporting entities and the general legal environment are key factors that affect confidence in financial statements. However, we do not believe that it is appropriate to seek to include filters in a mechanism for assessing the equivalence of accounting principles, as such assessment should comprise a series of technical questions relating to the accounting principles themselves.

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If filters are to be included, we do not believe it is appropriate to specify only one filter (compliance of audit and related enforcement activities with the new Statutory Audit Directive³) in the flow chart in Appendix 1. As the Consultation paper notes, such compliance will in all events need to be respected, so in addition to being inappropriate, this filter is redundant as set out in the CESR model.

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?

We agree that it seems reasonable that third country standard setters be required to agree to provide impact assessments of new standards (other than standards issued jointly with the IASB).

However, a certain level of flexibility should perhaps be allowed, whereby any impact assessments produced by other interested parties are subject to a review by the relevant standard setter. Given the period of time typically required to develop new accounting standards, we believe that an impact assessment could most likely be completed prior to the new standard coming into force.

We note that CESR mentions that any rectification procedures set out in its model should be included within the scope of the audit; whether this is the case or not will, of course, depend upon the law of the relevant third country.

Please do not hesitate to contact Jens Simonsen, Global Director of Audit Services, on +45-33-76-37-81 should you wish to discuss any of the points mentioned in this letter.

Yours faithfully,



³ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.