



FINANCIAL REPORTING COUNCIL

117 Houndsditch, London EC3A 7BT Telephone +44 (0)20 7312 3300 Fax +44 (0)20 7312 3310
Website <http://www.frc.org.uk>

Chairman: Sir Bryan Nicholson
Chief Executive: Paul Boyle
Secretary: Michael Lewington

Commissioner Bolkestein
European Commission
Rue de la Loi 200
B-1049 Bruxelles/Wetstraat 200
BELGIUM

16 June 2004

Dear Commissioner,

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Reporting Council (FRC) is the unified, independent UK regulator which: sets, monitors and enforces accounting and auditing standards; oversees the activities of the professional accountancy bodies; has responsibilities in audit regulation; and promotes high standards of corporate governance. The membership of the Council includes wide and balanced representation at the highest levels from the business, investor, professional and other UK communities interested in corporate reporting and governance. As you will realise, UK listed companies represent - in terms of capitalisation - a substantial proportion of the EU capital market.

At its meeting today, 16 June, the FRC discussed the progress on the adoption into EU law of International Financial Reporting Standards and, in particular, received feedback from the UK Department of Trade and Industry of the debate at the meeting of the EU Accounting Regulatory Committee on 14 June.

Since the EU Regulation on International Accounting Standards (1606/2002) was adopted, the FRC has been fully supportive of the proposition that Europe's listed companies should, for accounting periods commencing on or after 1 January 2005, be required in their group financial statements to use the full suite of accounting standards published by the International Accounting Standards Board. It shares the vision of Europe's governments that the EU should lead the drive towards a global accounting language and that the European capital market should itself use the global standards.



The FRC is therefore disappointed to learn that, despite the prolonged discussion as to the suitability for adoption in Europe of IAS 32 and 39 on financial instruments, Europe's listed companies have yet to receive a clear and unequivocal message that they should prepare to use these standards next year. IAS 39 in particular is needed to regulate questions of off-balance sheet finance and to ensure that the impact of derivatives is captured in financial statements.

The FRC appreciates that concerns remain regarding the faithful representation in financial statements of certain hedging activities and in those areas it shares the view of your staff that the International Accounting Standards Board should commit resources to an urgent study of ways in which IAS 39 could be improved. It believes, nevertheless, that the existing versions of both IAS 32 and IAS 39 are suitable for endorsement in accordance with the criteria in Regulation 1606/2002. The Council's wish therefore is that the full suite of accounting standards is adopted to be applied from 1 January 2005.

Failure to endorse these standards will have serious implications for the quality and credibility of the EU's financial reporting regime; non-endorsement would be incompatible with the stated objectives of the Regulation. Both the standards should therefore be adopted without delay for use in Europe from 2005.

I appreciate that you or your staff may have questions concerning this letter. I and Mary Keegan, chair of the Accounting Standards Board, would of course be pleased to discuss these with you at your convenience.

Yours faithfully,

A handwritten signature in black ink, which appears to read 'Bryan Nicholson', is written over a horizontal line.

Sir Bryan Nicholson
Chairman