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PUBLIC STATEMENT

CESR reminds issuers and investors about the importance of clear and transparent disclosure on the use of any options made available by applicable financial reporting standards

The purpose of this communication is to remind European issuers about the importance of giving clear and transparent disclosure when making use of any of the options made available to them by the applicable financial reporting standards and their decisions regarding the determination of accounting policies in the absence of specific IFRS guidance. This CESR statement is addressed in particular to European listed companies preparing consolidated financial statements in accordance with IFRSs as adopted by the EU[1]. It also alerts users to a concern that because of available options and given the lack of IFRS guidance in certain specific areas, the comparability between different issuers is not necessarily assured. It is therefore important for investors to carefully consider all accounting policies disclosed by the reporting issuers in order to understand the reported results and financial conditions.

Since 2003, the European Commission has adopted several EU Regulations endorsing international accounting standards (IAS/IFRS) as well as amendments to existing and previously endorsed standards. This legal framework of endorsed IFRSs provides issuers with various options for the preparation of their consolidated financial statement. This CESR statement is therefore especially relevant during the transition phase where the effect of the preparers' options is likely to have the most significant impacts on the financial presentation and results of the companies.

CESR underlines that in implementing IAS 1 Presentation of Financial Statements paragraphs 108 and seq., reporting entities must disclose a summary of significant accounting policies. This requirement is very important and should include all information that enables investors to have a clear and complete picture on the use of the various options mentioned below, including those resulting from the EU endorsement process. CESR has identified four specific situations where transparent disclosure will be relevant, in particular for the first annual reporting under IFRS which, in most situations, will be the 2005 annual financial statements.

- Firstly, the endorsed IAS/IFRS themselves provide several options, in particular on first time adoption of IFRS, between two or more recognition methods and measurement bases. The standards themselves include specific disclosure requirements which have to be followed, notably on the use of options.

- Secondly, there are areas that are not currently specifically dealt with under IFRSs (e.g. accounting for service concession arrangements, emission rights, puts on minority interests…). A transparent disclosure explaining the accounting treatment selected would provide meaningful information to the users of the financial statements (see IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 10 and seq.).

- Thirdly, particular situations may arise where IAS/IFRS have not been fully endorsed for application in the EU. This is currently the case for some of the provisions of IAS 39 (Financial Instruments: Recognition and Measurement) that are directly related to the accounting treatment of portfolio hedging. These provisions have not been adopted for mandatory use in the EU pursuant to the Commission Regulation (EC) No 2086/2004 of 19 November 2004 (the so-called

[1] The expression was approved by Commission and ARC (see the news headlines and draft summary record of the ARC meeting of 30.11.2005 at : http://europa.eu.int/comm/internal_market/accounting/news)

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"carve out" of IAS 39[2]). It can therefore be expected that a number of companies will choose to apply the full version of IAS 39, while others may apply the amended standard endorsed by the EU. As it is likely that companies will use different accounting approaches in the area of hedge accounting and effectiveness, issuers should be transparent in explaining their policies and all the more so where the "carve out" is used.

- Finally, there is always a time lag between the issue of IFRS by the IASB and their mandatory application in the EU as a result of the EU endorsement process. The European Commission recently informed Member States that Regulations endorsing IFRS published in the Official Journal and entering into force after the balance sheet date but before the date the financial statements are signed, can be used by companies (but they are not obliged to) where early application is permitted in the Regulation and the related IFRS.

  It is important for issuers to provide disclosure if they choose to apply standards before they legally enter into force (when allowed). Furthermore, IAS 8 also requires additional disclosure from entities that have *not* applied a new Standard or Interpretation that has been issued but is not yet effective (IAS 8, paragraph 30).

Finally it should be noted that this CESR statement does not modify the recommendation published by CESR in December 2003 for additional guidance regarding the transition to IFRS (ref CESR/03-323e).

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[2] Refer to FAQ published by EC on 11/19/2004 which provides further explanation on the meaning and scope of "carve out"

Notes for Editors

1. The communication has been prepared by CESR's operational Committee in the area of endorsement and enforcement of financial reporting standards in Europe (CESR Fin) chaired by M. John Tiner, Chief Executive Officer of the Financial Services Authority in the UK. The project of this recommendation was more specifically prepared by the Sub-Committee on International Standards Endorsement (SISE) chaired by M. Paul Koster, member of the board of The Netherlands Authority for the Financial Markets.

2. CESR-Fin is a permanent operational group with the role of co-ordinating the work of CESR Members in the area of endorsement and enforcement of financial reporting standards in Europe with a view to protect investors who need a proper financial information. CESR-Fin enables CESR to play an effective role in the implementation and enforcement of the international accounting standards (IAS/IFRS) in the European Union (EU) in the context of the EU's new accounting framework that will become mandatory for all European companies listed on an EU regulated market as from 2005. This allows CESR to participate pro-actively during the development and implementation of IAS/IFRS through an engaged dialogue with all the key policy makers involved throughout the European endorsement process. Furthermore, CESR-Fin's role is to assist CESR members in delivering a co-ordinated and effective application of IAS/IFRS by EU listed companies, through the preparation of standards and guidelines on supervision and enforcement of financial reporting in Europe and through exchange of information and discussion of enforcement cases and decisions. The objective is thereby to ensure a robust and consistent application of IAS/IFRS in Europe.

3. CESR is an independent Committee of European Securities Regulators. The role of the Committee is to:

   Improve co-ordination among securities regulators;
   - Act as an advisory group to assist the EU Commission, in particular in its preparation of draft implementing measures in the field of securities;
   - Work to ensure more consistent and timely day to day implementation of community legislation in the Member States.
   - The Committee was established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC). It is one of the two committees envisaged in the Final Report of the Group of Wise Men on the regulation of European securities markets. Baron Alexandre Lamfalussy chaired this group. The report itself was endorsed by the European Council and the European Parliament. The relevant documents are available on the CESR website.

   Each Member State of the European Union has one member on the Committee. The members are nominated by the Member States and are the Heads of the national public authorities competent in the field of securities. The European Commission has nominated the Director General of the DG Market, as its representative. Furthermore, the securities authorities of Norway and Iceland are also represented at a senior level.

4. For further information please contact:

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