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**PRESS RELEASE**

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

CESR publishes today a consultation paper entitled: “CESR’s advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries” (Ref. CESR/07-212).

As a result of the prospectus regime, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required from 1st January 2007 to publish a prospectus including financial statements prepared on the basis of EU endorsed IFRS or on the basis of a third country’s national accounting standards (third country GAAP) if these standards are equivalent to endorsed IFRS. From the period 1 January 2007 until 31 December 2008, appropriate transitional arrangements apply under Article 35 of the Commission Regulation on prospectuses.

Similarly, under the Transparency Directive, from January 2007 third country issuers whose securities are admitted to trading on an EU-regulated market will also have to provide annual and half-yearly financial statements which should either be prepared in accordance with IFRS or third country GAAP equivalent to endorsed IFRS. Appropriate transitional arrangements also apply under Article 26 (3) of that Directive.

At least six months before 1 January 2009, the Commission shall ensure a determination of the equivalence of the GAAP of third countries, pursuant to a definition of equivalence and an equivalence mechanism that it will have established before 1 January 2008. In order to start the process for determining equivalence, the EC has asked CESR for advice in several phases. On March 2007 CESR submitted to the European Commission its first advice containing a definition of equivalence. This document now addresses the second element of this process namely advice on establishing a mechanism for determining equivalence.

Once CESR has provided its advice, the Commission must by 31 December 2007 adopt a legal measure, via comitology, on the definition of equivalence and the determination of equivalence.

The key elements in the CESR’s proposal are the following:

- The national standard setter should assess whether disclosures and measurement principles required by the third country GAAP concerned are materially the same as IFRS and where they are not an assessment of the differences.
- If there are no significant differences between the third country GAAP and IFRS (for example because a convergence programme has reached a point where no material differences exist any more), such GAAP may be deemed equivalent without the need of additional rectification disclosures.



- Even in cases where there are significant differences under the two sets of accounting principles, the third country GAAP may be considered equivalent to IFRS if those differences identified can be rectified at company level by non-complex disclosures.
- Any additional non-complex disclosures should be subjected to audit.
- Prior to giving any advice to the Commission, CESR would seek reactions from market users regarding the third country GAAP and the proposed rectifications via public consultation.
- An "overall" assessment of equivalence should be made in the final instance by the European Commission via a comitology process once all other steps have been fulfilled and using the definition of equivalence CESR has already provided.
- For the purposes of establishing equivalence, CESR assumes that third country GAAPs are properly applied including the provision of any rectifying disclosures necessary. CESR further assumes that the necessary filters for ensuring market confidence are in place for third country issuers using or participating in the EU capital markets.
- Finally, CESR considers that the assessment of the reliability of the audit of the financial statements should be another step in the mechanism. Compliance with the 8<sup>th</sup> Directive should be a relatively easy thing to establish about any jurisdiction that is applying for its GAAP to be recognised as equivalent.

Readers are asked to consider the questions in this consultation paper and send their response via CESR's website ([www.cesr.eu](http://www.cesr.eu)) under the section "Consultations". Responses to the consultation are requested by **8 May 2007**. Whilst the period is significantly shorter than the usual 3 month period which CESR usually wishes to provide, this is due to the short deadline by which CESR must respond to the Commission (1 May 2007). Notwithstanding the 1 May deadline, CESR decided that its advice to the Commission should be informed by market participants' views, following its ordinary consultation practices. In order to have a proper assessment of the responses to the consultation, CESR expects to postpone until the end of May the submission of the final advice to the Commission.



**Notes for Editors:**

1. Within CESR, the operational group CESR-Fin chaired by Paul Koster, Commissioner of the Netherlands Authority of Financial Markets (AFM) has been charged with the preparation of the CESR's consultation paper.
2. 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.
3. Each Member State of the European Union has one member in 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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