



Date: 18 December 2007  
Ref.: CESR/07-821

**PRESS RELEASE**

**CESR launches a consultation on the equivalence of Chinese, Japanese and US GAAPs**

CESR publishes today a consultation paper entitled: “*CESR’s advice on the equivalence of Chinese, Japanese and US GAAP*” (Ref. CESR/07-761).

The objective of this advice, subject to consultation, is to assist the European Commission in determining, by 1<sup>st</sup> July 2008, the equivalence of third country GAAP under the Prospectus and Transparency Directives.

The draft “*Commission Regulation (EC) No .../2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament*” (“the draft Regulation”) lays down the conditions under which the GAAP of a third country may be considered equivalent to IFRS adopted pursuant to EC Regulation 1606/2002 in accordance with a definition of equivalence set out in article 2. The draft Regulation also sets out in article 4 the conditions for the acceptance of third country accounting standards that are the subject of an appropriate convergence or adoption programme for a limited period expiring no later than 31<sup>st</sup> December 2011.

On the basis of this draft Regulation, CESR received a draft mandate from the European Commission in August 2007 requesting CESR to produce a technical advice providing a factual assessment of the equivalence of specific third country GAAPs and an assessment of the existing convergence or adoption programmes of other third country GAAPs. As requested, CESR consults on 3 specific GAAPs - Chinese, Japanese and US. However, CESR intends to consult shortly on other third country GAAPs (e.g. Canada, South Korea).

The key elements of CESR’s proposed advice in relation to Chinese GAAP, Japanese GAAP and US GAAP are as follows:

**US GAAP**

CESR considers that the standard setting environment in the US has been radically altered since 2005 as a result of the creation by the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) of a detailed and active work programme for converging US GAAP and IFRS and as a result of the recognition by the SEC of IFRS for use in US domestic markets not only by third country private issuers but also potentially in future for US issuers.

Consequently CESR draws the following conclusions:

- The IASB and the FASB have publicly committed to convergence between IFRS and US GAAP;
- The two Boards are addressing the main differences identified by CESR in its 2005 advice;
- A mechanism has been set up within the two bodies to make sure that new standards or interpretations issued do not create new differences between the two sets of standards;
- The two Boards are going to issue joint standards in the future; and
- There is concrete evidence of active work between the two standard setters.



CESR believes these elements ensure US GAAP and IFRS are converging and will continue to evolve on a combined basis to an extent where they are effectively equivalent to each other and would therefore recommend that the Commission finds US GAAP equivalent to IFRS for use on EU markets.

### **Japanese GAAP**

The IASB and the Accounting Standard Board of Japan (ASBJ) jointly announced in August 2007 an agreement (known as the Tokyo Agreement) to accelerate convergence between Japanese GAAP and International Financial Reporting Standards (IFRSs), a process that was started in March 2005. As part of that agreement, the two boards are seeking to eliminate by 2008 major differences between Japanese GAAP and IFRSs, as defined by the July 2005 CESR assessment of equivalence, with the remaining differences being removed at the latest by 30 June 2011.

CESR has analysed the work program of the ASBJ supporting this announcement. Removing the differences identified by CESR in its 2005 advice will mean the issuance of 3 standards by the end of 2007 and the issuance of 8 further standards by the end of 2008. CESR does not necessarily believe itself in a position to comment on the programme but has no reason to doubt that the ASBJ may well be able to achieve this objective. It is clear that if the ASBJ is successful in achieving its objectives there is no reason that CESR should not agree to Japanese GAAP being considered equivalent as at that stage all the issues identified in its 2005 advice will have been addressed.

Consequently, CESR would recommend that, come June 2008, the Commission should consider Japanese GAAP equivalent, unless there is no adequate evidence of the ASBJ achieving to timetable the objectives set out in the Tokyo Agreement.

### **Chinese GAAP**

CESR has only been able to undertake limited work in relation to Chinese GAAP as most of the information available to it has only come from two sources, namely the IASB and the Chinese Ministry of Finance. From this work, CESR concludes that China's standards look substantially similar to IFRS, mainly as a result of how they have been derived.

In CESR's view China is in a different situation to either Japan or the US. Instead of establishing a converging programme between Chinese GAAP (ASBEs) and IFRS, the Chinese authorities have decided to align their legislation with IFRS, making some adjustments in order to adapt some standards to local circumstances. On the basis of a technical analysis of the standards alone, CESR would therefore have to conclude that ASBEs could on the surface qualify as equivalent to IFRS as it appears largely to be IFRS.

However CESR would point out that the first complete reporting period under the new Chinese standards will only be for 2007 accounting periods (i.e. for companies with 31 December year ends). Consequently there is as yet no evidence available concerning the concrete implementation of the standards by companies and auditors. CESR believes this obvious lack of any objective evidence of adequate implementation of the ASBEs and of any adequate operation of "filters" (as defined in CESR's previous advice to the Commission) over their use, which is an inevitable consequence of the standards only having been in use since 1st January 2007, should not be ignored by the Commission.

Consequently, CESR would recommend that the Commission postpones a final decision on Chinese GAAP until there is more information on the issues outlined above, because CESR believes that evidence of adequate implementation is important in the context of an outcome-based definition of equivalence. If the Commission were minded to allow Chinese issuers to use Chinese GAAP when accessing EU markets, CESR would recommend the Commission consider accepting Chinese GAAP according to article 4 of the draft Commission Regulation on the mechanism until such time as there is adequate evidence to enable a decision to be made under article 2 thereof.



Interested parties are asked to consider the questions in the consultation paper and send their responses via CESR's website ([www.cesr.eu](http://www.cesr.eu)) under the section "Consultations". Responses to the consultation are requested **by 25 February 2008**. Whilst the consultation period is shorter than the usual 3 month period which CESR usually aims to provide, this curtailment is due to the deadline by which CESR must respond to the Commission which is 29 February 2008. Notwithstanding this deadline, CESR has decided that its advice to the Commission should be informed by market participants' views, in accordance with its normal consultation practices. In order to allow a proper assessment of the responses to the consultation, CESR expects to delay the submission of its final advice to the Commission until the end of March.

CESR will hold an Open Hearing at its premises (11-13 avenue de Friedland, 75008 Paris) on Monday 21 January 2008 from 1.30pm to 4.30pm. The Hearing, which is open to all interested stakeholders, will be an opportunity to discuss the issues raised in this consultation. Those wishing to attend can register via the CESR website, in the section 'Hearings'.



**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 received a draft mandate from the European Commission in August 2007 and the final mandate on 12 December 2007. The final mandate is available in the consultation paper as Appendix I.
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.
4. 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.
5. For further information please contact:

Fabrice Demarigny	Or	Victoria Powell
Secretary General of CESR		Director of Communications
Tel: +33 (0)1.58 36 43 21		Fax: +33 (0)1.58 36 43 30