

- Accounting

- The Commission has adopted a definition of *equivalence between accounting standards* and established an "equivalence mechanism" in relation to third country GAAPs

On 21 December 2007 the European Commission adopted a Regulation which sets out the definition of equivalence and establishes an "equivalence mechanism" in relation to third country GAAPs¹. This will be the basis upon which decisions on equivalence will be taken.

What is equivalence?

The definition of equivalence is "investor-oriented", meaning that a third country GAAP will be considered as equivalent to IFRS adopted pursuant to Regulation 1606/2002 if investors are likely to make the same investment or divestment decision irrespective of whether the financial statements are prepared using IFRS or the GAAP of the third country in question.

What is equivalence mechanism and are there any provisions allowing further transition towards equivalence or IFRS?

The Commission will decide whether a third country GAAP is equivalent. In addition to determining which GAAPs are to be equivalent, the Commission will also make proposals in relation to other GAAPs which, whilst not equivalent today, are converging or committed to adopt IFRS at some date in the future. In such cases, the Commission may propose to allow third country issuers to use their GAAPs in the EU for a transitional period ending no later than 31 December 2011, provided at least one of the following conditions is met:

The authorities of the country concerned:

- have made a public commitment before 30 June 2008 to converge their GAAP's with IFRS before 31 December 2011 and the convergence programme is realistic and implemented effectively;
- have made a public commitment before 30 June 2008 to adopt IFRS before 31 December 2011, provided effective measures are taken to secure adoption of IFRS by that date;
- have reached a mutual recognition agreement with the EU before 31 December 2008.

The decision concerning equivalence of third country GAAP may be taken on the initiative of the Commission, upon application submitted by the competent authority of a Member State or upon application of an authority responsible for accounting standards or

¹ OJ L 340, 22.12.2007, p. 66

market supervision of a third country. These applications are to be submitted to the Commission which reserves its right to duly review them and decide whether it will proceed further.

How will the equivalence mechanism work?

The equivalence mechanism establishes the following process:

- the Commission asks CESR for a technical assessment of the relevant third country GAAP, whether it meets the criteria for equivalence;
- CESR will conduct technical research and produce a public consultation paper which it formalizes after consulting the stakeholders and delivers its advice to the Commission;
- the Commission will take into account CESR's advice and all other information available to be able to reach a well-founded decision;
- the decisions will be taken under the recently revised comitology procedure² which provides for a three month deliberation period for the European Parliament and for the Council after the vote of the European Securities Committee.

The procedure might take up to 10 months after the Commission has asked CESR for technical advice.

Is the Commission already adopting some steps with a view of possible decisions on equivalence or transition in 2008?

CESR is currently assessing the GAAPs of U.S., China and Japan and has been asked to report by 29 February 2008. The Commission will report before April 2008 to the European Parliament and to the European Securities Committee on these three countries. In the course of May 2008, the Commission will submit its proposals concerning equivalence and/or transitional acceptance of the GAAPs of certain countries which made a public commitment to converge to- or adopt IFRS the end of 2011. These proposals will be discussed with Member States and the European Parliament. They will be voted upon by the European Securities Committee and subsequently by the European Parliament and the Council. These decisions concerning third country GAAPs equivalence or acceptance of their transition will be completed in time for them to be operational with effect from 2009.

What about other GAAPs?

The equivalence mechanism also allows decisions on equivalence of other GAAPs to be taken in subsequent years.

² regulatory procedure with scrutiny (see Council Decision 2006/512/EC of 17 July 2006 amending Decision 1999/468/EC laying down the procedures for the exercise of implementing powers conferred on the Commission, OJ L 200, 22.7.2006, p. 11)

Clearly, any issuer already using IFRS will retain its right to be listed in the EU markets.

A third country authority concerned about the status of its GAAP in the EU after 2008 should contact the Commission services for further information at the address below:

Further information please contact:

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