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Press Release

Preparing for the implementation of International Financial Reporting Standards (IFRS)

CESR published today its recommendation for regulators on how listed companies can effectively manage the communication of the financial impact of transitioning to international accounting standards in 2005. CESR considers it essential that the transition must be carefully monitored by regulators to ensure that every company continues to meet its reporting requirements and that investors are able to understand the effect of the new reporting standards on the financial position of listed companies.

European companies whose securities are traded on a regulated market will be required by the European Regulation n°1606/2002 of July 2002 to use International Financial Reporting Standards (IAS/IFRS) to prepare their 2005 consolidated financial statements. CESR final advice to its members (Europe's securities regulators) following consultation during October and November 2003, attempts to blend the needs of listed companies and investors by proposing that listed companies implement a phased transition process. This will facilitate listed companies in their assessment of the financial consequences and enable appropriate planning for the application of the international accounting standards whilst also ensuring investors are provided with financial information which is easy to interpret.

CESR has identified four milestones in the transition process, as follows:

a. The publication of the 2003 annual report (including the 2003 financial statements)

- At this stage, it is recommended that companies explain how they intend to carry out the transition to IAS/IFRS (plans and degree of achievement for the transition). Listed companies are also encouraged to explain in a narrative form the key differences between their present accounting policies and the ones they know with sufficient certainty they will have to apply under IAS/IFRS.

b. The publication of the 2004 annual report (including the 2004 financial statements)

- CESR recommends that, as soon as a company can quantify the impact of the change to IAS/IFRS on its 2004 financial statements in a sufficiently reliable manner, it is encouraged to disclose the relevant quantified information. Such disclosure should be made in a way that is not misleading (i.e. covering all possible impacts, positive and negative). If the company is not in a position to



provide this quantitative information, it is recommended to at least complete and update the narrative information referred to above (under a.).

c. The 2005 interim financial reports (half-yearly and quarterly financial reports)

- The aim of the recommendation is not to mandate the publication of interim reports, as this aspect is governed by applicable national and European regulations. Interim reports can also be made voluntarily.
- Where interim financial reports are published in 2005, it is recommended that listed companies start applying as from 1st January 2005 either IAS 34 “Interim Financial Reporting” or, if this is not possible, at least the IAS/IFRS recognition and measurement principles that will be applicable at year end. It is worth noting that many respondents to the consultation strongly supported the proposal that issuers start using IAS/IFRS recognition and measurement principles for interim financial reports in 2005.
- Concerning the comparative information for the corresponding previous period, CESR recommends that companies provide these and that they are prepared according to IAS/IFRS, using the same accounting rules as those used in 2005.

d. The 2005 annual financial statements

- In most cases, the 2005 annual financial statements will be the first complete set of financial statements to be presented under IAS/IFRS by listed companies in Europe.
- In this regard, CESR proposes not to go beyond the existing requirement that only one year of comparatives (e.g. 2004) be prepared and presented under IAS/IFRS. Addressing the various situations where companies are required or choose to present three successive periods, but have not restated under IAS/IFRS the earliest period presented (e.g. 2003), CESR proposes a format (“the bridge approach”) for the presentation of the comparative figures (2004 and 2003 in the example), to enable as much comparability as possible, even though they would not have all been prepared under IAS/IFRS.

The recommendation reflects comments made throughout the consultation, in particular it:

- reinforces the message that listed companies should release narrative and quantitative information on the transition **only when they have a sufficient knowledge of final standards to be applied** as from 2005 **and** – especially for quantitative information- **when they are ready to communicate its effects in a sufficiently reliable manner** and with relevant information. The need to avoid misleading information has also been stressed.
- clarifies that the document is a recommendation agreed amongst CESR Members to encourage adoption of the proposed disclosure guidelines by listed companies. Listed companies are encouraged to apply the guidelines and to explain the reasons why they have departed from the guidance.
- clarifies that the four milestones identified are not intended to create new compulsory reporting deadlines. Rather, information can be communicated at other junctures for example the company could choose to issue a specific document for the public in 2003 and/or 2004 which explains the transition to IFRS.



- indicates that it is the responsibility of the company and its management to decide on the need for an audit and that it recommends that companies make it clear whether the information has been audited or not.

Next steps

CESR will keep the recommendation under constant review to ensure it reflects any developments, such as the finalisation and endorsement of all the standards related to the treatment of financial instruments (IAS 32 and 39) and will amend the recommendation if necessary.



Notes for Editors:

1. This draft recommendation has been prepared by CESR's standing committee CESR-Fin, chaired by Mr John Tiner, Chief Executive of the UK Financial Services Authority, and more specifically by its Sub-Committee on International Standards Endorsement (SISE) chaired by Philippe Danjou, Chief Accountant at the French Autorité des Marchés Financiers (AMF).

CESR-Fin is a permanent working group of CESR members active in the area of financial reporting. CESR-Fin plays a key role in the endorsement and enforcement of IFRS standards in Europe. CESR-Fin has established two permanent sub-committees, one dealing with issues related to endorsement and implementation of IFRS (SISE) and the other (the Sub-Committee on Enforcement, SCE) dealing with issues related to the enforcement of financial reporting under IFRS. The SCE is chaired by Angelo Apponi, Chief Accountant at the Italian Commissione Nazionale per le Società e la Borsa (CONSOB).

2. An Appendix is included below which sets out diagrammatically the timeline for listed companies to communicate to the markets and investors, information on the transition to International Financial Reporting Standards as outlined in the guidance.
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.

3. 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. The following eight Authorities of the Candidate Countries joined CESR in 2003 with observer status: the Cyprus Securities and Exchange Commission, the Czech Securities Commission, the Estonian Financial Supervision Authority, the Hungarian Financial Supervisory Authority, the Lithuanian Securities Commission, the Malta Financial Services Authority, the Slovakian Financial Market Authority and the Slovenian Securities Market Agency.

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Appendix illustrating the proposed timeline for listed companies to communicate to investors information concerning the transition to International Financial Reporting Standards

