

25th October 2004

Dear Chief Executive

International Accounting Standards

Following recent developments on the endorsement of IAS 39, we are sending this letter to the Chief Executives of all listed companies. I am taking the opportunity to highlight some matters relevant to companies' financial reporting in 2005. We expect aspects of IAS 39 to be mainly relevant to banks and other financial institutions. However, the transparent disclosure by issuers on how they have applied any option made available to them by accounting standards is clearly relevant to all listed companies.

We will publish this letter on our website on 29th October 2004.

IAS 39

On 1 October 2004, EU Member States voted by qualified majority to endorse IAS 39 with two "carve outs". One of these concerns the provisions on full fair value and the other involves portfolio hedging of core deposits. Companies will have the option of applying the full provisions of IAS 39, but no company will be permitted to fair value liabilities that are not actively traded.

We believe 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. It is likely, therefore, that companies will use different versions of the standard in the area of hedge effectiveness. As a consequence, it may be difficult for investors to make comparisons. It is therefore extremely important that issuers are transparent about the assumptions made and methods followed for determining values referred to in hedging transactions.

Any lack of transparency could potentially mean that an issuer breaches the requirements of listing rule 9.3A, which requires that:

"A company must take all reasonable care to ensure that any statement or forecast or any other information it notifies to a Regulatory Information Service or makes available through the UK Listing Authority is not misleading, false or deceptive and does not omit anything likely to affect the import of such statement, forecast or other information."

We are therefore reminding issuers that we expect clear disclosure on the application of IAS 39 in any preliminary, annual or interim results.

We note the view expressed by the Accounting Standards Board in its recent press announcement that all UK companies should comply as far as possible with the full hedging provisions of IAS 39 and that it will be issuing guidance on this as soon as possible.

Financial Services Authority

Interim Financial Statements

On 5 September 2003, Ken Rushton (Director of Listing at the FSA) wrote to all listed issuers about financial reporting requirements. In this letter, we warned companies that they needed to prepare for the introduction of International Financial Reporting Standards (IFRS). These standards apply for accounting periods beginning on or after 1 January 2005. Under Listing Rule 12.47a, companies are required to prepare their interim results in line with the accounting policies and presentation in their subsequent annual financial statements. So, a company with a reporting date of 31 December 2005 would be required to present its June 2005 interim results in accordance with IFRS.

Various companies and representative bodies have suggested that we should allow companies to prepare their interim accounts to existing standards, even for the first year they are covered by IFRS. We have also been told that firms of auditors will not have the resources to cope with the demand from their clients. We have listened to those representations, but still believe that it is important for firms to prepare interim accounts in line with the accounting policies and presentation applied in their annual accounts. This ensures that the best information, which is comparable with the year-end accounts, reaches the market as early as possible. However, we do accept that preparing for the introduction of IFRS has not been easy for firms, given general uncertainties about the standards. There is also the question of sufficiently qualified auditor resources – although we think auditors' existing resources should be adequate to cope with the demand from clients, there is a small risk that they will not be.

We are therefore proposing to allow listed companies more time to prepare their first interim accounts under IFRS. The relevant European legislation currently requires that companies publish their interim accounts within 120 days, whereas the Listing Rules require publication within 90 days. For the first interim accounts prepared in accordance with IFRS policies, we are proposing to relax the requirement to the EU limit of 120 days. However, companies that wish to take advantage of this relaxation will be required to inform the market of this. Therefore, before the end of the period the interim accounts relate to, companies who wish to take advantage of this relaxation are required to announce the intended delay to the market. They should say they will publish their interim accounts later than the 90 days specified in the Listing Rules and explain the reasons for the delay.

We believe that this provides the best balance between the difficulties faced by companies preparing IFRS style interim accounts and the need for the market to be fully informed.

Yours sincerely



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Director, Markets