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European Organisations Praise SEC Accounting Proposal but Urge SEC to Go Further

Groups welcome elimination of U.S. GAAP reconciliation for IFRS financial statements, but ask the SEC to accept IFRS as adopted in the European Union

A group of European business organisations today told the U.S. Securities and Exchange Commission that they support the SEC's proposal to allow non-U.S. companies to publish financial statements in the United States under International Financial Reporting Standards (IFRS), without reconciliation to U.S. accounting principles, but that the SEC needs to correct an important technical problem if the proposal is to be successful.

The SEC proposed in July to exempt companies with IFRS financial statements from the requirement to quantify the differences between their financial results under IFRS compared with U.S. accounting principles. By eliminating this costly requirement, which many investors say does not produce useful information, the SEC hopes to encourage foreign companies to maintain U.S. listings, and to attract new companies to the U.S. market.

While the European organisations support the elimination of the reconciliation requirement, they say that the SEC needs to do more. The proposal would only benefit companies that use IFRS as published by the International Accounting Standards Board (IASB), the London-based independent standard setter. European companies are required to use IFRS as adopted by the European Union, which must endorse the standards adopted by the IASB before they can be used in Europe.

"IFRS as published by the IASB suffers from a significant problem: there is no company anywhere in the world that is legally required to use this standard," noted the European organisations. Regulatory review of IFRS is the rule not only in Europe, but also in other countries where IFRS is used or under consideration, such as Australia, New Zealand and Canada.

The European organisations told the SEC that it should expand its new rule to cover IFRS as adopted in the European Union, if it wants to make the U.S. market more competitive. "European companies represent the vast majority of the foreign private issuers that are U.S. reporting companies and that are required to publish IFRS financial statements in accordance with their home country rules," they said. "As a result, to succeed overall, the SEC's proposal must succeed with European companies."

The SEC said in July that it was limiting its proposal to IFRS as published by the IASB to make sure that the U.S. market sees only one standard that goes by the name IFRS, and not multiple versions adopted in each country. The SEC hopes that this will promote the development of a single, global accounting standard in the long-term.

The European organisations told the SEC that they agree with the long-term objective, but they are concerned that the objective will not be met if companies find the rule too restrictive to be of practical use. To address the SEC's concern, the organisations proposed that the SEC only accept high-quality versions of IFRS, which incorporate the vast majority of IASB standards and are supported by strong auditing and regulatory infrastructure, as is the case for IFRS as adopted by the European Union.

"The SEC will have a better chance of meeting its objective by accepting IFRS as adopted by the European Union, rather than pushing for IFRS as published by the IASB " said the organisations. "That would strike the right balance by making the rule more practical while continuing to ensure high quality accounting."

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The European organisations have also made a number of other substantive and technical comments on the SEC proposal. A copy of their letter and a supporting letter from Cleary Gottlieb Steen & Hamilton LLP is enclosed with this press release.

The European organizations that signed the letter are: Aktienforum (Austria); Association Belge des Sociétés Cotées-Belgische Vereniging van Beursgenoteerde Vennootschappen (Belgium); Association Française des Entreprises Privées (France); Association Nationale des Sociétés par Actions (France); Associazione fra le societe' italiane per azioni (Italy); Bundesverband der Deutschen Industrie e.V. (Germany); The Bulgarian Industrial Capital Association (Bulgaria); Deutsches Aktieninstitut (Germany); European Association for Listed Companies (pan-European); Finish Foundation for Share Promotion (Finland); Middlenext (France); Quoted Companies Alliance (United Kingdom); Stowarzyszenie Emitentów Gieldowych (Poland); Cyprus Public (Listed) Companies Association (Cyprus); Union of Listed Companies (Greece); Union of Issuers Quoted in Europe (pan-European); and Vereniging Effecten Uitgevende Ondernemingen (Netherlands).

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Note to Editors:

The SEC's rule proposal was published for public comment on 2 July 2007. It is available at http://www.sec.gov/rules/proposed/2007/33-8818.pdf.   The comment period expired on 24 September 2007. There is no fixed timetable for the SEC to publish a final rule.

The SEC proposal, as currently drafted, would allow non-U.S. companies that are listed or otherwise file reports in the United States to publish financial statements in accordance with IFRS as published by the IASB, without reconciling their financial statements to U.S. generally accepted accounting principles, or U.S. GAAP.

A "reconciliation" involves quantifying the difference between net income and shareholders equity under IFRS, compared with the same figures under U.S. GAAP. It also involves providing additional information about the most significant items that contribute to those differences. Currently, non-U.S. companies that publish financial statements in accordance with their home country accounting principles must provide a U.S. GAAP reconciliation in the annual reports they file with the SEC, and in connection with certain securities offerings. The reconciliation can be expensive, because it effectively requires companies to maintain two sets of accounting books, and to have staff and auditors that are familiar with two different systems.

IFRS is established by the IASB, an independent body located in London. Beginning with their 2005 fiscal years, European listed companies have been required to publish financial statements in accordance with IFRS as adopted by the European Union.

IFRS as adopted by the European Union is based on the accounting rules established by the IASB, with each rule and official interpretations subject to endorsement before it becomes mandatory in Europe. The endorsement process involves consideration by the European Commission of whether the international accounting standards are contrary to certain EU Directives and are conducive to the European public good as well as whether they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.