

John F. Mogg
Director General
Internal Market – Directorate General
Avenue de Cortenbergh 107
1049 Brussels

19 June 2002

Dear Mr. Mogg

Re: Endorsement of existing International Accounting Standards and related interpretations.

We are pleased to respond to your request of 19th March 2002 for our opinion on the endorsement of all existing IAS and SIC interpretations.

The introduction of the IAS Regulation requiring listed companies throughout Europe to adopt International Accounting Standards by 2005 is a major achievement. The common basis for financial reporting based on high quality global standards provides a platform for efficient cross border investment both within and beyond the European Union. It can be expected to enhance the operation of European capital markets and provide an example other countries may wish to follow.

EFRAG has reviewed IAS (International Accounting Standards) 1 to 41 (inclusive) and the related SIC (Standing Interpretations Committee) interpretations 1 to 33 inclusive (hereafter referred to as “the current standards”) to the extent that they are extant at 1 March 2002, as listed in the appendix 1-2 to this letter.

The evaluation of the current standards was based on a general review of those standards, on our experience of the application of those standards in practice by various companies within Europe and on our general knowledge of discussions surrounding those standards. We have also sought input in accordance with our due process procedures from standard setters and market participants.

In our opinion the current standards meet the requirements of the Regulation of the European Parliament and of the Council on the application of International Accounting Standards by EU listed companies from 2005 onwards that:

- i. they are not contrary to the true and fair principle set out in Article 2(3) of the 4th Directive (78/660/EEC) and Article 16(3) of the 7th Directive (83/349/EEC), and
- ii. 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.

For the reasons given above, we believe that it is in the European interest that the process of adoption of the current standards should now be set in motion. Accordingly, we recommend endorsement of the current standards “en bloc”.

As you are aware, the IASB is actively reviewing a number of the current standards and a number of changes and improvements are expected to result from this review. We shall consider all changes to those standards when promulgated and give our advice on those changes at that time. However, this does not in any way affect the advice given in this letter that the current standards should be endorsed “en bloc”.

Without qualifying the advice given above we wish to add certain comments on individual standards as follows:

- i. IAS 1 (at paragraph 22) indicates that in the absence of a specific international standard an entity must use an accounting policy that is consistent with the IAS Framework. Whilst the Framework is not itself a standard, EFRAG considers it important that entities required to comply with IAS under the IAS Regulation have access to the Framework and that it is published in the Official Journal with an appropriate description of its status.
- ii. IAS 15 is a standard that currently remains in force but IASB has published proposals for its deletion as part of the Improvements project. EFRAG believes it appropriate to endorse the existing standard as part of the initial en bloc endorsement process but recognises that the Commission may not wish to have it translated and published in the Official Journal at this time.
- iii. IAS 39 is an extremely complex and controversial standard. To make it more understandable IASB published Guidance Notes on application of the standard. These Guidance Notes do not have the status of a standard and EFRAG has therefore not included them in its endorsement recommendations.
- iv. In your letter you have indicated a wish to receive, together with the endorsement advice (given above), any suggestions of EFRAG regarding potential improvements to the standards under review.
The fact that IASB has included no less than 12 standards in its general Improvements project points to the importance of keeping standards under constant review.
IASB currently has IAS 39 under review as a separate Improvements project. EFRAG recognises that IAS 39 currently gives rise to the greatest difficulties – particularly in the area of hedge accounting. It therefore welcomes the fact

that IASB is currently in the process of improving IAS 39 and will take a keen interest in the extent of improvement. EFRAG will continue to press for the improvements it believes to be necessary.

We should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Johan van Helleman
Chairman, EFRAG Technical Expert Group

Appendix 1

<u>INTERNATIONAL ACCOUNTING STANDARDS (1 to 41 extant at 1 March 2002)</u>	
IAS No.	Title
IAS 1	Presentation of Financial Statements (revised 1997)
IAS 2	Inventories (revised 1993)
IAS 7	Cash Flow Statements (revised 1992)
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised 1993)
IAS 10	Events After the Balance Sheet Date (revised 1999)
IAS 11	Construction Contracts (revised 1993)
IAS 12	Income Taxes (revised 2000)
IAS 14	Segment Reporting (revised 1997)
IAS 15	Information Reflecting the Effects of Changing Prices (reformatted 1994)
IAS 16	Property, Plant and Equipment (revised 1998)
IAS 17	Leases (revised 1997)
IAS 18	Revenue (revised 1993)
IAS 19	Employee Benefits (revised 2000)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance (reformatted 1994)
IAS 21	The Effects of Changes in Foreign Exchange Rates (revised 1993)
IAS 22	Business Combinations (revised 1998)
IAS 23	Borrowing Costs (revised 1993)
IAS 24	Related Party Disclosures (reformatted 1994)
IAS 26	Accounting and Reporting by Retirement Benefit Plans (reformatted 1994)
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries (revised 2000)
IAS 28	Accounting for Investments in Associates (revised 2000)
IAS 29	Financial Reporting in Hyperinflationary Economies (reformatted 1994)
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions (reformatted 1994)
IAS 31	Financial Reporting of Interests in Joint Ventures (revised 2000)
IAS 32	Financial Instruments: Disclosure and Presentation (revised 1998)
IAS 33	Earnings per Share (1997)
IAS 34	Interim Financial Reporting (1998)
IAS 35	Discontinuing Operations (1998)
IAS 36	Impairment of Assets (1998)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (1998)
IAS 38	Intangible Assets (1998)
IAS 39	Financial Instruments: Recognition and Measurement (revised 2000)
IAS 40	Investment Property (2000)
IAS 41	Agriculture (2001)

Discontinuity in the numbering of IAS is due to the fact that some of the first standards have been superseded by more recent ones.

Appendix 2

<u>STANDING INTERPRETATIONS COMMITTEE RULINGS 1 to 33 extant at 1 March 2002</u>	
SIC No.	Title
SIC 1	Consistency – Different Cost Formulas for Inventories
SIC 2	Consistency – Capitalisation of Borrowing Costs
SIC 3	Elimination of Unrealised Profits and Losses on Transactions with Associates
SIC 5	Classification of Financial Instruments – Contingent Settlement Provisions
SIC 6	Costs of Modifying Existing Software
SIC 7	Introduction of the Euro
SIC 8	First-Time Application of IASs as the Primary Basis of Accounting
SIC 9	Business Combinations – Classification either as Acquisitions or Unitings of Interests
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 11	Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations
SIC 12	Consolidation – Special Purpose Entities
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
SIC 14	Property, Plant and Equipment – Compensation for the Impairment or Loss of Items
SIC 15	Operating Leases – Incentives
SIC 16	Share Capital – Reacquired Own Equity Instruments (Treasury Shares)
SIC 17	Equity – Costs of an Equity Transaction
SIC 18	Consistency – Alternative Methods
SIC 19	Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29
SIC 20	Equity Accounting Method – Recognition of Losses
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 22	Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported
SIC 23	Property, Plant and Equipment – Major Inspection or Overhaul Costs
SIC 24	Earnings per Share – Financial Instruments and Other Contracts that May be Settled in Shares
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC 28	Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments
SIC 29	Disclosure – Service Concession Arrangements
SIC 30	Reporting Currency – Translation from Measurement Currency to Presentation Currency
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Web Site Costs
SIC 33	Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests

