

For the attention of Carlo Comporti
Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris
France

25 February 2008

Dear Sir

Consultation Paper CESR/07-761 – CESR’s Advice on the Equivalence of Chinese, Japanese and US GAAPs

We appreciate the opportunity to comment on this consultation by CESR on its draft advice on the equivalence of Chinese, Japanese and United States generally accepted accounting principles (GAAPs). PricewaterhouseCoopers has taken an active interest in the development of the approach taken by CESR and the European Commission to the subject of equivalence.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Serving the needs of the capital markets

We believe that the ultimate goal should be to have a single set of high-quality accounting standards that can be used around the world. Our discussions with investors and other stakeholder groups indicates that that is what they want, and that International Financial Reporting Standards (IFRS) provides the platform on which to develop such a framework.

IFRS, though principles-based, are quite detailed and precisely worded. Fine interpretations can have a significant impact on the results of an individual enterprise and therefore true convergence with IFRS will not be achieved until all countries apply the standards directly or apply local standards that are conformed fully with IFRS.

The global use of IFRS is a long-term goal, and in the meantime we must look to ongoing and visible programmes of convergence and to continued use of different GAAPs in the capital markets as we progress to a single set of standards. There is no ‘conceptually correct’ way to move from one GAAP or accounting language to another, and so there must be an element of pragmatism in the transition approaches that are taken.

We therefore support measures that result in robust GAAPs that are commonly used in the capital markets being recognised for use in connection with listings in different

jurisdictions. Ceasing to recognise these GAAPs, or introducing temporary remedies that might cause such listings to be withdrawn, will unnecessarily deprive market participants of investment opportunities.

By 'robust' GAAPs, we mean there must be some reasonable limits on what are clearly not acceptable frameworks. In our responses to earlier consultations on this subject we suggested that CESR should, rather than looking at detailed differences, ask of investors "Is there sufficient data to make informed decisions?" We suggested it would be helpful to focus on those key areas of GAAP – for example concerning scope of consolidation, impairment, revenue recognition, etc – where fundamental differences (and a clear lack of convergence) might be critical to whether investors can make informed decisions.

CESR has now moved to recommend a mechanism that takes a more holistic view of equivalence and which focuses on a commitment to technical convergence with IFRS within a reasonable timeframe as a cornerstone of recognising other GAAPs as equivalent. We welcome this as a significant improvement compared with previous suggested approaches that may have resulted in considerable additional burden for issuers and other market participants, with little commensurate benefit. However it is clearly necessary to be satisfied that commitments are turned into reality within acceptable timeframes.

'Equivalence' does not result in identical accounting outcomes

We do not intend to comment on the 'technical equivalence' of the specific GAAPs addressed in the consultation paper, as the technical aspects cannot be considered in isolation from the other market, political and cost-benefit aspects that must be taken into account as discussed above. Also, we note that the proposed mechanism takes account of convergence plans and milestones, the achievement of which cannot be assessed in advance but which need to be monitored carefully.

However we would note and emphasise that a determination of equivalence under the CESR approach (effectively 'market equivalence') should not be taken as an indication that the GAAPs concerned are identical or that they would lead to the same reported financial results and position.

We believe it would be helpful for CESR to emphasise in simple terms your view of what equivalence means and the commitments that underpin that view, and what it does not mean, to avoid possible confusion among market participants. There may be many reasonable investors who will, inadvertently, assume that 'equivalent' means 'converged', and/or that it means the reported figures will be the same.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Richard Keys (+44 207 212 4555) or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP