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CESR-SEC WORK PLAN

This work plan is designed to facilitate the realisation of key objectives of the CESR-SEC Regulatory Dialogue. The work plan builds on the 17 December 2005 discussions between CESR Chairman Docters van Leeuwen and SEC Chairman Cox.¹ The staffs of CESR and the SEC will aim to achieve the objectives set forth in this work plan in order to facilitate transatlantic financial activity within a sound and protective framework.

There are three key issues covered by the CESR-SEC work plan:

- Implementation of IFRS and US GAAP by internationally active issuers;
- Modernisation of financial reporting and disclosure; and
- Discussion of risk management practices.

For each item on the work plan there is a description of the goal of project and the next steps to be taken.

In addition, the SEC staff and CESR Expert Groups and Secretariat have identified a number of other issues to follow up on, such as credit rating agencies (CRA) and the proposed amendments to the SEC's rules on deregistration of foreign private issuers. Such items will be part of the agenda as general information points for the meetings between CESR and SEC. These, and new issues can at any time be added to the work program, should developments call for more attention to these issues.

The next CESR-SEC dialogue meeting is proposed to be held during the course of the second half of 2006.

¹ See Press Release Ref. CESR/05-775, available on CESR's website at:
<http://www.cesr.eu/index.php?docid=3685>



I. Use of IFRS and US GAAP by internationally active issuers.

A. GOAL: Through operational and supervisory cooperation between regulators charged with overseeing financial information disclosed by internationally active issuers:

- Promote the development of high quality accounting standards;
- Promote the high quality and consistent application of IFRS around the world, and as a result move toward achieving this milestone under the roadmap; and
- Recognising that IFRS are principles-based standards, give full consideration to international counterparts' positions regarding application and enforcement;
- Seriously endeavor to avoid conflicting regulatory decisions on the application of IFRS and US GAAP.

Working toward these goals should help create the conditions that eliminate the need for reconciliation of IFRS to US GAAP in the United States.

B. SEC STAFF / CESR-FIN NEXT STEPS: Establish confidential protocols for timely alert and exchange of information between the SEC staff and CESR-Fin, as follows:

1. The SEC staff and CESR-Fin will share views on the future development of IFRS and US GAAP including priorities, timetables and developments related to convergence. Further, they will discuss perspectives and efforts to facilitate consistent interpretation and application of IFRS across jurisdictions.
2. The SEC staff will apprise CESR-Fin of policy developments related to the elimination of the need for foreign private issuers filing in the United States to reconcile IFRS financial statements to US GAAP by 2009 at the latest.
3. CESR-Fin will apprise the SEC staff of policy developments related to the acceptance of US and the other national GAAPs in the European capital markets under the EU Transparency and Prospectus Directives.
4. The SEC staff and CESR-Fin (or its relevant member) will exchange information relating to the topical areas within IFRS and US GAAP that their experiences and issuer review work have shown to be the most troublesome in terms of high quality and consistent interpretation and application.² These matters may be candidates for referral items to IFRIC.
5. As needed, CESR-Fin may raise for discussion with the SEC staff issues arising in the US GAAP financial statements of non-US issuers whose securities are listed in the EU.

² Considering that in Europe, the review of financial statements is carried out by the respective Member State accounting enforcement authorities (EU National Enforcers), the contribution of CESR-Fin to this part of the discussion will be based on the regular coordination meetings held by CESR-Fin among EU National Enforcers (i.e., the European Enforcers Coordination Sessions – EECS).



- C. SEC / CESR MEMBER NEXT STEPS: Establish confidential protocols for timely alert and exchange of information between the SEC staff and individual CESR Members' staffs.
1. As part of its consideration of an EU-dually-listed/registered issuer's request to the SEC staff for a formal consultation on the application of IFRS to a matter affecting financial statements not yet filed with the SEC, the SEC staff will consult with the relevant CESR Member's staff on that matter. In addition, as part of its evaluation of an EU-dually-listed/registered issuer's application of IFRS to a matter affecting financial statements previously filed with the SEC and following consideration of the issuer's responses, the SEC staff will consult with the relevant CESR Member's staff on that matter if i) it appears to the SEC staff that the matter under IFRS is novel or unprecedented; ii) the issuer informs SEC staff that the staff's view on the IFRS matter is in conflict with a position of the relevant CESR Member; or iii) it appears that the SEC staff view on the IFRS matter could result in a significant change to the financial statements. These consultations will enable the SEC staff to understand and give full consideration to the relevant CESR Member staff's view on the application of IFRS to the matter. These consultations will be undertaken for the purpose of facilitating a solution that contributes to consistent application of IFRS by issuers³.
 2. As part of its consideration of a US-dually-listed/registered issuer's request to a CESR Member for a formal consultation on the application of US GAAP to a matter affecting financial statements not yet filed with the CESR Member, the CESR Member's staff will consult with the SEC staff on that matter. In addition, as part of its evaluation of a US-dually-listed/registered issuer's application of US GAAP to a matter affecting financial statements previously filed with a CESR Member and following consideration of the issuer's responses, the CESR Member's staff will consult with the SEC staff on that matter if i) it appears to the CESR Member's staff that the matter under US GAAP is novel or unprecedented; ii) the issuer informs the CESR Member staff that the staff's view on the US GAAP matter is in conflict with a position of the SEC; or iii) it appears that the CESR Member staff view on the IFRS matter could result in a significant change to the financial statements. These consultations will enable the CESR Member's staff to understand and give full consideration to the SEC staff's view on the application of US GAAP to the matter. These consultations will be undertaken for the purpose of facilitating a solution that contributes to consistent application of US GAAP by issuers⁴.
- D. MEETING SCHEDULE: Beginning in the second quarter of 2006, the SEC staff and CESR-Fin will meet at least semiannually as part of the regular SEC-CESR dialogue to discuss these matters, with additional meetings as needed and agreed to review developments and progress. In particular, *ad hoc* meetings, telephone calls and other communications will be arranged as necessary to

³ In the event that the SEC staff and relevant CESR Member's staff, after consultation, ultimately reach different views on the application of IFRS to a particular matter, the SEC staff and relevant CESR Member's staff will consult regarding any communications regarding the matter to be made to the relevant issuer or others, as appropriate.

⁴ In the event that the CESR Member's staff and SEC staff, after consultation, ultimately reach different views on the application of US GAAP to a particular matter, the CESR Member's staff and SEC staff will consult regarding any communications regarding the matter to be made to the relevant issuer or others, as appropriate.



discuss technical issues arising in the course of the SEC staff's and CESR's respective independent reviews of issuer IFRS and US GAAP financial statements.

II. Modernisation of financial reporting and disclosure

- A. GOAL: Evaluation and identification of Information Technology (IT) solutions for disclosure and electronic storage of corporate information (including financial information).
- B. NEXT STEPS: SEC staff and the relevant CESR expert groups⁵ will exchange views on policies favoring the use of technology and IT networks in disclosure/storage of financial information, including the use of interactive data.
 - 1. *Information sharing regarding current IT developments:* In the 2nd half of 2006 and continuing as appropriate, the SEC staff and the relevant CESR expert groups will schedule additional videoconferences in which the relevant experts will update each other on regulatory developments in relation to IT projects related to electronic disclosure/storage of financial information.
 - 2. *Use of interactive data software:* In the 2nd half of 2006 and quarterly thereafter, SEC staff and the relevant CESR expert group will meet via videoconference to exchange views and, where relevant, compare experiences with interactive data software, and potentially to coordinate feedback to those responsible for writing interactive data taxonomies and to software developers.
 - 3. *Joint incentives to issuers to use interactive data software:* In the 2nd half of 2006 and quarterly thereafter, SEC staff and the relevant CESR expert group will explore the possibility of developing common incentives to offer to issuers that voluntarily file reports using interactive data.
 - 4. *Future possible discussion:* Once fundamental strategic choices have been made in the US and in the EU on general architectures for storage of corporate information, one topic of future discussion will be possible forms of linkages between the SEC's EDGAR and European storage mechanisms.

⁵ CESR will in these discussions be represented by the Transparency Expert Group, CESR-Tech and the secretariat.



III. Regulatory Platforms for Risk Management

- A. GOAL: Sharing of experiences with developing and implementing platforms for risk management by securities regulators.
- B. NEXT STEPS: Staff at the SEC and CESR will exchange views on their approaches to risk-based regulation. Initially, meetings will be held between the SEC and individual CESR Members, where the SEC and the different CESR Members shall be represented by their respective risk experts. The CESR secretariat will also be represented in these meetings.
 - 1. *Discussion of risk methodology:* Staff of the SEC and CESR will discuss methodology and tools for prioritising risks they confront as regulators. CESR staff will discuss its tool for distinguishing risks that it is developing for the purposes of prioritising its work. Also methodologies of individual CESR Members will be part of these discussions. The discussion will also cover the correlation of risk ranking with outcomes to determine whether the risk methodology is effective.
 - 2. *Discussion of actual risks:* The staff of the SEC and CESR will discuss risks that have been identified and ranked as high-priority, and the methodology that has resulted in the categorisation of these risks as high-priority. Once common risks are identified, the SEC and CESR will discuss approaches to managing those risks.