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IOSCO urges public companies to clarify use of accounting standards

The International Organization of Securities Commissions (IOSCO) has today published a statement urging publicly traded companies to provide investors with clear and accurate information on the accounting standards used in the preparation of their accounts.

Michel Prada, Chairman of the IOSCO Technical Committee, said:

“IOSCO is concerned that, with the convergence of global accounting standards, investors may assume that all company accounts are generally comparable, even when they are prepared in accordance with quite different generally accepted accounting principles (GAAPs). This commonly occurs where national standards assert that they are based on but do not fully implement International Financial Reporting Standards (IFRS).

“In order to mitigate against the risk of investors making investment decisions without a full understanding of the bases of financial statements, we are recommending that all publicly traded companies include information which clearly explains the basis on which their accounts have been prepared.”

Companies preparing annual and interim financial statements on the basis of national standards that are modified or adapted from IFRS should include at least the following statements:



1. A clear and unambiguous statement of the reporting framework on which the accounting policies are based;
2. A clear statement of the company's accounting policies on all material accounting areas;
3. An explanation of where the accounting standards that underpin the policies can be found;
4. A statement that explains that the financial statements are in compliance with IFRS as issued by the IASB, if this is the case; and
5. A statement that explains in what regard the standards and the reporting framework used differs from IFRS as issued by the IASB, if this is the case.

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

IOSCO Technical Committee

Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements

6 February 2008

As accounting standards around the world continue to converge and as cross border capital market activity increases, it can no longer be assumed that investors will automatically be familiar with the jurisdiction in which an issuer company is based and the accounting standards that have been used. Furthermore, there may be a growing tendency for investors and other users of financial statements to assume that all accounts are generally comparable, even when they are prepared in accordance with very different generally accepted accounting principles (GAAPs).

This tendency exists particularly in circumstances where national standards assert that they are based on but do not fully implement International Financial Reporting Standards (IFRS), i.e., when IFRS have been modified or adapted to the particular circumstances of a national market. The IOSCO Technical Committee is concerned that investors run the risk of making investment decisions without a full understanding of financial statement data if they are not fully aware of the basis on which financial statements are prepared, and of the accounting standards that underpin the company's policies.

The risk of misunderstanding can be mitigated by making sure that the information regarding the company's accounting policies and the reporting framework on which they are based is fully and appropriately described in the financial statements and that investors and other users can readily get access to the accounting standards and other authoritative literature which underpin the policies.

To that end the Technical Committee recommends that all annual and interim financial statements that are prepared on the basis of national standards that are modified or adapted from IFRS and published by publicly traded companies should include at a minimum the following statements, (which should be tailored to the company's circumstances and the markets in which securities may be traded):

1. A clear and unambiguous statement of the reporting framework on which the accounting policies are based;
2. A clear statement of the company's accounting policies on all material accounting areas;
3. An explanation of where the accounting standards that underpin the policies can be found;
4. A statement that explains that the financial statements are in compliance with IFRS as issued by the IASB, if this is the case; and
5. A statement that explains in what regard the standards and the reporting framework used differs from IFRS as issued by the IASB, if this is the case.

NOTES FOR EDITORS

1. The IOSCO Technical Committee Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements is now available on its website www.iosco.org.
2. IOSCO is recognized as the international standard setter for securities markets. The organization's wide membership regulates more than 90% of the world's securities markets and IOSCO is the world's most important international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and the Organization's membership is steadily growing.
3. The Technical Committee, a specialised working group established by IOSCO's Executive Committee, is made up of fifteen agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to



coordinate practical responses to these concerns. Mr. Michel Prada, Chairman of the Autorité des Marchés Financiers (AMF) of France, currently acts as Chairman of the Technical Committee.

4. IOSCO aims through its permanent structures:

- to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- to exchange information on their respective experiences in order to promote the development of domestic markets;
- to unite their efforts to establish standards and an effective surveillance of international securities transactions;
- to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.



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