3 June 2003

Mr. Fabrice Demarigny
The Committee of European Securities
Regulators
17 Place de la Bourse
75082 Paris Cedex 02
France

Re: CESR's "Advice on Possible Level 2 Implementing Measures for the Proposed Prospectus Directive" and the "Addendum to the Consultation Paper" (Ref. CESR/02.185b)

Dear Mr. Demarigny:

The European Advocacy Committee ("EAC" or the "Committee") of the Association for Investment Management and Research ("AIMR")[1] is pleased to comment on The Committee of European Securities Regulators' ("CESR") consultative paper on *Possible Level 2 Implementing Measures for the Proposed Prospectus Directive* and the *Addendum to the Consultation Paper* (the "Addendum")(collectively the "Proposal" or the "Directive"). The EAC is a standing committee of AIMR charged with reviewing and responding to major new regulatory, legislative, and other developments that may affect investors, the investment profession, and the efficiency and integrity of European financial markets.

In view of CESR's desire for comments that provide general overviews of its proposals, together with our concerns about the details of those proposals, we have separated our response to this Proposal into three parts. The first, this letter, presents our comments on the primary issues and overriding themes relating to the Proposal. In Appendix A, we provide comments on (i) questions asked in the Proposal, (ii) and (iii) comments about specific proposals contained within the various Annexes. In Appendix B, we provide responses to questions and issues raised in the Addendum.

General Comments

[1] The Association for Investment Management and Research is a global, non-profit organization of nearly 64,000 investment professionals from more than 116 countries and territories. Through its headquarters in the U.S. and 125 Member Societies and Member Chapters worldwide, AIMR provides global leadership in investment education, professional standards, and advocacy programs.

The Committee supports CESR's use of a building block approach to the Directive. In particular, the Committee agrees with CESR's decision to create a separate building block for derivative instruments and a separate building block for the securities note. This structure should provide sufficient direction for Competent Authorities to create uniform rules for markets throughout the European Union that will ensure investors across the European Union have the information they need in an easy-to-read and easy-to-comprehend format.

Need for Common Building Block

While supportive of the overall direction and scope of the Directive, the Committee believes CESR should not make distinctions between the information needs of equity issuers and debt issuers (together with issuers of derivatives securities, referred to as "Issuers"), regardless of whether the investors are individuals or institutions. Therefore, the Committee urges CESR to adopt a uniform approach to disclosures for Issuers of equity, debt and company-specific derivative securities, and to apply the same structure created for equity issues to prospectuses of the other company-specific offerings.

The reason we make this suggestion is that investors in company-specific securities need the kind of information proposed in the equity building block, regardless of their ultimate investment vehicle. For example, major transactions – acquisitions, divestitures, and new debt or equity offerings – may have as much effect on the ability of a company to cover its debt service as it will have on overall profitability and share valuation. Consequently, debt investors need the same kind of pro-forma information that the Proposal envisions for equity investors. Likewise, while information about the previous activities of members of management may help equity investors determine a company's growth prospects, that same information may help investors in debt securities determine management's attitudes toward making prompt principal and interest payments. These are just two examples, but they provide some indication of how much of the disclosures proposed in Annex A are useful and necessary for debt investors, as well.

Statement of Changes in Equity

Under section VII.A of Annexes A, I, 1, 2, 3 and 5, the Proposal gives Issuers the ability to show either (i) "changes in equity other than those arising from capital transactions with owners and distributions to owners; or (ii) all changes in equity (including a subtotal of all non-owner items recognized directly in equity." While the Proposal is in accordance with International Accounting Standard 1 (IAS 1), the Committee feels strongly that allowing companies to split the factors creating changes in stockholders' equity does not achieve the goal of full disclosure that investors need.

The Committee therefore believes that CESR should require Issuers to report all changes in equity within the statement of changes in equity.

Supplementary Industry Building Blocks

While we generally support requiring additional disclosures by specific industries, we believe that CESR should require these as supplemental disclosures, not as replacements for the basic building block. That is, we believe that all firms should be required to report under the same uniform system – or building block – with such additional supplementary disclosure as may be needed for users to properly interpret the information. Similar transactions and events should be reported similarly regardless of the type of company. If not, that comparability and consistency of accounting across all firms will be lost.

For example, it appears from a review of Annex [3] in the Addendum, that banks are permitted to provide investors with significantly less information than other equity Issuers. The Committee feels strongly that investors in bank-issued securities need and are entitled to the same kinds of information investors in other industries receive.

For example, Annex [3] does not require bank Issuers to provide information on capital expenditures in the same way as required in other Annexes. However, investments in computing systems are at least as important for the long-term health and profitability of financial institutions as they are for automobile manufacturers.

Moreover, the Committee believes CESR should require bank Issuers to supplement the basic equity building block information with supplemental information and insights about the institutions' loans, deposits, funding methods, derivatives positions, and other positions and transactions.

Need for Flexibility in Dealing with Derivatives

While we urge CESR to adopt uniform rules for company-specific securities, we encourage CESR to grant Competent Authorities in local markets flexibility in dealing with non-specific or guaranteed derivatives. The Committee believes the structured and adaptable nature of these instruments requires regulators to quickly adapt to impose new information requirements on Issuers. Such requirements could then be reviewed for adoption in other markets when the issues arise.

Equity Securities Building Block

Definition

In different places in the Proposal, CESR uses the terms "material" or "significant" to describe factors influencing Issuers. The Committee would like CESR to provide these companies with a clearer understanding of what is meant by these terms. The Committee makes this request, even though it believes the use of specific "bright-line" amounts to determine materiality can lead to problems. However, the Committee fears that without such guidance Issuers will fail to disclose important and relevant information by claiming it is immaterial or insignificant.

To accommodate the need for greater clarity without dictating numbers, the Committee suggests that CESR require Issuers to consider both quantitative and qualitative factors in their determinations of materiality. To achieve this goal, CESR could consider defining materiality as any matter that may affect investors' decisions about relative value. Such a definition would include not just those matters accounting for a percentage of total assets, total revenues or net income – no more than 5% – but also events or matters that will influence the return or value of the company, its shares, a division, subsidiary or investment.

Pro Forma Numbers and Forecasts

Pro-Forma Reporting Benefits

In general, the Committee supports the Proposals in Annexes A and B requiring Issuers to provide pro-forma information when their operations have undergone "significant gross change." Indeed, pro-forma disclosures about securities offerings are the kinds of situations – but, by no means the only ones – where these statements can improve investors' understanding. Such information also can help investors understand the effects of employee stock option plans, mergers, divestitures or other transactions on companies' financial condition and operations.

Nonetheless, the Committee does not believe CESR should permit local Competent Authorities to require Issuers to provide additional detail on company-specific securities. Rather, the Committee believes that the Directive should include all contingencies under which Issuers would have to provide pro-forma statements and require them as part of the basic company-specific securities building block.

Requiring pro-forma information in this manner would achieve uniform treatment across all jurisdictions, while providing investors with the highest quality disclosures possible. Furthermore, such a requirement would add certainty to the process of marketing securities to public investors and, ultimately, reduce the cost of the process.

Potential Confusion from Auditors' Opinion

The Committee also is concerned that the Proposal to require auditors to provide opinions on whether the pro-forma information is "properly compiled on the basis stated," and that the basis is consistent with the Issuer's accounting policy, may create confusion for investors. Specifically, the Committee is concerned that without explicit warnings that the pro-forma information or forecasts were not audited, such statements may give users of prospectuses ("Users") an inaccurate perception of the accuracy and verifiability of such reports.

For example, a provision in section IV.D.3.b of Annex A, which calls for companies to include a statement from their auditors stating that forecasts are prepared using the same accounting basis as audited statements, may have the same effect. Without a warning, some users may misconstrue this as an indication of the implied accuracy of the forecast.

To avoid potential confusion, the Committee urges CESR to require Issuers to do two things:

- first, state clearly that the information is unaudited; and
- second, present a reconciliation between the pro-forma or forecasted information and the audited financial statements, using the same line items as used in the most-recent audited report.

By requiring Issuers to do these two things, users will have the kind of information envisioned by the Directive, but without the confusion about its accuracy and reliability.

Assumptions Disclosure

The Committee agrees with the Proposal's requirement that Issuers disclose the assumptions underlying their forecasts or pro-forma reports. In general, this information is valuable in helping investors verify the accuracy or reliability of such statements.

Need for Safe Harbour

To encourage companies to provide forecasts of future performance, the Committee suggests that CESR grant Issuers a safe harbour for such information. The protection should apply only so long as the information is not knowingly false, incomplete or inaccurate.

Significant Shareholders and Insiders

Shareholder Influence

The Committee does not support the Proposal in Annex A, section VI.B., based on IOSCO IDS reference VII.B., that "shareholders beneficially owning a 10% interest in the voting power of the company are presumed to have a significant influence on the company." In part, this view is based on the Committee's views discussed in the definition of materiality above. Moreover, recent real-world examples have proven that shareholders can exert significant control with as little as 5% of the voting interests. Just last year a 5% holder in Vivendi Universal forced changes on the company's management and strategic direction.

To ensure such owners are covered by the Directive, the Committee suggests that CESR view shareholders who have significant influence as:

> *those who own at least 5% of the shares of a company or are able to exercise control and influence through other means.*

These other means could include agreements between investors to vote a certain way, or other, less visible means of obtaining voting control.

Related-Party Transactions

Under the Proposal, companies would have to disclose transactions with shareholders having significant influence only if the dealings "are material to the company or the related party." The Committee is concerned this language will provide sufficient legal flexibility to allow companies and related parties to avoid disclosing such transactions.

Consequently, the Committee suggests CESR redraft the first sentence under item 1 of section VI.B of this Building Block – and as it would relate to all company-specific securities – to state:

> *The Company must provide a list of all transactions between the company and related parties, together with a description of their nature, size and purpose, that it has completed or proposed in the preceding or current financial year which have affected, or may affect, the financial condition or operations of the company, one or more of its divisions or subsidiaries or investments."*

Insider Loans

The Committee also encourages CESR to require companies to disclose the due dates and terms of any loans they have made to major shareholders, key personnel or directors, as described under paragraph 2 of section VI.B. Such information will provide investors with information about the duration of such loans and act as a deterrent to open-ended insider loans, which may be compensation masquerading as loans.

Interim Financial Statements

It is the Committee's view that interim financial statements should provide the same degree of detail and transparency as provided in annual reports. Interim reports should include the same kind of detailed information about revenues, expenses, assets, liabilities, and shareholders' equity, together with supporting supplementary disclosures and explanatory notes, as is provided in year-end audits. The Committee believes investors need this interim information to enable them to make informed investment decisions about securities offerings. To permit firms to provide "condensed" information would eliminate many of the benefits European investors stand to gain from requiring quarterly financial reporting.

To this end, the Committee urges CESR to amend the second sentence in section VII.H.2. to:

> *"…Each of these statements must contain the same level of detail, including line items and explanatory notes, as was used in the latest audited financial statements in describing the components of assets, liabilities and equity (in the case of the balance sheet); revenue and expenses (in the case of the income statement) and cash flow items (in the case of the cash flow statement)…"*

As part of the disclosures contained in the notes to the financial statements for both annual reports and interim reports, the Committee encourages CESR to require companies to provide a statement breaking down their activities, financial performance, and assets and liabilities both by major business activities and by geography. Such information helps investors understand geographic sales concentrations and whether exchange rate shifts may affect future performance.

Debt Securities Building Block

As described above, the Committee believes companies offering debt securities should have to provide the same kind of financial, operational and corporate governance information to investors as Issuers of equity securities are required to provide. The Committee also reiterates the positions described above regarding the need for:

- uniform rules covering company-specific debt, equity and derivatives securities offerings;
- safe harbours for forecasts and pro-forma reports;
- disclosures about assumptions used in forecasts and pro-forma reports; and
- statements about the unaudited nature of such forecasts and pro-forma reports.

Wholesale Debt

The Committee's views on information needs for debt securities are equally applicable to wholesale and retail debt Issuers, and it disagrees with the proposal to provide investors in wholesale debt issuers with less information than is required of retail debt issuers. Just because investors can make larger investments does not imply that they are necessarily aware of all of the issues affecting specific securities. Given the larger investment amounts, it is imperative that they receive the same amount and types of information they can expect from smaller Issuers.

In fact, by requiring Issuers to provide all the information required for other securities issues, it is likely that European markets will see an increase in investor interest in the wholesale debt market. By having the information available through prospectuses, investors can focus their efforts on analyzing the securities rather than working to obtain basic information.

The Committee believes CESR should consider eliminating or, at the very least, revising the last sentence of section IV.B.3.(a) of Annex I, that states: "A profit estimate may be subject to assumptions only in exceptional circumstances." Indeed, any estimate is automatically based on assumptions. The Committee is concerned that if this sentence is left unaltered, it may deter Issuers from providing forecasts.

Asset-Backed Securities

The Committee agrees with CESR's assertion that asset-backed securities ("ABS") deserve their own building block. Besides the promise to pay interest and principal on a schedule, they have little in common with traditional debt securities. Everything from the source of payments to the relationship between the Issuer and the underlying assets is non-standard.

However, the Committee believes the Proposal's ABS building block does not provide sufficient information to help investors make informed decisions. The Committee specifically believes that CESR should require Issuers to provide information about:

- the structure of the deal;
- historical performance of similar or related transactions; and
- financial and legal information about the entities involved in the offering, namely the Issuer (typically a special-purpose entity), the entity managing the assets (the "Servicer") and the firm creating the assets (the "Originator").

The Structure. The Addendum covers many of the issues relating to the structure of the transaction. For example, Annex 10, Section B.2.12 requires a description of any inter-relationships between the company that originates the assets with the Issuer and the company that services the assets or the deal's guarantor. Investors need to understand these inter-relationships, together with the financial resources and performance of the various entities to determine the likelihood that bankruptcy of one of them may disrupt interest and principal payments and reduce the expected yield. The Proposal achieves this.

Likewise, the Committee supports CESR's proposed requirements under Section D of Annex 10. Investors must understand the structure of the offering and whether it will become part of a revolving trust. A stand-alone, single-issue offering must rely solely upon the performance of the assets pledged to the transaction whereas an offering that becomes part of a revolving trust can often rely on the assets and income from previous and future offerings to support the current issue.

Finally, investors will want to know if there are any insurance arrangements. These are covered in Annex 10 of the Addendum, section B.2.10. These arrangements help to ensure certain classes of investors receive their interest and principal payments on time. They also serve as a watchdog for investors to ensure that the Servicer fulfills its obligations.

Historical Performance. The ABS Building Block does not provide investors with sufficient financial and operational information needed to make good decisions. They need to know how similar assets generated by the Originator are performing or have performed in the past.

To overcome this oversight, the Committee believes CESR should require ABS Issuers to provide at least the following performance measures:

- weighted-average yield of the assets
- loan loss experience, including information about both the frequency and the severity of loss
- delinquency rates
- prepayment experience
- servicing costs
- surplus income
- repayments

All of these measures help investors determine what yield they can expect from ABS offerings and the performance trends of current or past offerings from the same Issuer. Together, this information provides useful insights into the Originator's lending style and the Servicer's asset management abilities.

While this information is needed for all types of Issuers, its source may depend on whether the Issuer or an affiliate has ever issued ABS before. If the Issuer is offering asset-backed securities backed by a specific asset class for the first time, then the information should come in the form of performance data on similar loans generated and owned by the Originator. For those Issuers that have securitized similar assets before, the source of the data should be performance reports relating to those prior offerings.

The Entities. As described above, the entities involved in ABS offerings play a significant role in the ultimate performance of the securities offered. For example, the Originator's financial condition and prospects may determine whether Investors could face a decline in the quality of the assets as a result of the firm's lending policies. Likewise, the financial condition of the Servicer can affect the ultimate timing and amounts of interest and principal payments to bondholders.

As a result of these issues, the Committee encourages CESR to ensure issuers provide financial information about the entities involved in the issuance and maintenance of ABS.

Derivatives Building Block

Based on the Proposal, the Committee is of the view that the proposed derivatives building block is applicable only for exchange-traded derivatives and for standardized over-the-counter ("OTC") instruments sold directly to investors of all types. These instruments typically have standard, pre-packaged terms and conditions that are set by exchanges or Issuers and offered in amounts that are affordable for retail clients.

It is the view of the Committee that the Directive should cover these instruments because the buyers or sellers of these derivatives do not participate in the creation of the contract. As a result, they need additional information and disclosures to help them understand the risks and rewards of the instruments they are offered.

Regardless of the type of instrument involved, investors will have some basic informational needs from a prospectus. The following information is a nonexhaustive list of the information needed to analyze derivatives:

- contract size
- expiration date
- historical liquidity trends
- historical pricing trends
- historical trading volume
- historical volatility
- instrument characteristics
- price determination methods
- price limits, if any
- risks
- settlement features
- implied volatility

- underlying instrument
- information about the relevant counterparty
- tick size
- strike price and premium for options

Differentiation

As stated above, the Committee believes CESR should require Issuers of company-specific derivatives to provide the same information as it requires Issuers of equity and debt securities. This belief is supportive of CESR's recognition that a one-size-fits-all strategy for derivatives is not viable. Investors have different information needs based on whether they invest in company-specific instruments, index-linked derivatives or commodity-linked products, while regulators need a flexible system that will allow them to require specific disclosures tailored to the specific instruments involved.

In the Proposal, CESR suggests differentiating between derivative instruments that offer a "guaranteed return" and those that do not. By guaranteed return, the Committee recognizes CESR's explicit statement that this does not imply that a third party – presumably a governmental entity – is guaranteeing the return. By implication, therefore, the Committee assumes that guaranteed returns in this sense imply instruments in which the Issuer – a company, an exchange or some other private counterparty – assumes the primary risk for all or a portion of loss through some type of minimum return or cap on losses. In return, they collect a fee from the investors, often in the form of a premium. Furthermore, the Committee assumes that by non-guaranteed returns, the Proposal is referring to instruments in which all risks and rewards flow to the investors.

If our understanding of these breakdowns is correct, than the Committee concurs with the distinctions as far as they go. Indeed, the decision-making processes related to the two proposed classes are different.

However, the Committee believes there are other, equally important and valid distinctions based on the instruments' fundamental characteristics. In particular, the Committee suggests further dissecting non-guaranteed derivatives based on whether the instruments are company or security specific, or whether they are linked to an index or pool of securities. Doing so would create the following types of derivative instruments:

- Guaranteed-Return Derivatives
- Non-Guaranteed Derivatives
    - Company- or Security-Specific Derivatives
    - Commodity Derivatives
    - Index Derivatives

Information Requirements

Guaranteed-Return Derivatives.

Investors in these instruments will place a high degree of value on information about the counterparty to the transaction – the entity issuing the loss protection. In particular, investors will need to know about the financial condition and performance of the counterparty to determine whether it has the financial resources to fulfill its obligations, and to analyze whether it has sufficient prospects to ensure future performance.

Non-Guaranteed Derivatives.

While counterparty information is also important to investors in non-guaranteed instruments, these investors will focus most of their attention on the risks and rewards of the instrument and the underlying asset or index. As a result, they will need information on the factors that will determine the overall performance of the derivative and the asset or index to which it is linked. These information needs are described below.

Company- and Security-Specific Derivatives. Investors in these derivative securities would benefit directly from the Committee's request for uniform information requirements for all company-specific securities. The information is needed to assess the expected performance of the underlying company.

Commodity Derivatives. Likewise, investors in commodity- and security-specific derivatives will need information about the specific commodity or security to make an informed investment decision. Included in this category are such derivatives as futures and options on currencies, government bonds, interest rates, gold, oil, corn and other commodities.

In particular, investors will need to know the factors that affect the prices of these instruments. They will need information about the correlation between changes in these factors and the effect on the derivative's price. For commodity-specific instruments, investors also will want to know supply levels for those items and prospects for future production and consumption.

Index-Linked Derivatives. It is unrealistic to expect Issuers of index-linked derivatives to provide full financial and operational disclosures on each of the component companies. To do so, Issuers would have to gather information on as many as 500 different companies, a process that would likely add significantly to the cost of the offering. Nor is it likely that such a requirement would have much benefit for investors, in part because the forces affecting these indexes are different from those affecting the performance of any one component. While the value of the index is affected by the prices of its individual components, it does so only as part of the aggregate index. It also is unlikely that investors would have the time or, realistically, the need to review the finances and strategies of all companies comprising an index-linked instrument.

More relevant to investors in index-linked derivatives is information about the instrument's risk and return characteristics. Beyond the information needs described above, investors in these products would also need information such as the following:

- industry/product composition
- correlations between the index and other indices
- links or reference to information about components of the index
- performance of the derivative versus other index benchmarks
- macro-economic events affecting the index and its components, such as
    - employment trends
    - inflation data
    - interest rates
    - money supply
    - overall business activity

Incorporation by Reference

In its Level 2 Advice in paragraph 280, it appears that CESR is proposing to permit companies to incorporate by reference annual and interim financial statements, together with auditor's reports. This advice counters information presented elsewhere in the Directive and the Annexes – particularly in Annex A – where CESR proposes to require companies to include up to three years of financial information, together with interim and pro forma financial statements. It also proposes to limit incorporation by reference only to previously published documents.

The Committee believes that CESR should reduce confusion of these different positions by requiring Issuers to include three years – and up to nine months for interim periods – of financial statements and auditors' reports in prospectuses. This information is extremely valuable to investors and to force them to request copies of financial information from Issuers could cause investment delays that could limit gains and, ultimately, reduce the competitiveness of EU markets.

Availability of the Prospectus

In its 30 September 2002 letter regarding the Market Abuse Directive, the Committee suggested that CESR consider proposing a central repository to disseminate financial information through the appropriate competent authority in each Member State. The Committee reiterates that position here, and urges CESR to consider such a proposal in this Directive.

Such a centralized repository would provide a number of benefits to investors across the world, thereby enhancing the global competitiveness of EU markets. Further, by requiring issuers to file prospectuses both in the language of their headquarters and in English, such a repository would create an efficient mechanism for harmonized, simultaneous and broad dissemination of all information across all national boundaries within the European Union and beyond, and in the languages investors understand. It also would ensure standardization not only of filing requirements of Issuers, but also of the product that is available to investors.

Investors also would have a single location in their own jurisdictions where they could collect the information in whatever form they wish. And finally, it would give Issuers a single location

for submitting their disclosures, providing immediate disclosures to investors in all Member States and beyond. While it may cost Issuers more to translate filings into different languages, they will benefit from filing in one location and from lower costs of capital resulting from a wider pool of investors.

Depository Receipts

In general, the Committee supports CESR's Proposals for depository receipts ("DRs"). Indeed, the building block for these securities mirrors, in large part, the information requirements for EU-based equity Issuers.

The Committee also agrees with the inclusion of information about the depositories responsible for holding the shares underlying these DRs. While the Committee would prefer to have financial information about the depository included in the prospectus, inclusion of information about the institution providing these services should give curious investors enough information to obtain such reports on their own.

The Committee was confused by the contents of Annex 5, however, and why they differ from those of Annex A. In particular, Annex 5 includes information specific to the securities, the offering and the institutions involved in their placement. It is unclear to us why similar information is contained in the Securities Note for equity securities and in the Building Block for DRs.

Closing Remarks

The EAC appreciates the opportunity to comment on the CESR consultative paper on *Possible Level 2 Implementing Measures for the Proposed Prospectus Directive* and the Addendum. If you or your staff have questions or seek amplification of our views, please feel free to contact James C. Allen, CFA, by phone at 1.434.951.5558 or by e-mail at james.allen@aimr.org.

Sincerely,

/s/ Frederic P. Lebel

Frederic P. Lebel, CFA
Co-Chair
European Advocacy Committee

/s/ James C. Allen

James C. Allen, CFA
Associate, AIMR Professional Standards & Advocacy

Appendix A

Replies to Specific Questions in the Consultation Paper,

And Specific Comments on Annexes

Equity Securities Building Block

Para. Comment

44. Annex A – Specific Comments

I.C.2 The Committee suggests that CESR remove the phrase "if material" from this section. It is the Committee's view that by giving management the option whether to disclose the reasons for auditor resignation, it will result in few disclosures and ultimately serve to keep investors uninformed about such matters.

II.A.3. The Committee believes the summary information required in this section should include data on depreciation and amortization expense, as well as information about the Issuer's capital expenditures over the same three-year period.

III.B.1. The Committee believes companies should include information about any acquisitions or mergers that have occurred during this same period.

III.C.5 and 6. The Committee feels that prefacing these two items with the phrase "If material" might result in some companies determining many things are not material and, therefore, result in less-than-adequate disclosure. As such, the Committee suggests leaving out the phrase "if material" in both instances.

IV.B.2. The Committee has the same objections to use of the phrase, "If material," at the beginning of this section as it has to its use in sections I.C.2, III.C.5. and III.C.6.

IV.C The Committee has similar concerns about the use of the phrase, "Where material," in this section as it has about the use of the phrase "If material," in earlier sections described above.

IV.D.3.a. The Committee suggests CESR remove the sentence at the end of this item that states: "A profit estimate may be subject to assumptions only in exceptional circumstances." It is the Committee's view that assumptions are necessary to create profit estimates in virtually every circumstance. Removal of this language should also occur in section IV.B.3(a) of Annex I.

V.A.1 The Committee suggests that details of receiverships, compulsory liquidations, et al, where the relevant person was a director with an exclusive function, should cover the 24 months preceding the events, instead of 12 months, as proposed. Bankruptcy is rarely the result of a sudden change in fortunes, but a process that builds over the course of many months. As such, extending the disclosure period to 24 months will provide investors with an indication of the relevant person's relative involvement

during this period and, indirectly, their ability to perform as a director of the company in question.

V.B.1 The Committee believes disclosure of compensation should be required regardless of whether the company's home country requires such disclosure. Such disclosures provide investors with insight into the motivations and rewards afforded management and are helpful in helping them gauge whether investors are getting appropriate value from senior management. It also can help them determine whether the board of directors – where applicable – is doing an effective job of monitoring management. Such disclosures also should provide the value of those options at grant date.

V.D.1 The Committee believes Issuers also should provide the value of options granted to persons listed in V.B. as of their grant date.

VI.A.1.a The Committee suggests that CESR also require companies to report the voting percentage of such ownership positions in addition to the amount of such person's interest.

VI.B See comments in the letter under ""Specific Comments: Equity Building Block: Significant Shareholders and Insiders: Related-Party Transactions" beginning on page 5.

VII. The Committee suggests that CESR state that Issuers are required to provide full audited financial statements that are prepared pursuant to generally accepted accounting principles, as proscribed by either the International Accounting Standards Board or the Financial Accounting Standards Board. Such a requirement could eliminate the need for a more detailed description in the Directive.

VII.D The Committee believes CESR should mandate that Issuers provide consolidated reports, and should provide exemptions only for those companies that do not have corporate structures that call for consolidated reports. Moreover, CESR should require companies that report consolidated accounts also to provide own accounts. Such information enables analysts and investors to assess the performance of the different segments of the company and to determine how well the enterprise as a whole is performing.

VII.F.3 The Committee believes that if Issuers are going to use materially adjusted financial data from audited accounts, that the Issuers also should be required to reconcile the extracted information to the audited accounts.

VII.H.2 See comments in the letter under "Equity Securities Building Block: Interim Financial Statements" on page 6.

VIII.A.6 The Committee believes provisions in this item relating to options held by management, employees, directors or major shareholders should require that the top five management recipients of such options are named, together with information about the

number of options such individuals hold, the exercise prices for those options, their expiration dates and valuations as of the grant date.

VIII.C The Committee urges CESR to include under material contracts those that have the potential to become material under normal trading or business conditions as of the date of the document.

47. The Committee supports CESR's approach of requiring disclosure of risk factors.

51. See comments on pages 4 and 5 of the letter under "Pro Forma Disclosures and Forecasts."

52. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

53. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

55. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

64. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

65. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

73. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

85. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

86. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

87. See comments on pages 4 and 5 of letter under "Pro Forma Disclosures and Forecasts."

89. The Committee believes disclosures about senior managers and directors who have presided over, or are employed by, companies that went bankrupt, or were the subject of public criticism, provide important insights into the capabilities of management. Moreover, if the information is in the public domain – the courts or media – it should not present a problem regarding privacy.

91. The Committee believes the additional proposed disclosures – disclosures about the sale of shares to other investors and whether the company has taken measures to limit the control of controlling shareholders – about controlling shareholders should be required.

93. The Committee believes Issuers should have to put on display all documents referred to in the prospectus. It is the investor's responsibility to decide what information is valuable and how much information is too much. It is the responsibility of the companies to provide the information and ensure it is fair, complete and accurate.

95. The Committee believes the information required in the securities notes and prospectuses provided for in Annexes D,E, F, G and H – property company securities note; mineral company registration and securities note; investment company registration; and scientific research-based company registration, respectively – should include pricing trends for each market.

96. The Committee believes CESR should consider supplementary industry-specific information for financial services and insurance companies.

100. The Committee agrees with the specific disclosure requirements for start-up companies.

101. Information about products and business plans are relevant, necessary and important. But the Committee is concerned about the value of supplementary expert opinions. In part, this concern is because authors of such reports may have conflicts of interest. As such, the Committee suggests CESR should require Issuers providing such opinions to disclose any relationship between the opinion's author and the Issuer, including any payments made by the Issuer for the subject opinion, why the author is an expert and why the author is independent from the Issuer.

102. The Committee supports CESR's proposals regarding disclosures of restrictions on holdings by directors and senior management through the core building block.

103. Information about the risk factors, seasonality, sources and pricing and marketing channels of SME Issuers all are relevant information for investors.

105. The Committee disagrees with the proposal to permit SMEs to provide just two years of selected financial information under section II.A, except in those cases where the SME has not been in operation for three years. This information is important because such companies typically are reliant upon a narrow range of products, markets and customers. As a result, the frequency of failure, if not the severity of failure, is often greater than for larger, more diversified enterprises. To prevent the possibility that investors will have to make uninformed decisions, the Committee suggests that CESR propose requiring SMEs to provide three years of financial information in the same manner required of larger firms. If such a requirement is too burdensome for such Issuers, competent authorities should reconsider admitting them to trading markets.

106. The Committee believes SMEs should provide at least three years of historical information in all cases.

107. The Committee believes SMEs should also provide information about their business plans and primary investments.

111. The Committee supports CESR's proposal to require property companies to provide valuation reports as set out in Annex D.

112. While the Committee is in favor of receiving updated information as frequently as possible, it is unsure of the reason for the Proposal stipulating a 42-day requirement. Nonetheless, the Committee does believe CESR should require such companies to update the listing of properties for any changes that have occurred since the date of the latest valuation.

113. The Committee believes property companies should update such information at least annually and more frequently in cases of extraordinary change.

116. While expert reports required of mineral companies are indeed useful, the Committee is concerned that it is unlikely that a truly independent expert would have access to all the needed information. As such, the Committee believes the Issuer should disclose any relationship between itself and the expert, including any payments made by the Issuer for the subject opinion, together with an explanation of why the author is considered an expert and why the expert is considered independent.

117. The Committee believes the Issuer should provide information about pricing trends in the specific minerals extracted.

120. The Committee supports the supplementary disclosure requirements for investment companies set out in Annex G.

123. The Committee believes CESR should require additional disclosures about the scientific journals that have published discussions about the products under development, together with a list of the scientific journals that have published the work of key personnel.

Debt Securities Building Block

129. The Committee believes the same information required for equity securities is of equal value to investors in debt securities in enabling them to make informed decisions.

Annex I – Specific Comments (These comments supplement the suggested revisions included in the Specific Comments section for Annex A above)

VII.C The Committee believes securities Issuers of all kinds should be required to provide comparative financial statements for the latest three financial years, instead of two years.

134. As stated in other sections, the Committee is concerned that by disclosing information about advisers with whom the issuing company has an ongoing relationship may imply legal liability for these firms. If CESR requires such information about bankers and legal advisers, the Committee suggests it supplement such disclosures with a description of the extent of their legal liability for the performance of the issuing company.

135. The Committee believes that information about the legal and financial advisers to the issuance of the securities of the relevant prospectus is valuable and relevant to investors in debt securities.

137 -139. The Committee believes information about past, current and future investments are as relevant to investors in debt securities as they are to equity investors. Such information not only provides insights into how effective management has been at employing its liquid assets in the past, but also how management plans to invest the cash provided by the debt offering.

142. The Committee does not agree with the assertion that retail bondholders need less information about an Issuer than equity investors in that same company. Many of the same issues that affect the value of an equity investment will also affect the ability of a company to repay the interest and principal on its debt.

145. The Committee believes debt Issuers should provide the same information that is required of Issuers of equity securities. Many of the same factors affecting equity securities also affect debt securities. Therefore, to permit Issuers of debt securities to provide limited information would prevent investors in such securities from getting all the information they need to make informed decisions.

146. See our comment in Question 145 above.

148. The Committee believes companies should provide an indication of where investors can find and inspect all the documents referred to in the prospectus. It is acceptable for companies to provide that information by reference, so long as they are required to give such information to investors on demand, or provide electronic links to enable investors to access the information themselves. Information already on display and in the public domain should not provide any problems with privacy laws.

149. The Committee believes all of the documents listed in Annex I, section VIII.E, regarding documents on display, are relevant to investment decisions and that CESR should require disclosure of this information. As for documents not listed that CESR should include, please see the discussion beginning on page 6 of the letter under "Debt Securities Building Block."

150. The Committee believes all documents described in Annex I, section VIII.E, should be translated.

153. In some circumstances, holding companies or groups rely upon the performance of their subsidiaries to "upstream" dividends to allow the parent company to make interest and principal payments on parent company debt. In circumstances such as these, investors in the parent company's debt securities have a direct interest in the overall performance of the subsidiaries, including the people running those operations and where voting interests are held. The Committee believes it is imperative that bond investors receive this information.

154. Yes, we agree with CESR's disclosure requirements set out in Annex I.

155. The Committee does not have a comment on this matter.

Derivatives Building Block

160. See comments beginning on page 9 of the letter under "Derivatives Building Block."

170 – 180, 185 See our comments beginning on page 9 in the letter under "Derivatives Building Block."

190. While information about management is critical to understanding prospects for a security-linked derivative, we are concerned that in some locales within Europe it is the board of directors, not senior management, who are legally liable for such issues. The Committee suggests CESR should require Issuers to include a notice about the legal liability of such individuals for the performance of the company and for the securities

offered. Providing electronic links to such information on electronic filings, or providing references in paper-based filings, should not create significant costs to Issuers, but it will give investors important information.

192. The Committee was concerned that presenting such information about the Issuer's advisers might imply legal liability for such advisors. The Committee suggests the inclusion of such information but with a specific note about the extent to which each advisor is liable for the performance of the company and the securities offered.

195. The Committee fully supports CESR's requirements for disclosures about risk factors.

196. The Committee suggests that CESR also require companies to provide a sensitivity analysis on the performance of these instruments. Such information will provide potential investors with an indication of the possible ranges of value that may occur during the life of the instrument.

197. Financial and operational information on the specific companies, commodities or currencies comprising an index-linked derivative instrument is not necessary. Please see our comments beginning on page 10 of the letter under "Derivatives Securities Building Block: Information Requirements."

199 to 218. Information regarding the history, business, organization and other issues relating to a security is a function of the type of instrument marketed and to the security or index to which it is linked. Please see our comments beginning on page 10 of the letter under "Derivatives Securities Building Block: Information Requirements."

232. The Committee encourages CESR to use a term other than "guaranteed derivative securities." It makes this suggestion, in large part, because the term causes confusion even for investment professionals. Other than this concern, the Committee supports the view that CESR should not treat all derivative instruments in the same way. Again, the information required for different types of derivatives is a function of the type of instrument offered and the instrument/index to which it is linked. For example, the risk of "guaranteed derivatives" involves a higher degree of counterparty risk than is normally associated with exchange-traded derivatives and, therefore, requires specific information about the counterparty marketing the instrument to investors. As a result, the specific risks associated with the type of instrument offered will require flexibility in the risk disclosure section. Please see our comments beginning on page 10 of the letter under "Derivatives Securities Building Block: Information Requirements."

233. See comments for Question 232.

234. In general, the Committee supports using a flexible approach in dealing with the information requirements of derivative instruments. However, it does believe that CESR should consider any derivative instrument that provides any type of guarantee – a floor or other form of loss limits or minimum returns – a guaranteed product, under the current definition.

249. The Committee believes the building block approach used by CESR in this instance is appropriate.

250. By separating the schedules, the Committee believes the format proposed by CESR should make it easier for investors to choose which sections they wish to read and analyze.

251. In the Equity and Debt Securities sections of this letter, the Committee argued that a properly constructed directive would preclude the need for local Competent Authorities to require additional pro-forma disclosures. To a large degree this is because equity securities represent a direct ownership stake in a specific enterprise.

Derivative instruments, however, are sufficiently malleable that it is difficult to develop an all-encompassing documentation requirement. As such, it will likely fall to the Competent Authorities in the jurisdictions where the securities are to be offered/listed to determine whether to require additional disclosures to enable investors to understand the risks, sensitivities and return features of the specific products marketed.

Moreover, future derivative products may not fit into a pre-defined structure. As such, Competent Authorities potentially would need to require disclosures that exceed the basic requirements set out in the Directive.

252. The Committee believes the documents should mention advisers only if they are legally liable for the transaction.

253. The Committee does not have a comment on this issue.

254. The Committee does not have a comment on this issue.

255. Information about capitalization and indebtedness as proposed under Section III.A of Annex M is a function of the type of instrument marketed and to the security or index to which it is linked. Please see our comments beginning on page 10 of the letter under "Derivatives Securities Building Block: Information Requirements."

256. The Committee believes information about the reasons for the offer and the use of proceeds are important for derivatives offerings.

257. 1: Yes, the Committee believes a worst-case scenario is important information for investors;

2: No, there are no cases where the Committee sees a worst-case scenario as inappropriate;

3: The Committee believes these disclosures about risks and liabilities of the instrument are very important.

258. Yes, the Committee believes disclosure of the ownership interests of experts is important to investors in those types of derivatives whose value derives from the value of the shares of a specific company.

259. The Committee believes the items listed in Section V.A. of the Derivatives Securities Note are necessary.

260. The Committee believes the information about past performance and volatility of the underlying as proposed under the first indented paragraph in Section V.B.12 of the Derivatives Securities Note is necessary. At the same time, the Committee believes such information requirements are a function of the type of instrument involved. Please see our comments beginning on page 10 of the letter under "Derivatives Securities Building Block: Information Requirements."

    At the same time, the Committee believes companies should ensure that such disclosures contain no misleading statements or tracking errors, but do include an explanation for how the product is indexed and whether the Issuer is using Global Investment Performance Standards to report performance.

261. The Committee does not have a comment on this issue.

262. The Committee does not have a comment on this issue.

Incorporation by Reference

281. The Committee believes the list illustrating documents that can be incorporated, as provided in paragraphs 279 and 280 of the Level 2 Advice, is acceptable. However, the Committee suggests that CESR include a comment stating that Issuers should not consider the examples provided as an exhaustive list of all possible items companies should incorporate by reference. The Committee also recommends that CESR include a statement that companies must provide in the prospectus all annual and interim financial statements and auditor's reports that are less than three years old, and by reference only those financial statements that are for years more than three years old.

282. The Committee believes some guidance is useful in this section. Such items as a company's articles of association, trust deeds, bond indentures, loan documents, funding arrangements are some of the items CESR could use as examples. However, again, the Committee believes CESR should state that Issuers not take the examples as a complete list of all items to include in this section.

289. Requiring companies to translate their documents into the language of investors targeted by the offering, in addition to the language of its home country, is one factor that would make prospectuses more accessible across the EU. Also, please see our comments on page 12 of the accompanying letter under the heading, "Availability of the Prospectus" for a discussion about the need for a central repository to collect and distribute the documents.

290. The Committee does not have a comment on this issue.

Availability of the Prospectus

307. Besides the inclusion of *.pdf files, the Committee suggests that CESR consider also requiring companies to provide such documents using *.html format, as well.

314. The Committee does not have a comment on this issue.

325. The Committee considers notices about the availability of prospectus documents very important. Without them, people may not know the securities were offered unless they periodically visit the issuing company's Web site.

326. The Committee believes that CESR should set at Level 2 minimum content standards for public notices about the availability of prospectus documents.

327. The Committee strongly supports the suggestion to mention on the Web site of the Competent Authority where to access the prospectus. Together with public notice, notice on the Competent Authority's Web site will help investors get the information they need about new issues. Indeed, such public notices should include a physical address and phone number, together with a link to the company's Web site and the Web address of any other public or private repository that they can contact to receive a copy. Again, the Committee reiterates the value and need for a central repository to act as a central collection and distribution point for prospectuses filed across the EU. Such a repository would make the process of finding and obtaining prospectuses much easier and potentially cheaper for issuers, investors and regulators, alike.

328. The Committee believes that notification on the Competent Authority's Web site would not achieve the goal of broad notice of the offering.

331. The Committee supports CESR's proposal requiring Issuers to state clearly that the various parts of a prospectus do not constitute the entire document.

334. The Committee strongly supports the view that Issuers should not ask investors for payment of delivery costs. On the one hand, such communications are directed toward owners of the firm. As such, the expenses the company incurs are already passed on to investors, albeit indirectly.

335. The Committee believes CESR should address the timing of distribution of prospectuses. In particular, CESR needs to require companies to deliver requested documents as soon as possible.

Appendix B

Replies to Specific Questions in the Consultation Paper Addendum, And Specific Comments on Annexes

General Comments:

Many of the suggestions relating to specific changes follow closely the changes suggested in Appendix A. As such, comments on the Annexes are given only where the structure of the building blocks is different or where the citations are different from other building blocks.

Also, please see "General Comments" in the main letter for why the Committee believes issuers of all company-specific debt and derivative securities should have the same reporting requirements as issuers of equity securities.

Wholesale Debt Building Block

Para. Comment

9. Annex [1] – Specific Comments Supplementing Annex I Specific Comments under Debt Securities Building Block in Appendix A

Paragraph	Comment
I.B.2.	Please see comments in Appendix A for section I.C.2 of Annex A on page 1.
IV.B.3.a.	Please see comments in Appendix A for section IV.D.3(a) of Annex A on page 1.
IV.B.3.b.	Please see comments in the letter under "Specific Comments: Equity Building Block: Pro-Forma Disclosures and Forecasts" beginning on page 4 of the letter.
VI.A.1.	Please see comments in Appendix A for section VI.A.1 of Annex A on page 1.
VI.B	See comments in the letter under "Specific Comments: Equity Building Block: Significant Shareholders and Insiders: Related-Party Transactions" beginning on page 5 of the letter.
VII.A	See comments in the letter under "General Comments: Statement of Changes in Equity" on page 2 of the letter.
VII.C	Please see comments in Appendix A for section VII.C of Annex I on page 5.
VII.D	Please see comments in Appendix A for section VII.D of Annex A on page 2.

VII.F.3 Please see comments in Appendix A for section VII.F.3 of Annex A on page 2.

15. The Committee believes that information about an Issuer's principal future investments is relevant to investors and should be disclosed. The success or failure of such investments will help determine whether, in this case, wholesale bond investors receive their interest and principal payments as scheduled. Information about these investments will help investors analyze the prospects for returns from these investments. As stated numerous times elsewhere in this letter, the Committee believes that all company-specific securities offerings should provide the same type and amount of information as proposed for the equity securities building block, including issues of wholesale debt.

16. No, disclosure of some of the investments would only tell part of the story about a firm's activities and plans. The Committee believes Issuers should provide information about all of planned future investments.

18. A company's capital expenditures commitments are particularly valuable to wholesale market investors. As mentioned in Paragraph 15, these investments can help determine the likelihood that principal and interest payments will be made when due. Furthermore, just because wholesale investors can afford to invest large amounts does not automatically mean that they can possibly know everything they need about all Issuers. As such, investors in wholesale debt securities, like retail investors in debt securities, need the same kinds and quantity of information that Issuers are required to provide to equity investors.

22. See comments in the letter beginning on page 4 under "Pro Forma Disclosures and Forecasts."

23. We believe the requirement to disclose an issuer's business prospects should be retained to help investors make informed decisions.

25. Yes, the activities of the board committees are relevant to wholesale bond investors in the same way that they are important for equity investors – they help determine whether the board is adequately overseeing management and that the financial information reported is accurate, complete and timely.

27. Yes, the Committee believes that wholesale debt Issuers should disclose information about major shareholders and related-party transactions.

28. The Committee believes CESR should include both types of disclosures about major shareholders – whether the issuer is directly or indirectly controlled by a major shareholder, who that shareholder is and how much it owns and any change-of-control arrangements; and related-party transactions –, as well as the additional disclosures included under section VI of the equity securities building block.

30. The Committee believes that investors in wholesale debt securities would find information about related-party transactions as important as investors in other types of company-specific securities.

33. It is the Committee's belief that detailed, complete, accurate and timely quarterly financial reports are an integral part of informed investment decisions. Moreover, the Committee reiterates its belief that investors in wholesale debt securities should receive the same kinds, quantity and quality of financial information as investors in equity securities. Consequently, the Committee

encourages CESR to require Issuers of wholesale debt securities to provide quarterly financial statements, as well.
Furthermore, investors in these securities will need this information to help them make a decision about investing in the Issuer's securities. Without interim financial information, investors will have to rely on either published information that may be more than one year old, or the willingness of management to return the investors' calls.
By not requiring Issuers to publish this information in a prospectus, CESR may, in fact, create a heavier burden on Issuers' management by forcing them to individually answer investors' questions. In the long run, the lesser imposition is to publish the information in the prospectus.
35. The Committee's views regarding documents on display for wholesale debt Issuers do not differ from those espoused in the letter under "Incorporation by Reference" on page 10 of the letter.

Banks Registration Document Building Block

Annex [2] –See Appendix A under Annex A Specific Comments under Equity Securities Building Block for additional comments.

43. The Committee believes the special building block for banks is not justified in the form proposed in Annex 2.

Specialist building blocks should supplement what is already required in the equity building block. It appears that this building block reduces the amount of information that investors would receive from banks relative to what they can expect from other equity Issuers.

Not only do institutional investors need this information for their analyses, but it is also likely that retail investors will want to buy the securities of bank Issuers. To deny either group of the information they can expect from other equity Issuers would prevent them from making informed decisions and, ultimately, undermine the transparency and integrity of the capital markets in Europe. Please see comments in the letter on pages 2 and 3, under "General Comments: Supplementary Industry Building Blocks."

44. See comments for Paragraph 43 above.

45. The Committee does not believe the disclosure requirements provide the kind or amount of information investors need to make informed judgments about securities offered under this building block. Please see our comments in Paragraph 43 above and on pages 2 and 3 of the letter under "General Comments: Supplementary Industry Building Blocks."

47. Please see our comments under on pages 2 and 3 of the letter under "General Comments: Supplementary Industry Building Blocks."

49. To not provide solvency ratios for banks would deny investors of critical information that could prevent them from making informed decisions.

51. The Committee believes that it is important to require banks to disclose board practices. Please see our comments on pages 2 and 3 of the letter under "General Comments: Supplementary Industry Building Blocks."

53. The Committee believes CESR should require all Issuers of company-specific securities to disclose information about major shareholders. Please see our comments on pages 2 and 3 of the letter under "General Comments: Supplementary Industry Building Blocks,", and on page 5 of the letter under "Specific Comments: Equity Building Block: Significant Shareholders and Insiders: Shareholder Influence."

55. The Committee believes CESR should require banks to report on related-party transactions. To deny this information to investors, regardless of whether they are institutional or retail investors, would prevent them from having potentially critical information for their analyses of the securities. Please see our comments on page 5 of the letter under "Specific Comments: Equity Building Block: Significant Shareholders and Insiders: Related-Party Transactions."

57. The Committee does not believe the information required under section VII.H of the Bank Building Block is sufficient. Please see our response in Paragraph 33 above.

59. The Committee's views regarding documents on display for bank Issuers do not differ from those espoused in the letter under "Incorporation by Reference" on page 10.

Derivatives Registration Document Building Block

Annex [3] – Supplementary Comments

II. The Committee believes CESR should add a third item (g) under "Risk Factors" that would disclose risk factors that are "specific to this type of instrument."

66. Please see our comments beginning on page 10 of the letter under "Specific Comments: Derivatives Building Block: Information Requirements."

69. The Committee does not agree that the information about members of the administrative, management and supervisory bodies and partners with unlimited liability set out in section V.A.1 should be limited to the Issuer. Even Issuers of guaranteed-return derivatives should provide information about the same relevant persons if the derivative is linked to a particular company's securities.

Furthermore, the Committee believes this limitation may prevent investors in company-specific derivatives that are listed and issued on formal exchanges from obtaining necessary information about the securities underlying the derivative instruments. Without adequate information, investors will be unable to properly analyze the return prospects of the instrument.

Please see our comments beginning on page 10 of the letter under "Specific Comments: Derivatives Building Block: Information Requirements."

71. The Committee believes the information about management and directors' conflicts of interests contained in section V.B of Annex [3] is relevant and necessary for investors in company-specific derivatives to make informed decisions.

73. The Committee believes the information about board practices – including details about audit and remuneration committees, and whether the Issuer complies with its country's corporate governance regime – required by in sections V.C 1 and 2 are relevant and necessary for investors in company-specific derivatives to make informed decisions.

74. The Committee believes the information required by in sections V.C 1 and 2 are relevant and necessary for investors in bank Issuers of company-specific derivatives to make informed decisions.

76. The Committee believes disclosures regarding related-party transactions should be retained for company-specific derivatives.

78. The Committee believes that Issuers of company-specific derivatives should abide by the same requirements called for under the equity securities building block and provide detailed, complete, accurate and timely quarterly financial statements to investors.

80. The Committee's views regarding documents on display for company-specific derivatives are the same as those required under the equity securities building block. Please see comments on page 12 of the letter, under "Incorporation by Reference," and in Appendix A, page 10, paragraph numbers 281, 282 and 289 for detail.

87. For the Committee, it does not make any difference whether the Issuer is a bank or a non-bank. If the derivative is a guaranteed instrument, investors need the same level and quantity of information about the counterparty – the guarantor – regardless of whether the guarantor is a bank.

However, depending on whether the guaranteed derivative is linked to the performance of the guarantor's securities or to those of another Issuer may determine whether additional information is necessary. If it is the former, then the information requirements relate solely to the guarantor. If it is the latter, then the investors will need information about both the counterparty and the company whose securities determine the performance of the guaranteed product.

Please see our comments on page 10 of the letter under "Derivatives Building Block: Information Requirements."

88. See our comments for Paragraph 87 above.

89. See our comments for Paragraph 87 above.

92. Regardless of whether the Issuer is a bank or a derivatives exchange, investors will need to know about the relevant counterparty risks. As such, the information requirements should be the same.

93. See our comments for Paragraph 92 above.

Asset-Backed Securities Registration Document

96. See our comments on page 7 of the letter under "Debt Securities Building Block: Asset-Backed Securities."

Depository Receipt Prospectus

102. Taking into account our comments contained in Appendix A under Equity Securities Building Block, the Committee believes the disclosure obligations contained in Annex [5] are appropriate.

103. The Committee believes the proposed disclosure requirements about the depository are appropriate and sufficient.

104. The information provided in Section IX is sufficient for these purposes.

Shipping Company Registration Document Building Block

111. The supplemental information requirements of Annex 6 are equally appropriate for other types of companies, including transportation companies, athletic teams and real estate companies.

112. Shipping companies should also provide information about the purpose of each ship.

113. The Committee does not agree with the exceptions from valuation if the Issuer does not intend to finance one or more vessels, as provided under Annex 6a. While a company may not have sought bank financing for a vessel, it may receive financing from a major shareholder, which could create significant conflicts of interest. Consequently, the values of all vessels should be disclosed.

114. The Committee agrees with the Proposal that the date of valuation should not be more than 90 days prior to the date of publication.

115. The Committee believes it doesn't matter where the valuation reports are located so long as they are provided to investors.

Proposal for a Blanket Clause

122. The Committee agrees with the use of a "Blanket Clause" that permits Issuers to omit information disclosures that are not applicable.

123. The Committee believes CESR will need to ensure that the circumstances under which Issuers can benefit from the "Blanket Clause" are appropriate and do not lead to companies not disclosing important information.

Working Captial

125. The Committee believes CESR should place disclosures about working capital statements with other financial performance and position statements in the registration document.

126. See our comments in Paragraph 125 above.

Additional Information in the Securities Note ("SN") Equity Schedule

132. The Committee supports CESR's approach to requiring all equity Issuers – indeed, all issuers of company-specific securities – to provide a description of the securities to be offered and admitted to trading, and details about investors selling securities in the offering.

Additional Information in the SN Debt Schedule

136. The Committee supports adding additional information about the risks posed by these securities and about the interest rate of debt securities in the securities note.

Additional Information in the SN Derivatives Schedule

139. The Committee supports the addition of items on interest rate, exercise/reference price and redemption amount or formula into the derivatives schedule.

Additional Information in the SN Asset-Backed Securities

143. The Committee agrees that the disclosure requirements set out in Annex [10] – specifically regarding a description of the securities and the amount offered, the assets underlying the securities, investment considerations, structure and cash flow of the securities and post-issuance reporting – are appropriate for asset-backed securities, though they do not cover all investors' information needs. Please see our comments in the letter under "Debt Securities Building Block: Asset-Backed Securities," beginning on page 7.

144. In general, the Committee believes all of the items listed in Annex L for debt securities should be required for asset-backed securities, as well.

Additional Information in the SN Building Block for Guarantees

149. The Committee agrees with the proposal to have the disclosure obligations relating to guarantees in a separate building block.

150. The Committee supports the level of disclosure contained in the building block because investors may ultimately need to rely upon the guarantee for payment. Without information about the guarantee or the guarantor, investors will not be able to assess the value of the promise.

151. See comments in Paragraph 150 above.

Additional Information in the SN Building Block for Subscription Rights

155. The Committee supports the approach taken in this building block as it mirrors the approach taken in the equity building block.

159. The Committee did not express an opinion on this issue.

Part 3 – Summary

168. The Committee did not express an opinion on this issue.

Part 4 – Base Prospectus/Programmes

175. The Committee believes the best approach is to ensure the information that must be disclosed is not different regardless of whether the issuer uses the "normal prospectus procedure" or the "programme or base prospectus procedure."

176. The Committee did not express an opinion on this issue.