

FRANCE TELECOM

April 19, 2004

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549-0609

Re: File Number S7-13-04

Dear Mr. Katz:

France Telecom appreciates the opportunity to comment on the United States Securities and Exchange Commission's (the "Commission" or the "SEC") release entitled "Proposed Rule: First-Time Application of International Financial Reporting Standards" (the "Rule Proposal"). Overall, we found the Commission's Rule Proposal to be a positive development in light of the unique challenges that the conversion to International Financial Reporting Standards ("IFRS") by January 1, 2005 will pose for European companies registered with the Commission. Nevertheless, the Rule Proposal poses several concerns, which we discuss in detail below, based on two overriding principles:

- the requirement imposed by the European Commission to convert to IFRS for each financial period starting on or after January 1, 2005 coincides with the Commission's requirement for foreign private issuers to comply with Section 404 of the Sarbanes-Oxley Act for fiscal years ending on or after July 15, 2005 and, accordingly, presents a unique, concentrated financial reporting burden on foreign private issuers over a compact time period; and
- in certain respects, we find the Commission's requirements or suggested practice under the Rule Proposal to be more burdensome than the technical IFRS requirements and we are concerned that such requirements, if imposed by the Commission, will make it difficult in practice for companies to apply IFRS based on the technical requirements imposed by the International Accounting Standards Board ("IASB").

Reconciliation from previous GAAP (Rule Proposal §III.B.)

The Rule Proposal would amend Item 8 of Form 20-F to add an instruction requiring all first-time IFRS adopters to reconcile their financial statements from previous GAAP to IFRS in a manner similar to that required by paragraph 40 of IFRS 1. The Rule Proposal specifically states that the SEC is “not proposing specific form or content requirements” but does cite Example 11 of IG63 of the Implementation Guidance to IFRS 1 (“IG63”) and a reconciliation prepared in accordance with Item 17 of Form 20-F as two formats that would satisfy the requirements of Item 8 and IFRS 1.

As the Rule Proposal points out at §III.B, IG63 is not mandatory for all first-time adopters of IFRS and, by suggesting that foreign private issuers follow the recommendations of IG63 when they are not necessarily required to under IFRS requirements, the Commission may be imposing a greater burden on such issuers than IFRS does itself. We do not believe that the Commission should specify the form and content of the reconciliation from previous GAAP to IFRS for several reasons. If the intent of the Commission’s Rule Proposal is simply to codify the requirements of IFRS 1 in the instructions to Item 8 of Form 20-F, it seems to be unnecessarily duplicative given that any financial statements prepared in accordance with IFRS and filed with the Commission are already subject to the reconciliation requirement prescribed by IFRS 1. In a similar manner, if the intent of the Commission’s Rule Proposal is to impose a reconciliation requirement that is more detailed than that which would otherwise be required by IFRS 1, we believe that this would be tantamount to the Commission interpreting IFRS (in this case, IFRS 1), which responsibility we believe should continue to rest solely with the IASB and International Financial Reporting Interpretations Committee (“IFRIC”).

Furthermore, it is our understanding that the intent of the requirements of Items 17 and 18 to Form 20-F is to facilitate a U.S. reader’s understanding of a foreign private issuer’s U.S. GAAP financial information. As such, we believe that the reconciliation between previous GAAP and IFRS required by IFRS 1, regardless of its level of detail, will be of marginal use to a U.S. reader in understanding the U.S. GAAP financial information of a foreign private issuer. Incidentally, we believe that issuers will provide financial statement users with quite detailed disclosure on the one-time and ongoing impacts of the adoption of IFRS independent of rules established by the Commission or the IASB simply because market participants will demand such information in order to facilitate the transition of their own thinking from previous GAAP to IFRS.

We therefore believe that it is unnecessary for the Rule Proposal to include guidance for issuers with respect to suggested means of reconciling previous GAAP and IFRS financial statements beyond the guidance that is already provided by IFRS 1. However, if the Commission believes that the Rule Proposal should provide issuers with additional guidance with respect to the reconciliation of previous GAAP and IFRS financial statements, we believe the Final Rule should strongly emphasize the fact that the Commission’s suggested means of compliance are not meant to impose any form or content requirements, and that issuers may find alternative forms and contents of reconciliations that are suitable.

Condensed U.S. GAAP balance sheet and income statement (Rule Proposal §II.B.2)

The Rule Proposal would require foreign private issuers that present only the two most recent years of financial statements prepared in accordance with IFRS to include reconciliation to U.S. GAAP for those two years and condensed U.S. GAAP financial information for the three most recent financial years in a level of detail consistent with the requirements for interim financial statements of Article 10 of Regulation S-X. We believe that this requirement, if adopted in its current form, would impose a significant burden on many foreign registrants who are not otherwise required to include condensed U.S. GAAP financial information in their Annual Reports on Form 20-F at a time when finance functions will already be resource-constrained due principally to the conversion to IFRS and the requirements of Section 404 of the Sarbanes-Oxley Act.

We believe that the current practice of the Commission with respect to the inclusion of condensed U.S. GAAP financial information should continue to be applied; i.e. on a case-by-case basis in situations where pervasive GAAP differences exist that affect a U.S. investor's ability to understand a foreign registrant's U.S. GAAP information based solely on the reconciliation of consolidated net income and consolidated shareholders' equity. We would expect that the frequency of such occurrences would begin to decrease as a result of the transition to IFRS, which is generally a comprehensive body of accounting principles more closely aligned with U.S. GAAP.

In addition, we are concerned that once a condensed U.S. GAAP balance sheet and income statement are included in our Annual Report on Form 20-F, investors will become accustomed to this level of disclosure. Accordingly, we believe it is highly likely that the requirement to provide U.S. GAAP financial information will become a "de facto" requirement. Whether based on SEC practice or investor expectations, the consequence of the "de facto" requirement, in our view, will be to make it very difficult for foreign registrants to revert back to a level of disclosure that, while complying in all respects with the requirements of Items 17 and 18, is reduced by comparison to the level of disclosure provided during the transition period.

Finally, we appreciate that the Commission may be concerned about the exclusion of a third year of U.S. GAAP financial information. However, we respectfully submit that, in the past, the Commission has had and has overcome similar concerns in connection with initial public offerings of foreign registrants, arguably a much more sensitive transaction in terms of investor protection than the filing of an Annual Report on Form 20-F. Furthermore, in situations where a registrant elects to present full U.S. GAAP financial statements in an initial registration statement, a third year of financial information may not be presented under any GAAP. Such an accommodation has not proven to be a hindrance to the ability of a U.S. investor to make investment decisions. In addition, unlike an initial registration statement situation, the third year of U.S. GAAP financial information would be publicly available to investors, albeit not included directly in the 2005 Annual Report on Form 20-F. Accordingly, we believe that the Commission should provide a one-time exemption similar to that provided to initial registration statements of foreign registrants that would eliminate the requirement, not only to reconcile but also to present the earliest of the three years U.S. GAAP information ordinarily required by

the Commission. We believe that such an accommodation would satisfy the concerns of foreign registrants and would provide U.S. investors with the information necessary to make investment decisions.

Interim financial statements

The Rule Proposal would require foreign issuers, when interim financial statements are required to be included in a registration statement during the Transition Year, to provide two years of interim financial statements prepared in accordance with previous GAAP. While we recognize that the challenges associated with interim financial information for the Transition Year are unique, we are concerned that the burden that the Rule Proposal would impose on foreign issuers will be unduly burdensome for foreign issuers and may cause them to delay or avoid registering securities under the Securities Act and the Exchange Act during the period from October 1, 2005 through March 31, 2006 (for calendar year issuers), which may deprive U.S. investors of legitimate investment opportunities.

From our perspective, we expect to be in a position to provide audited IFRS financial statements for the year ended December 31, 2004 without undue difficulty during the first semester of 2005 (and, in any case, no later than the summer of 2005). Likewise, we expect to be in a position to provide unaudited IFRS interim financial statements for each of the six-month periods ended June 30, 2005 and 2004 no later than the summer of 2005. Accordingly, the aforementioned financial information is expected to be available during the entire transition period from October 1, 2005 through March 31, 2006.

In addition to requiring foreign issuers to maintain parallel sets of financial statements, one prepared in accordance with its previous GAAP and one prepared in accordance with IFRS, the Rule Proposal would require a foreign issuer to maintain parallel sets of public reporting practices (for example, for purposes of preparing its "Operating and Financial Review and Prospects"). As discussed earlier in our comments, it is our understanding that the intent of Items 17 and 18 of Form 20-F is to ensure that U.S. investors have sufficient information to understand the U.S. GAAP financial information of a foreign issuer. In that regard, it is our view that the "base" GAAP that is "chosen" by an issuer from which its Item 17 or 18 reconciliation is prepared is not particularly relevant to a U.S. investor so long as the "base" GAAP financial statements are accompanied by an appropriately detailed U.S. GAAP reconciliation footnote.

Furthermore, we believe that it would be confusing to U.S. investors to re-focus attention on financial statements prepared in accordance with previous GAAP at a point in time subsequent to a company's initial public reporting on an IFRS basis. A similar point is raised in the Rule Proposal at §II.B.3, which states that foreign private issuers would not be required to include financial statements according to previous GAAP in annual reports on Form 20-F, and specifically states that this provision is intended to "decrease the risk of investor confusion" and to "relieve issuers of the burden of maintaining two sets of financial statements and obtaining auditor consents for financial statements prepared on a basis of accounting that issuers no longer use." While we do not have empirical evidence supporting our views, we submit that the confusion that would result for U.S. investors from such a public reporting practice

(i.e. reverting to previous GAAP after the initial communications for 2005 are made on an IFRS basis) would be greater than the confusion that would result from the inclusion of financial statements prepared in accordance with two different “base” GAAPs, each reconciled to U.S. GAAP in accordance with Item 17 or 18 of Form 20-F. Finally, the same issue would not exist in France where companies will not be required to make disclosures based on previous GAAP following the publication of their semestrial IFRS financial statements for the six-months ended June 30, 2005.

Accordingly, we believe that a requirement to provide three years of audited previous GAAP financial statements (2002, 2003 and 2004), one year of audited IFRS financial statements (2004) and unaudited condensed IFRS interim financial statements for each of the six month periods ended June 30, 2005 and 2004, in each case reconciled to U.S. GAAP, would provide U.S. investors with sufficient financial information to make investment decisions with respect to a registered offering of securities. Although the presentation of a stand-alone twelve-month period may not technically be in accordance with IFRS 1, we believe that to permit audit reports that are qualified as to this particular provision of IFRS 1 would not deprive investors of the information they need to make investment decisions.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the staff may have. If you have questions regarding our comments, please contact me (claude.benmussa@francetelecom.com) or Nicolas de Paillerets (nicolas.depaillerets@francetelecom.com).

Sincerely,

/s/ Claude Benmussa
Deputy Chief Financial Officer

cc: Michel Combes
Chief Financial Officer
Nicolas de Paillerets
Director of Accounting Norms