



7 key objectives for 5 decisive years

The contribution of the European accountancy profession

The next five years will be decisive to shift to a truly sustainable economy, restore confidence, opportunities, competitiveness and public finance. To this end, markets will remain instrumental to enhance prosperity and innovation, allocate resources efficiently and drive the necessary behavioural change toward a sustainable model.

FEE, Fédération des Experts comptables Européens – Federation of European Accountants, believes the accountancy profession, building on its values and expertise, has a genuine contribution to make. On this basis, FEE would like to highlight 7 key objectives which we believe, if persistently pursued by the European Institutions during this legislature, will contribute to fostering economic recovery and sustainability:

ONE

Making the Internal Market a reality

TWO

Think small first for SMEs:
green and global too

THREE

Promoting transparency through high-quality financial reporting and global standards

FOUR

Fostering trust and integrity through auditing

FIVE

Improving corporate governance and company law

SIX

Ensuring better regulation and better financial supervision

SEVEN

Integrating sustainability at the heart of policymaking, society and markets

About FEE and its contribution

FEE represents the accountancy profession in all EU Member States. It groups 43 professional Institutes of professional accountants and auditors from 32 European countries. In representing the profession, FEE recognises the public interest.

FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice (large, mid-sized and small accountancy firms), business (enterprises of all sizes), government and the public sector as well as in education, who all contribute to a more efficient, transparent, and sustainable European economy. In addition to FEE, specific interests, such as that of accountancy firms, are also promoted by organisations with a defined focus¹. FEE is registered in the European Commission's Register of Interest Representatives and accredited to the European Parliament.

FEE has specific expertise and working parties with practitioners from all around Europe in many fields of relevance to EU policies, in particular: financial reporting, auditing, corporate governance, SME policy, capital markets, banking and insurance, taxation, public sector, qualification and market access and sustainability.

Professional accountants play an instrumental role in providing reliable financial and business information – which is essential to make markets function properly. Moreover, the accountancy profession is a profession of values with a strong ethical commitment: professional accountants are bound by the Code of Ethics of the International Federation of Accountants (IFAC); for instance, as a result, they cannot be associated with information that contains materially false or misleading statement or information furnished recklessly.

FEE is therefore in a unique position to inform the policy process and to respond to MEPs' needs for trusted information and reliable feedback on what works and what doesn't in practice in all relevant fields.

¹ For instance, the European Contact Group (ECG) is an informal grouping of the six largest accounting networks in the European Union, and the European Group of International Accounting Networks and Associations (EGIAN) is a forum for middle-sized accounting networks and associations made up of 21 global organisations which offer audit, accounting and business advisory services.

Making the Internal Market a reality

- ▶ **The Internal Market is critical to the development of business within Europe and is also the best basis for European enterprises to compete in world markets. European Institutions and Member States must therefore intensify efforts to implement and enhance the Internal Market in practice.**
- ▶ **Proper and timely implementation by Member States of Directives promoting consistency in the Internal Market, such as the Directive on Recognition of Professional Qualifications, the Directive on Services and the Directive on Statutory Audit and other company law Directives should be ensured.**
- ▶ **The Commission should be encouraged in its initiative to take more time for its review of the Accounting Directives and develop a truly modernised and simplified accounting framework for the Internal Market. Member States should be prevented from goldplating.**

After more than 15 years of leadership of the European Parliament and the European Commission, the EU Internal Market has progressed well. However, on the ground, the Internal Market is still far from being completed.

A genuine and seamless Internal Market would mean that doing business within Europe is like doing business within one Member State. It would allow the efficient allocation of resources and development of economies of scale whose benefits could be passed on to consumers. It would help removing unnecessary regulatory burdens, including those arising from Member States goldplating, and inconsistent or poor implementation of European legislation.

The policy framework should be developed and enforced at the most appropriate level, including, where relevant, at EU level and through further

harmonisation. It should be simple and consistent, foster competition, embed long-term sustainability and minimise administrative costs and harmful regulatory divergences.

European tax policy should be instrumental, not only to sustain the objectives of the growth and stability pact, cut administrative burdens and reduce market distortions, but also to facilitate the necessary paradigm shift toward a job-creating carbon-neutral knowledge-based economy. Business transmission should not be worsened by regulatory barriers, tax systems, or lack of skills.

The Internal Market is essential to enhance the competitiveness of EU businesses in the global economy. In these times of crisis, it is definitely part of the solution, not of the problem.



Think small first for SMEs: green and global too

- ▶ **SMEs should be at the core of the EU policy agenda to ensure global competitiveness and sustainability.**
- ▶ **The Small Business Act must be implemented to modernise and simplify the regulatory framework and eliminate barriers to the Internal Market.**
- ▶ **SME access to finance should be a priority, to be addressed at the overall policy level and in relation to management skills and financial expertise of SMEs.**

It is now well recognised that SMEs are the lifeblood of the EU economy and accepted that the think-small-first principle should guide policymaking; there is indeed a need to foster entrepreneurship, SMEs' growth and cross-border trade. Therefore, the regulatory framework needs to encourage SME development while meeting public interest objectives. FEE has consistently supported such an approach, outlining the complementarity between the goal of sustainable development and transparency and integrity of reporting.

Looking ahead, for the EU to be competitive, lead in new and greener technologies and remain socially inclusive and sustainable, more focus should be put on those SMEs that best contribute to job creation and innovation.

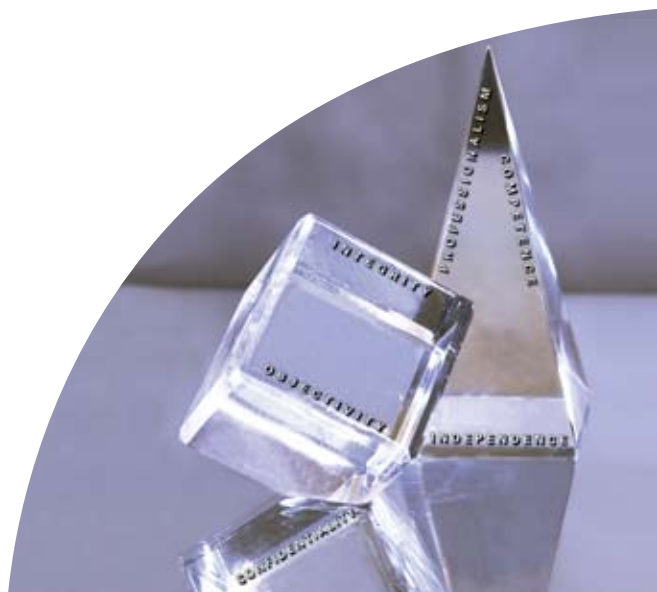
At the moment, SMEs are much impacted by the economic crisis. The reliability and transparency of financial reporting is essential to enhance third party perceptions of SMEs' credit worthiness and thus increasing their access to finance in the Internal Market.

Disclosures should be proportionate and take account of the different interests or public policy objectives at stake such as that of sound competition or tax administration.

It is essential that progress at Member State level with regard to the principles in the Small Business Act is regularly reviewed, in order to maintain momentum.

It is good news that the Commission has decided to make the time for consultations on the recently published International Financial Reporting Standard for SMEs. The option for European companies to apply IFRS for SMEs deserves to be considered.

Consideration should also be given to ways to apply relevant and proportionate reporting to micro-entities as they also represent an important part of the economy.



Promoting transparency through high-quality financial reporting and global standards

Financial reporting is essential to recovery and to make markets work better. It best serves the goals of stability if it provides a transparent and fair representation of performance – this may involve valuation at fair value of financial instruments where appropriate; this fundamental objective must be preserved, however inconvenient the message about economic reality may be in the short-term and should not be biased by attempts to counter perceived pro-cyclical effects.

Standards need to be set by a global standards-setter who is both independent and accountable. Europe should seek to be influential at all stages of the process through high-quality contributions such as those of EFRAG.

A single set of high-quality principles-based global standards is the best solution in a global economy. It is in Europe's best interest to continue its commitment to global standards; any departure from IFRS could damage investor confidence and competitiveness of European businesses.

Trade and prosperity grow on transparency, reliability and trust. Experience shows that lack of transparency leads to market failure. FEE is in favour of proportionate disclosure of relevant financial and non-financial information to make markets more efficient and fulfil the needs of business, society and the environment.

International Financial Reporting Standards (IFRS) have improved the quality, comparability and transparency of financial reporting of EU listed companies². It is also a key stimulus to the objective of achieving a single set of global standards.

The convergence strategy of the International Accounting Standards Board (IASB) has delivered good results; it has been instrumental in eliminating the reconciliation requirement for European companies listed on a US stock exchange and in advancing the objective of IFRS adoption in the US.

It is essential that the pursuit of global standards continues and that Europe's contribution to this avoids deviations from IFRS which would be detrimental to investors' needs and to global economic development. From convergence, we should now preferably move to a situation where the best available resources are used to work on the development of truly global standards. FEE therefore continues to support the aim of achieving a single set of principles-based global standards. We believe that EU institutions, like the G20 did, should urge the IASB to use all existing high-quality accounting standard-setting expertise from around the world, including those within FASB and EFRAG, to work together on new global solutions in those areas that really matter to investors³.

Standard-setting must be inclusive, independent and follow a robust due process where governments may have as much influence as other stakeholders, but not leverage political power to exercise pressure. No particular interest should be given preference. The latest governance reforms of the IASB⁴, including the inception of public oversight, have met, or are in the process of meeting, these objectives.

The financial crisis has accelerated the discussion on the need for anti-cyclical measures and on the extent to which prudential financial returns and general purpose financial statements should converge. Regulatory reporting and general purpose financial reporting have different objectives. The role of the latter is to provide – and in the current circumstances restore – market confidence by providing a true and fair view on financial performance and position during individual reporting periods. This role is paramount and should not be biased by attempts to counter perceived pro-cyclical effects. Financial reporting best serves stability if it provides transparent and faithful representation of corporate performance to investors, the primary users of financial statements.

The crisis has triggered a debate on the complexity of financial instruments accounting. Standard-setters have started considering the simplification of the existing standards on; this initiative should be welcomed by preparers and users, and deserves support from politicians. FEE recognises that further work will be needed to achieve the necessary changes and will be pleased to contribute to these developments.

² See for instance the report of the European Commission on the operation of the IAS Regulation of 24 April 2008 (COM(2008) 215 final).

³ FASB is the US accounting standards-setters. EFRAG is the European Financial Reporting Advisory Group; see www.efrag.org.

⁴ International Accounting Standards Board; see www.iasb.org.

Fostering trust and integrity through auditing

▶ The European Parliament should follow up on its Resolution of March 2009 and continue monitoring and stimulating proper and timely implementation of the Statutory Audit Directive, in particular the consistent implementation and application of key definitions provided by the Directive.

▶ Audits of financial statements are instrumental to provide transparency, trust and integrity. Adoption of the Clarified International Standards on Auditing (ISAs) throughout the EU should be pursued as a matter of urgency. Oversight Authorities should recognise and ensure that these standards are applied in a proportional manner to large and small entities as appropriate.

▶ Member States who lag behind should now implement the Commission's Recommendation on limiting auditors' liability for the sake of the Internal Market and of the sustainable supply of high-quality audits.

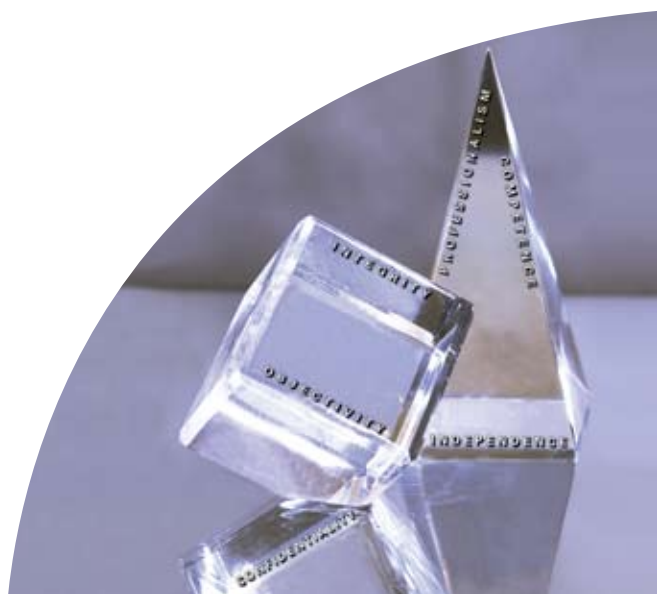
The audit of financial information significantly enhances the credibility and reliability of reporting on which market participants, investors and stakeholders rely, as do regulators from a broader perspective.

International Standards on Auditing (ISAs) as prepared by the International Audit and Assurance Standards Board⁵ are most appropriate to ensure consistent high-quality statutory audits in Europe and their adoption across the whole EU will also contribute to a less fragmented Internal Market. As also concluded by an independent study commissioned by the European Commission, there are significant benefits to be derived from ISA adoption. As global, high-quality and principles-based standards, ISAs are adaptable to the specific circumstances of all individual audit engagements, thereby permitting a proportionate application to SMEs without excessive documentation. Audit oversight authorities should avoid disproportionate administrative burdens for enterprises, SMEs and their auditors⁶.

The necessity to ensure the sustainability of the provision of high-quality audit and access to appropriate professional indemnity coverage are key underpinnings to the EC Recommendation of June 2008 on auditors' liability. In the interests of the wider Internal Market and to secure confidence and stability, it is essential that this Recommendation is implemented in all Member States, in a way that accommodates their different legal systems.

⁵ The International Audit and Assurance Standards Board (IAASB) is one of the independent public interest boards of the International Federation of Accountants.

⁶ High Level Group of Independent Stakeholders on Administrative Burdens (HLG) third opinion on stakeholders' suggestions (16./17.04.2009), point 10: http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/hlg_opinion_environment_16042009.pdf. Reference can also be made to the IAASB (see previous footnote) Staff Paper "Applying ISAs proportionately with the size and complexity of an entity".



Improving corporate governance and company law

- ▶ **Company Law and Corporate Governance are instrumental to develop sustainable business, integrity and confidence. Both constantly need to evolve to respond to the changing dynamics of markets and the growing impact of sustainability issues.**
- ▶ **Audit Committee requirements, as set out in the Statutory Audit Directive need urgent implementation in all Member States.**
- ▶ **European Company Law must provide legal tools for European business; notably new solutions on the European Private Company, creditors' protection and capital maintenance of financial institutions should be considered.**

Corporate governance plays a key role to support job creation and prevent undue business failures where they harm society and the environment. "Soft law" approaches and corporate governance codes are important in improving and coordinating standards of practice, but greater emphasis needs to be placed on compliance and enforcement.

European company law Directives have substantially contributed to the building of the Internal Market, the provision of transparency and the protection of shareholders, creditors and other stakeholders, including in non-listed companies. These original objectives are more valid than ever.

In 2006, the EU recognised the importance of audit committees within listed entities. Unfortunately, transposition of the requirement in the Statutory Audit Directive by Member States lags behind. It is the responsibility of audit committees to monitor the effectiveness of internal controls.

While a lot of attention has been attached to the independence of Non-Executive Directors and of members of audit committees, their expertise and their ability to adequately and responsibly fulfil their role remains essential.

Performance based remunerations should have regard to long-term effective and socially and environmentally responsible performance, thus reducing any unintended short-term incentives to irresponsible risk-taking and income management. Sustainability reporting is therefore instrumental to this end. However, any change should be introduced with due care and after proper consultation as corporate governance processes are complex and interconnected with other systems, including financial reporting, auditing, corporate communications and others.

Ensuring better regulation and better financial supervision

- ▶ FEE supports principles-based legislation that provides more robustness and ability to cope with changing circumstances, is conducive to stability and warrants proper implementation and operation; changes should be based on evidence, focused on what really matters and, where appropriate, implemented gradually.
- ▶ An improved system of cross-border regulatory cooperation and appreciation of systemic risk is required. Europe's approach must link up to a global system. It is essential to distinguish between regulatory reporting and financial reporting for the benefits of both regulators' and investors' needs.
- ▶ FEE commends the EU's better regulation initiative: the EU and the Member States must live up to this commitment. The quality, depth and independence of the Commission's impact assessments should now be enhanced and the Commission's public consultations standards, in particular comment periods, should be upgraded and followed.

Compliance with principles can be more effective than following rules, as a good set of principles addresses the substance rather than the form. Principles-based systems need however to be supported by effective monitoring and enforcement to ensure a robust framework. Such a framework has the advantage of being adaptable to changing market practices.

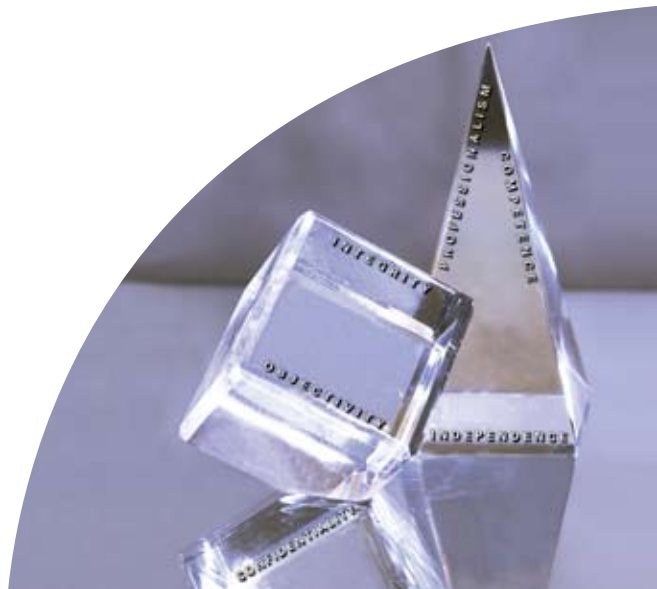
In preparation of any significant changes, it is crucial that impact assessments are carried out early to inform the decision-making process, are undertaken independently and are based on robust and transparent methodologies which consider both the benefits as well as cost implications of all proposed changes.

To provide meaningful input, stakeholders should be given sufficient time. Too often the focus is on producing new legislation, sometimes even when existing legislation has not yet been implemented, enforced or evaluated. Unnecessary changes of legislation or standards need to be avoided; where change is justified on the basis of evidence, it should be carefully focused on what really makes a difference on the ground, not only in headlines.

FEE fully recognises the global nature of the financial crisis which calls for a global reaction. We support efforts to achieve an effective and proportionate transnational approach to supervisory coordination and underline the importance of Europe's involvement in a global system given the global nature of the challenge.

In this respect, proposals for a European Systemic Risk Board (ESRB), European System of Financial Supervisors (ESFS), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) appear as a welcomed development.

In addition to the on-going audit function, the audit profession can also contribute further to greater confidence in banks (and the insurance sector) through better dialogue with regulators and supervisors in identifying systemic risk; greater use can also be made of the skills of auditors with regard to information given to supervisors.



Integrating sustainability at the heart of policymaking, society and markets

- ▶ FEE calls on the EU to live up to its commitment to being a pole of excellence in corporate social responsibility and sustainability and strive to mitigate the urgent climate threat, in particular at the Copenhagen Summit, and pave the way for a sustainable economic future.
- ▶ Disclosures of environmental, social and governance information by companies should be promoted as an important catalyst for change and assurance has a key role in reinforcing trust in and integrity of such information; standard-setters should develop suitable standards.
- ▶ Sustainability should become normal business practice, through not only compliance driven by government regulation, important though that is, and by operational efficiencies, but also by organisations pursuing strategic opportunities, operating on markets sending proper incentives and thus balancing financial and sustainability considerations.

There is now a broad consensus that humanity's "ecological footprint" exceeds the capacity of the planet and that the matter has become both urgent and vital. In accounting terms, we are living beyond our income and therefore we are destroying our capital.

Markets can become instrumental and powerful change drivers toward a sustainable economy. To this end, cost internalisation is essential to making markets work better, preventing negative incentives and distorted allocations of capital.

FEE applauds the Parliament's and Commission's leadership in reaching agreement on the strategic objective of a 20% reduction in greenhouse gas emissions by 2020; however more needs to be done⁷. The Institutions' and the Member States' responsibility and leadership will be essential to secure an ambitious and effective global climate treaty at the Copenhagen Summit.

Sustainability is also, and is likely to remain for some period of time, a key issue for public finance. Standing for the *acquis* of the Growth and Stability Pact is important for long-term stability and future generations. In addition, the use of public spending should be prioritised in areas that help generating opportunities e.g. in the fields of education, environmental improvements and future clean technologies.

On all the above issues, the public sector will have a critical role to play. It will have to enhance the efficiency of tax collection and use of taxpayers' money. It will have to support and respond to citizens' demands for better governance and increased transparency and accountability in the private and the public sector across all Member States. By leveraging its buying and payment practices, it can significantly contribute to alleviating the impact of the crisis on SMEs and greening the EU economy. It has the capacity to lead by example and create the necessary infrastructure of a sustainable European economy.

FEE believes that Europe needs the Parliament's and the Commission's leadership to seize a unique opportunity to instigate and facilitate the necessary paradigm shift toward a job-creating carbon-neutral knowledge-based economy.

Companies that are transparent on sustainability factors are increasingly being rewarded by mainstream as well as socially responsible investors. The increasing demand on organisations to provide non-financial information and indicators, including sustainability indicators, preferably as part of their annual reporting, strategic planning and decision-making should be encouraged. It is in the best interests of all parties to see carbon measurement, disclosure and assurance approaches standardised.

Professional accountants advise organisations to translate and 'operationalise' the concept of sustainability at the level of strategy formulation, process improvement and performance measurement. At the enterprise level, the accountancy function has a lead role to play in ensuring the quality and credibility of all business information, financial, non-financial, internal and external, thus contributing to proper decision-making.

It should also be underlined that ethics, social responsibility and inclusiveness are essential ingredients of a sustainable future. A society can only be sustainable if it prepares professionals to face the challenges of the future. This requires continuous improvement of the quality and effectiveness of education and training systems; in its field, the accountancy profession heavily contributes through its education and continued professional development programmes.

⁷ We note that the 4th Assessment Reports on Climate Change of the Intergovernmental Panel on Climate Change (IPCC) indicates that global emissions must fall by at least half of 1990 levels by 2050 and that several independent studies are concerned that European recovery packages missed the opportunity of investing in the foundations of a sustainable economy ("A climate for recovery, HSBC, May 2009 and "Economic / climate recovery scorecards, Ecofys and Germanwatch for E3G and WWF, April 2009).