



FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS
EUROPEAN FEDERATION OF ACCOUNTANTS



ANNUAL
REPORT

*Representing
the Accountancy
Profession in Europe*

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FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS
EUROPEAN FEDERATION OF ACCOUNTANTS

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Fédération des Experts Comptables Européens European Federation of Accountants

FEE is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 44 professional institutes of accountants from 32 countries. FEE member bodies are present in all 25 member states of the European Union and three member countries of EFTA. FEE member bodies represent more than 500,000 accountants in Europe.



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FOREWORD

By FEE President David Devlin



The year was dominated by the launch of the European Commission's reform initiative for auditing and by the preparation for the move to International Financial Reporting Standards (IFRS). However, FEE, the representative organisation of the European accountancy profession, continued to be active in a wide range of areas and delivered on its promise in last year's Annual Report to develop its SME related activities by organising the inaugural European congress for SME accountants.

Audit Reform

Auditing is central to ensuring the credibility and reliability of financial reporting. In recent years, FEE has developed a series of detailed proposals aimed at restoring trust in financial reporting for capital markets.

In March 2004 the European Commission launched its proposal to revise the Eighth Company Law Directive on Statutory Audit. FEE welcomed the initiative to modernise the law on auditing. In supporting the reform, FEE's position was clear: reform must deliver high quality financial reporting and auditing in the public interest.

The proposal dominated the profession's agenda in 2004. A number of FEE Working Parties combined their collective expertise to allow the Federation to support the revised Directive with a series of well-considered proposals, comments and studies. Whereas many of the proposals on key issues were consistent with FEE policy, such as audit committees, international standards on auditing, internal rotation of audit partners and statutory backing for robust quality assurance and inspection, the profession did have concern over some weaknesses in the Commission's proposal relating to oversight, endorsement of audit standards, independence and liability.

Since March, the Directive has made much legislative progress. The Council of the EU adopted its preliminary position in December 2004 and the European Parliament could conclude its first reading by June 2005.

Liability

A key concern remaining to be addressed is the issue of auditor liability. The European Commission in its Communication of 2003 acknowledged that auditor liability was an issue and announced its intention to make an analysis of the economic impact of liability regimes. Despite this public commitment, to date, no initiative has been taken. Nor has the issue been addressed in the proposal to revise the Eighth Directive.

Reform of liability is a major issue in the public interest. The Directive provides an ideal opportunity to address the issue. It is essential that auditor liability fairly and reasonably relates to the consequences of unsatisfactory audit performance. A new article should establish the principle that statutory auditors be appropriately responsible for their statutory audit but to no greater extent than is reasonable.

FEE believes that there are a number of solutions, depending on the national liability system. Proportionate liability and a legal cap on the potential damages, or a combination of these measures, are the most often considered solutions.

Financial Reporting

Another critical area of the Federation's work in 2004 was the preparation for the move to International Financial Reporting Standards (IFRS). FEE has long played an active role in the move to adopt global standards in Europe. In 2004 this strong commitment to high quality, principles-based, financial reporting standards was underlined by the launch of two important publications.



FOREWORD

Following up on the influential *Discussion Paper on Enforcement of IFRS*, FEE launched the *Discussion Paper European Enforcement Coordination* in January. FEE believes that if the introduction of global financial reporting standards is to be a key driver towards a fully integrated European capital market, an effective coordination of EU enforcement is needed. CESR has commenced its enforcement co-ordination activities. FEE believes that there is also a need for an additional wider consultation mechanism that would give an opportunity to all stakeholders to contribute to the continuous development of the enforcement system.

In June, the issue of the endorsement of IAS 39 was very topical. FEE launched its *Position Paper Call for Global Standards: IFRS*, which called on all parties in the financial reporting chain to work towards a reasonable solution on a global set of standards on financial instruments. European listed companies need certainty on the contents of applicable standards and the timetable for endorsement in order to prepare appropriately and in good time their transition to IFRS. As a general principle, the profession supports global standards. As a consequence, FEE emphasised the need for 'endorsed IFRS' to be the same as 'IFRS'. The paper warned against the endorsement process being used as a means to create separate European standards and discussed the possible implications. Only global standards meet the wider objectives of financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets, reducing the cost of capital and facilitating global investments.

SME

The SME sector is a key driver of the European economy, particularly growth in employment, and the profession provides expert services to SMEs throughout Europe.

In October, FEE held the first ever European congress of SME accountants. The well-attended event was organised with the co-operation of Arc Méditerranéen des Auditeurs (AMA) and hosted by the Instituto de Censores Jurados de Cuentas de España (ICJCE).

SMEs typically rely on their accountants for business advice. Recognising this fact, FEE launched the latest in its series of SME Guides, entitled, *Avoiding Business Failure - a practical guide for SMEs*.

The Future

FEE's work in 2004 has focused on building confidence in the financial markets. The profession has contributed and responded to the agenda for change. Auditing is again seen as a relevant and valued service – clearly at the centre of the profession's activities – and is carried out in the public interest.

It is important that efforts are made in the coming year to reach a shared understanding of the auditors role which will be accepted by regulators, audit committees and the public. There should be a rich definition of audit, involving related and complementary services which enables specialists in accounting firms to continue providing a wide range of appropriate services. Principles-based standards and regulations are always to be preferred since they foster professional judgment and responsibility.

Work also continues on the use of IFRS in Europe and the related infrastructure necessary for success.

As we turn towards implementation of the reforms, FEE's position remains clear and consistent: reform must deliver high quality financial reporting and auditing in the public interest.

FEE Governance

GENERAL ASSEMBLY

The General Assembly is a biennial meeting of all the members of the Federation. The General Assembly receives a report of the Council presented by the President and the report of the Treasurer. It approves the level of expenditure; elects a President; appoints the auditor and adopts decisions upon any constitutional or other matters referred to it by the Council. *(For details of this year's assembly: p.8)*

COUNCIL

The Federation is administered by a Council which consists of one representative appointed by each country of which at least one professional body is an ordinary member of the Federation. In 2004, the Council met five times.

EXECUTIVE

The Executive is responsible for the implementation of the decisions taken by the Council as well as for the day-to-day management of the Federation. The Executive held ten meetings and four conference calls in 2004.

Executive Members in 2004:

David Devlin	President
José Maria Bové	Vice-President
Lino De Vecchi	Vice-President
Andrew Popham	Vice-President
Klaus-Günter Klein	Vice-President
Tom Myhre	Vice-President
Jacques Potdevin	Vice-President & Treasurer
Hans van Damme	Vice-President

WORKING PARTIES

Council decisions are usually prepared by working parties, established to elaborate on specific Council objectives. Some of the working parties continue their activities over a long period due to the characteristics of the subject matter and subsequent developments.

All member bodies, including correspondent members, have the right to appoint a representative to serve on each working party. Approximately 1400 participants attended meetings held at FEE during 2004.

SPECIAL REPORT:

The New Era for Auditing



*FEE President David Devlin meeting
William J. McDonough, PCAOB Chairman*

On the morning of the 16 December 2004, leaders from the European accounting profession gathered in Brussels to participate in a high level discussion on the future direction of the audit profession entitled "The New Era for Auditing".



FEE Governance

Organised to coincide with its General Assembly, the FEE event focused on the implementation of the recent reforms aiming to promote high quality financial reporting and auditing for Europe.



Participants at the New Era for Auditing

By combining recognised leaders of the European and US regulators, industry and the accounting profession, the meeting delivered a unique, high level debate.



Alain Joly, Chairman Air Liquide with FEE Vice-President Jacques Potdevin

The New Era for Auditing featured presentations by: William J. McDonough (Chairman of the US Public Company Accounting Oversight Board); Alain Joly (Chairman of the European Association for Listed Companies, Vice-Chairman of the European Round Table of Industrialists, Chairman of the Supervisory Board, Air Liquide); Alexander Schaub (Director General, DG Internal Market, European Commission); and David Devlin (President of FEE).

The majority of the participants comprised of leaders of national professional institutes of accountants, senior regulators and representatives of the business community. A select number of journalists from leading business media also attended the event. In all, more than 200 people attended that event.



FEE President with Alexander Schaub, European Commission and Vice-President Klaus-Günter Klein



FEE Vice-Presidents Andrew Popham and Hans van Damme with David Wright, European Commission

FEE Governance

GENERAL ASSEMBLY 2004

The FEE General Assembly took place on the afternoon of the 16 December 2004. The Assembly elected David Devlin for a second term as President of the Federation. The President serves a two-year mandate. Jacques Potdevin was elected Deputy President. A new Executive was elected for a concurrent two-year period. The General Assembly also decided upon some amendments to the statutes.

New FEE Members



Kristine Potapovica, Vice-President of the Latvian Association of Certified Auditors, addresses the General Assembly

Three professional institutes of accountants, from Estonia, Latvia and Lithuania, were formally approved as new member bodies at the General Assembly of 16 December 2004.

The Assembly decided unanimously to admit the following professional institutes of accountants as Ordinary Members of the Federation as from 1 January 2005: the Latvian Association of Certified

Auditors (LACA); and the Sloveski Institut za Revizijo (SIZR), from Slovenia, (formerly a Correspondent Member).

The Assembly decided unanimously to admit the following professional institutes of accountants as Correspondent Members of the Federation as from 1 January 2005: the Estonian Board of Auditors and the Lithuanian Chamber of Auditors.

IFAC President

The IFAC President, Graham Ward, addressed the General Assembly. He emphasised that delivering quality throughout the profession is the challenge that IFAC must meet together with its member bodies, regional accountancy organisations, accountants in business and accounting firms. He outlined IFAC's future plans noting that accountants must work together to deliver justified trust in the integrity of business and of markets across the world.



IFAC President Graham Ward addresses the General Assembly



Financial Statements

FEE Income and Expenditures as at 31/12/2004

(abridged version; in €)

	31/12/2004	31/12/2003
INCOME		
Member body contributions (incl. EFRAG)	2.250.000,50	2.250.000,00
Publications (sales)	847,00	730,00
Royalties and other income	1.320,13	10.299,09
Total income	2.252.167,63	2.261.029,09
EXPENDITURES		
Personnel costs	1.260.840,88	1.090.811,17
Office occupancy	174.756,85	173.282,77
Communications	47.861,99	41.374,80
Office supplies	21.226,73	19.367,30
Office maintenance	20.930,50	25.770,86
Library and subscriptions	8.830,06	6.740,70
Hospitality	79.823,16	50.624,04
Travel and subsistence	153.491,40	139.159,58
Contributions to other organisation (incl. EFRAG)	325.079,90	322.022,35
Equipment rental and maintenance	45.488,25	52.306,01
Publications	48.930,07	19.796,99
Other expenses	149.920,10	92.095,76
Total expenditures	2.337.179,89	2.033.352,33
RESULTS FROM ACTIVITIES	-85.012,26	227.676,76
FINANCIAL RESULTS	22.742,98	26.286,77
NON CASH EXPENDITURES	-23.661,11	-47.960,73
DEFICIT/SURPLUS	-85.930,39	206.002,80

The auditor, Deloitte & Touche Reviseurs d'Entreprises, represented by Mr. Michel Denayer, delivered an unmodified report on the annual accounts. The full version of the annual accounts and the auditor's report are made available separately to the member bodies.

AUDIT



“FEE continued working for harmonisation of auditing standards in the European Union. In our feedback to regulators and standard setters, we have supported reforms that genuinely improve auditing, but have voiced our opposition to proposals that will damage quality in practice.”

*Andrew Popham
FEE Vice-President & Chairman of the Auditing Working Party*

Auditing Working Party

The Working Party addressed policy issues arising from developments in auditing and assurance. Sub-groups were active in the areas of IAASB and PCAOB proposed standards, internal control, quality assurance and money laundering. In 2004, Andrew Popham took over the chairmanship from Robert Hodgkinson.

Auditing Standards that Build Quality

2004 saw further progress in convergence towards International Standards on Auditing (ISAs) in EU member states. FEE has championed this cause. Two objectives have underpinned the Working Party's response to the IAASB's consultations on reform of ISAs. Firstly, the standards need to emphasise the overriding importance of audit insight. Secondly, they must be suitable for all sizes of business, from multinationals to SMEs.

These objectives formed the basis of the Chairman's participation in the IAASB's Consultative Advisory Group and for the Working Party's response to their consultation on *Improving the clarity of IAASB standards*. Comment letters were also sent relating to fraud, group audits, the auditor's report and the preface to international standards.

In September 2004, FEE hosted a meeting of the European audit standard setters from which it became clear that the majority of European member states are making good progress in implementing ISAs. Many have adopted ISAs, while others are reconfiguring their standards to highlight national

requirements additional to ISAs. FEE facilitated an important survey detailing these additional steps, the results of which formed the basis of the Federation's input to the IAASB's work programme.

Proposed Directive on Statutory Audit

FEE welcomed the commitment to ISAs in the European Commission's proposed Eighth Company Law Directive on Statutory Audit. When considering how the process of formal adoption of ISAs can be configured, the objective should be a straightforward, efficient structure leading to adoption of the full body of ISAs, but providing an effective forum for debate where necessary.

Other aspects of the Eighth Directive are more of a concern to FEE. The Auditing Working Party contributed to FEE's position paper suggesting changes to the Directive. Concerns were raised over the inclusion of an option for member states to require mandatory rotation of audit firms. The Working Party prepared a study on rotation which reviewed the most significant reports by governments, regulatory bodies and academics from Italy, Spain, the UK, the US and Australia. The overwhelming majority of reports concluded that mandatory rotation of audit firms actually threatens audit quality. FEE has therefore recommended that this option be deleted.



AUDIT

Other Activities

Misuse of the financial system for criminal or terrorist purposes has come to the fore recently. FEE has been keen to make sure that the accounting profession can contribute to prevention within reasonable expectations. The Subgroup on Money Laundering made comments to the European Commission on their proposed Third Money Laundering Directive. These were intended to improve the practical implementation of the Directive and to clarify the responsibilities of auditors.

All of the Working Party's activities were undertaken in the context of the important developments in the United States, with potential for extra-territorial application. Significant comments were submitted to the PCAOB on its proposed standards on audit documentation and oversight of non-US public accounting firms.

Looking Ahead

2005 is expected to see finalisation of the Eighth Directive and further development of auditing standards. FEE will take a major role in supporting the structures these changes bring into place and the Auditing Working Party will work to ensure that real audit quality continues to be the primary objective.

AUDIT



“FEE undertook a project to develop a position on how management and those charged with governance and external auditors can responsibly report on companies’ systems of internal control and risk management in ways that serve the public interest.”

*Robert Hodgkinson
Chairman of the Internal Control Working Group*

Internal Control Working Group

In 2004, the working group developed a discussion paper on the future of risk management and internal control reporting in Europe. The paper has benefited from consultation with a wide range of European Union stakeholder groups.

Bringing it all Together

The FEE discussion paper *Risk Management and Internal Control in the EU* considers the response to the financial scandals in the United States in the form of Section 404 of the Sarbanes-Oxley Act. This requires audited statements about whether or not internal control over financial reporting is effective. The paper also summarises existing and proposed member state and European Union approaches to risk management and internal control. These include the proposals to revise the auditing and accounting Directives. The paper pays due regard to best practices in business risk management and related disclosures to investors.

Setting the Scope

The need for a strong business case supports the argument for any regulatory requirements to be principles-based and allow for the use of judgement in discharging responsibilities. Without losing sight

of the “think small first” principle, there is a presumption that regulatory requirements in relation to risk management and internal control are primarily relevant to listed companies as they expose the public to the increased risks of equity investment. It is also important to recognise that risk management and internal control are the responsibility of those charged with governance and management in the company.

Assurance Solutions

Although primarily directed at companies, the paper also considers related issues for external auditors. The scope of the external auditor’s responsibilities cannot exceed the responsibilities assumed by those charged with governance. This means that external auditors cannot and should not provide assurance services beyond what is reported by companies.

Evolutionary Approach

Staging of the introduction of requirements related to risk management and internal control would be sensible to recognise that some companies and some European member states may face implementation challenges that will take time to resolve. The paper does not presume that there should be a relentless increase in requirements at the European level.



AUDIT

Listed companies operate in securities markets where they are generally subject to the influence of shareholders who can often bring about real changes in behaviour in a more proportionate and cost-effective manner than detailed legal requirements.

FEE supports increased transparency around companies' risk management and internal control processes but is currently not convinced of the benefits of the EU introducing US-style conclusions on the effectiveness of internal control over financial reporting. However, it will be important to take account of forthcoming evidence about the usefulness of such conclusions to investors as Section 404 of the Sarbanes-Oxley Act is implemented.

Future Plans

The Working Group published its discussion paper in March 2005 and will seek to promote debate on it during the year.

AUDIT



"In 2005, the Task Force will focus on the Eighth Directive's progress through the European Parliament. A key concern remaining to be addressed is the issue of auditor liability. It is essential that auditor liability fairly and reasonably relates to the consequences of unsatisfactory audit performance."

*David Devlin
FEE President & Chairman of the Oversight and Regulatory Task Force*

Oversight and Regulatory Task Force

The Task Force was deeply involved in the preparation of the FEE position papers on the European Commission's proposed Eighth Company Law Directive on Statutory Audit. It also monitored the preparation of a study on Mandatory Rotation of Audit Firms.

Audit Directive

The European Commission issued its proposal to modernise the Eighth Company Law Directive on 16 March 2004. The Directive intends to clarify the duties of statutory auditors and to ensure their objectivity and independence. It aims to set the principles for the organisation of the external quality assurance system, ensure robust public oversight of the audit profession and improve co-operation between regulatory authorities in the EU. The Oversight and Regulatory Task Force prepared in coordination with other FEE working parties the profession's response to the European institutions including the Commission, the Council and the Parliament.

On 21 March, FEE issued a policy paper welcoming the proposed Directive and calling for improvements in four major areas: coordination of public oversight, endorsement of global standards, independence rules and liability of auditors. Specific proposals for amendments were suggested to the Commission in July. In November 2004 FEE published a second position paper focussing on a limited number of remaining issues to be discussed in the European Parliament.

Follow up on the Discussion Paper on Public Oversight

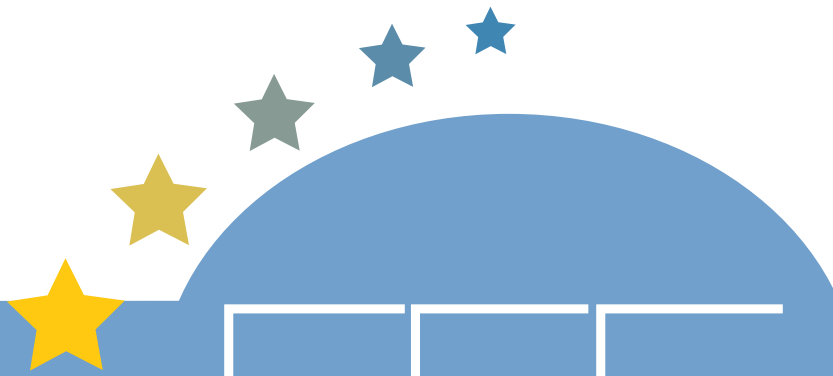
FEE held two major events in order to promote the discussion between the European Profession and the oversight bodies in the member states and internationally. Firstly, on 25 March, the Task Force organised a meeting of FEE Council members with the Chairman and staff members of the US Public Company Accounting Oversight Board. Secondly, in December 2004, a conference entitled *The New Era for Auditing* was organised on the morning of the FEE General Assembly. Leaders from the European accounting profession gathered in Brussels to participate in a high level discussion on the future direction of the audit profession. It provided the opportunity to exchange views primarily on the issues linked to public oversight.

Looking Ahead

The revised Directive on Statutory Audit is expected to be approved in 2005. It will however require some further work and discussion. The Task Force will particularly focus on the Directive's progress through the European Parliament. It will also continue its efforts to promote an effective EU coordination of member state public oversight bodies.

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CAPITAL MARKETS



"FEE welcomes the initiative of the European Commission to modernise company law and to enhance corporate governance. We particularly support: a fuller disclosure of related party transactions and of off-balance sheet arrangements including SPEs and a clarification of the board responsibilities, notably the collective board responsibility."

Erich Kandler
Chairman of the FEE Company Law and Corporate Governance Working Party

Company Law and Corporate Governance Working Party

This Working Party was established in Autumn 2004 as a result of a merger between the Company Law Task Force and the Corporate Governance Subgroup under the Chairmanship of Erich Kandler.

Fourth and Seventh Directives

The first meeting was held in December 2004 with the main item on the agenda being the development of a FEE position on the European Commission

proposal to amend the Fourth and Seventh Directives which was issued for comment in late 2004. These proposals concern board responsibilities, corporate governance statements, related parties and off-balance sheet arrangements.

Other Projects

The Working Party also commented on the European Commission *Consultation Document on Fostering an Appropriate Regime for Shareholders Rights*.

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Corporate Governance Subgroup

The Subgroup during 2004 closely followed the developments in the corporate governance area and contributed to the initiatives taken by the European Commission resulting in Recommendations on remuneration of directors; independence of non-executive directors and a proposal for a Directive to amend the Fourth and Seventh Directives in October 2004.

The revised draft OECD *Corporate Governance Principles* were published for consultation in January 2004 and the Subgroup took the lead in developing FEE's response. A comment letter was sent to the OECD's Steering Group on Corporate Governance in February.

In October 2004, FEE President David Devlin was appointed, in a personal capacity, as a member of the European Corporate Governance Forum. The Forum comprises fifteen persons whose experience and knowledge of corporate governance are widely recognized at European level. The Forum will examine best practices with a view to enhancing the convergence of national corporate governance codes and providing advice to the European Commission.

The Corporate Governance Subgroup merged with the Company Law Task Force in the Autumn 2004 to form the Company Law and Corporate Governance Working Party in order to avoid overlap of activities in the future.



CAPITAL MARKETS

“The European Commission project to consider alternatives to the existing capital maintenance regime needs to be prioritised as the existing capital maintenance regime may lead to artificial restrictions on dividends for solvent companies when planned accounting changes come into force in 2005.”



*Johannes Guigard
Chairman of the FEE Company Law Task Force*

Company Law Task Force

The Task Force prepared FEE's position regarding the capital maintenance issue, including a discussion of the solvency test and the need to accelerate an EC survey in the area.

Capital Maintenance

In February 2004, a letter was sent to the European Commission (EC). FEE believes that analysing the feasibility of an alternative to the existing capital maintenance regime should be a high priority matter. The shortcomings of the existing capital maintenance regime could give rise to the need to move to a more dynamic approach. The existing capital maintenance regime may lead to artificial restrictions on dividends for solvent companies when planned accounting changes come into force in 2005.

The transition to IFRS will impact on the financial information reported by companies and in particular their distributable profits. The principles underlying IFRS include a focus on data for predictive purposes and on fair value accounting. This leads to the inclusion of unrealised profits in the balance sheet and financial results when assets are revalued. The principles underlying the existing capital maintenance regime require that unrealised profits cannot be distributed. However, when liabilities are adjusted to fair values, for example in the case of pensions, the revaluation adjustment is not regarded as unrealised and therefore reduces distributable profits.

This reduction of the amount of distributable profits disregards a company's ability to fund its long-term obligations from future cash flows.

In some countries there are other approaches that have a track record of protecting creditors. In its letter FEE did not wish to prejudge the outcome of the proposed study of alternative regimes. However FEE noted that should a solvency basis be considered it will also be fundamental that the roles and responsibilities of directors and auditors are clearly addressed and defined. It must be recognised that solvency projections rely on judgments for which the directors must have sole responsibility.

Other Projects

The Task Force also contributed to various EC initiatives which led to a number of Commission Recommendations on remuneration of directors; independence of non-executive directors and a proposal for a Directive to Amend the Fourth and Seventh Directives in October 2004.

Merger

In Autumn 2004 the Task Force was merged with the Corporate Governance Subgroup to become the Company Law and Corporate Governance Working Party.

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CAPITAL MARKETS



“FEE called for the creation of a European enforcement coordination body, with a key role for CESR, to ensure consistency in the processes used and decisions reached by national enforcement bodies.”

Erich Kandler
Acting Chairman of the Capital Markets Advisory Group

Capital Markets Advisory Group

The Capital Markets Advisory Group (CMAG) enhanced its cooperation with Committee of European Securities Regulators (CESR) and the European Commission.

European Enforcement Coordination

Following a round table meeting hosted by FEE with a wide range of interested parties, in early 2004 the *Discussion Paper European Enforcement Coordination* was published. The paper called for the creation of a European enforcement coordination body with a key role for CESR; and an additional wider consultation mechanism that would give an opportunity for all stakeholders to contribute to the continuous development of the enforcement system. The European coordination body's role is to ensure consistency in the processes used and decisions reached by national enforcement bodies in order to create a level playing field for enforcement of IFRS.

The Discussion Paper also served as input to the CESR consultation on *Financial Information Coordination of Enforcement Activities*. In April 2004, CESR published Standard n° 2 *Coordination of Enforcement Activities*. The CMAG prepared the FEE comment letter and speaking points for the various hearings. The Group also commented on the CESR Consultation Paper *The Role of CESR at "Level 3" under the Lamfalussy Process*.

Transparency Directive

The CMAG prepared comment letters to the European Commission and to the rapporteurs in the

relevant European Parliament committees on the proposed Transparency Directive. Major issues addressed in the comment letters concerned: reporting deadlines for annual reports; half-yearly reports ('true and fair representation'); review of interim information by auditors; quarterly financial information (key figures based on IFRS); and access to auditing working papers.

The CMAG prepared the FEE comment letter on the CESR Call for Evidence on *Implementing Measures for the Transparency Directive and Equivalence*, and developed comments on the related concept and consultation papers.

Assessment of the Lamfalussy Process

In January 2003 the Inter-institutional Monitoring Group requested input from key European organisations on the assessment of the existing Lamfalussy process in the securities market area. The CMAG prepared FEE's response. The Inter-institutional Monitoring Group has published various progress reports on which FEE has commented in detail. The conclusions on the Lamfalussy implementation are generally positive, indicating that the speed of the legislative process has been enhanced. In addition the Group commented on the assessment of the Lamfalussy Process by the European Commission staff and on the CESR Preliminary Progress Report *Which Supervisory Tools for the EU Securities Markets*, also informally known as the "Himalaya" report.

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CAPITAL MARKETS

“The new European prospectus regime risks being undermined by remaining differences in the preparation of prospectuses. An expectation gap may be created in the minds of prospectus users. FEE has published a discussion paper that seeks to drive out those differences. We will continue to play an active role supporting the development of a single European capital market.”

*Jan Buisman
Chairman of the European Capital Markets Reporting Project Subgroup*



European Capital Markets Reporting Project Group

The Project Group has a specific mandate that has to be achieved within a defined timeframe. The Chairman is grateful to the members of the Group who have been dedicated, enthusiastic and very hard-working.

Reporting

The Project Group actively participated in the consultation process of CESR that developed the basis for the Regulation with the detailed guidance for prospectuses. FEE also contributed to proposed level 3 guidance by reacting to CESR's call for evidence.

Auditors and Prospectuses

FEE noted at an early stage that existing reporting and auditing practices in relation to prospectuses were diverse and needed harmonisation. The project group developed the *Discussion Paper on the Auditor's Involvement with the New EU Prospectus Directive*. It was published in November, following a well-received first discussion at a meeting organised by FEE, of Europe's national auditing standard setters. The standard setters are now preparing to revise their standards in order to be ready for 1 July 2005, when the new regime becomes effective.

Comfort Letters

The Group is developing a discussion paper on comfort letters. Comfort letters are private documents which assist underwriters in their due

diligence on a prospectus and confirm the important role that auditors play in the financial reporting supply chain. Although practice is already converging, there are still differences that do not fit with the model of a single European prospectus. The paper will address the existing differences, the relation with auditing standards and it will suggest ways forward and useful examples.

Future Plans

The Group plans to summarise the feedback received in response to their discussion paper of November 2004 on the auditor's involvement with the prospectus and to make it available to the national auditing standard setters.

The discussion paper on comfort letters is expected to be published in mid-2005. A draft of this paper will be discussed at the next meeting of standard setters in April 2005. The paper will also contribute to the IAASB's forthcoming project on comfort letters.

The Group as a whole, as well as some of its members on a personal basis will continue to assist CESR in the development of further guidance. Both regulators and the accountancy profession share the common goal of a functioning European capital market.

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FINANCIAL REPORTING



“The IASCF Constitutional Review is a highly relevant topic given the obligation for listed companies in the EU to use IFRS from 2005. It provides an opportunity to improve the oversight and transparency of the IASCF and the IASB.”

*Hans van Damme
FEE Vice-President & Chairman of the Financial Reporting Policy Group*

Financial Reporting Policy Group

The Financial Reporting Policy Group deals with policy and strategic matters in the financial reporting area. It coordinates FEE Working Parties in the field of financial reporting, namely the Accounting, Banks and Insurance Working Parties.

EFRAG

One of the main issues on the Group's agenda, concerned the future development and enhancement of the role of EFRAG. Comments were sent in January 2004 to the EFRAG Supervisory Board on their proposal on *The Enhancement of the Role and Working Process of EFRAG*. Issues addressed included: extending of the tasks of the EFRAG Supervisory Board beyond a trustee function, to cover strategic orientation and objectives; establishment of an Advisory Forum to increase transparency; reconsideration of decision processes, notably on negative endorsement advice; intensified cooperation with national standard setters; and a request for formal recognition by the European Commission.

FEE remains fully supportive of EFRAG, actively participating in its work. For example, FEE has stimulated the work of EFRAG on accounting standards for SMEs by setting up a joint EFRAG/FEE Group on IFRS for SMEs in which all EFRAG

Founding Fathers and national standard setters were invited to participate. This Group discussed the IASB *Discussion Paper Accounting Standards for SMEs* and provided its views to EFRAG.

FEE was also involved in the organisation of the first meeting of the Advisory Forum which took place in September 2004 and which was hosted by the European Commission.

IASC Foundation

The Group, with input from other FEE Working Parties, prepared the FEE response to the review of the IASCF Constitution. It is a highly relevant topic given the obligation for listed companies in the EU to use IFRS from 2005. The review also impacts on the environment within which EFRAG operates. In June 2004, FEE participated in the IASCF Public Hearing on the constitutional review in a session shared with the Institut Der Wirtschaftsprüfer, the Union of Industrial and Employers' Confederation of Europe and the European Banking Federation.

The Group has also contributed to EFRAG's comments, on what it believes should be the IASB's priorities, including the convergence work programme. Following the publication of the IASCF paper on the constitutional review in November 2004, further ideas were developed reflecting European concerns.

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FINANCIAL REPORTING

FEE Position on Call for Global Standards: IFRS

The Group assisted in the preparation of the June 2004 *FEE Position Paper Call for Global Standards: IFRS*. The paper was timely given the heated discussion on endorsement of IAS 39. It called on all parties in the financial reporting chain in Europe to work towards a reasonable solution on financial instruments. The paper also highlights the drawbacks if an IFRS cannot be endorsed. The Group prepared a letter to the Commission concerning the proposed carve-outs from IAS 39 and the related due process.

Transition to IFRS

Following the letter received from the Chairmen of CESR and CESRfin in February 2004 raising a number of issues of major importance to the accountancy profession in Europe, including demanding extra attention to the audit of groups, complex financial structures and special purpose vehicles as well as the comfort obtained from an audit, the Group carried out a review of member body activities on the transition to IFRS. FEE circulated CESR's letter to the Presidents and CEO's of member bodies, urging them to be active in relation to the points raised by CESR and to give publicity among their own members to the letter. The FEE President and Technical Director also attended a CESRfin meeting to explain FEE's response.

Future Plans

In 2005 the initial priority of the Group will be on the continuation of discussion on the IASCF Constitutional Review, further development of EFRAG and policy issues arising from the transition to IFRS.

FINANCIAL REPORTING



“The Accounting Working Party allowed FEE to make a major contribution to the IFRS endorsement process in Europe. New or improved standards were adopted by the EU on a range of issues, including business combinations, pensions and share based payment.”

*Benoît Lebrun
Chairman of the FEE Accounting Working Party*

Accounting Working Party

The priority for the Working Party in 2004 was on the preparation for the move to International Financial Reporting Standards (IFRS).

IFRS

Projects reviewed included IASB exposure drafts on: exploration for and evaluation of mineral resources; amendments to IFRS 3 - *Business Combinations* on combinations by contract alone or involving mutual entities; amendments to IAS 19 - *Employee Benefits* on actuarial gains and losses, group plans and disclosures.

In addition responses were provided regarding the interpretations published by IFRIC, (the IASB's International Financial Reporting Interpretations Committee), on: determining whether an arrangement contains a lease; decommissioning, restoration and environmental rehabilitation funds; applying IAS 39 for the first time; multi-employer plans; scope of SIC 12 on special purpose entities; members' shares in cooperative entities; and employee benefit plans with a promised return on contributions or national contributions.

EFRAG

As a constituent of EFRAG, the Working Party contributed FEE's input to the EFRAG advice on the endorsement of a range of improved standards, including: IFRS 2 - *Share Based Payment*; and IFRS 3 - *Business Combinations*. Comments were also provided on IFRIC 1 - *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and *IFRIC Amendment to SIC-12*.

The Working Party also contributed to the FEE response to the IASCF Constitutional Review via input to FEE's Financial Reporting Policy Group.

IFRS for SMEs

The Working Party, together with the SME/SMP Working Party, commented to both EFRAG and IASB on the IASB *Discussion Paper on Preliminary Views on Accounting Standards for SMEs*. Members of the Working Party participated in the joint EFRAG/FEE Group on IFRS for SMEs.

The Working Party also contributed to FEE's reaction to the *Exposure Draft on Financial Instruments: Disclosures* and to the EFRAG endorsement advice on IAS 32 and IAS 39. Financial instruments accounting has generated a lot of debate in 2004; this debate will continue in 2005 given that only temporary solutions have been reached.

Other Projects

The Working Party provided comments to the GASC (German accounting interpretation committee) on their draft interpretation of the accounting issues under IFRS arising from the adoption of the Waste Electrical and Electronic Equipment (WEEE) Directive. Following the consultation on the draft interpretation by GASC, the issue was brought to the attention of IFRIC who published a draft IFRIC interpretation in November 2004.

During 2004 the Working Party started its consideration of the proposed amendment to the Fourth and Seventh Directives regarding related party transactions and off-balance sheet arrangements.

Future Plans

The Working Party will continue to be actively involved in the development of high quality standards and the European endorsement process and will ensure that the European perspective is heard at the international level.



FINANCIAL REPORTING

“When commenting on the European Commission’s proposed carve-out of certain paragraphs of IAS 39, FEE underlined the serious implications arising as a consequence of partial endorsement.”



Hans van Damme
FEE Vice-President & Chairman of the Banks Working Party

Banks Working Party

In 2004, the main focus of the Working Party was on financial instruments. The Working Party operates a Financial Instruments Subgroup in which members of the FEE Accounting, Banks and Insurance Working Parties participate.

Financial Instruments

The Financial Instruments Subgroup developed the FEE comments on the EFRAG draft comment letters and to the IASB directly on various IASB Exposure Drafts in relation to financial instruments and amendments to IAS 39: *Fair Value Option; Transition and Initial Recognition of Financial Assets and Liabilities; Financial Guarantee Contracts and Credit Insurance; and Cash Flow Hedge Accounting of Forecast Intragroup Transactions*. In relation to IAS 32, the Group developed comments on IFRIC ED 8 on *Members’ Shares in Cooperative Entities*. The group also drafted the FEE comments to EFRAG and to IASB on ED 7 *Financial Instruments: Disclosures*.

IAS 32 & 39 Endorsement

One of the main subjects of discussion in 2004 was the endorsement of IAS 32 and IAS 39. The Group monitored the endorsement process, both within the Commission and EFRAG and commented on the EFRAG endorsement advice. Ultimately EFRAG did not submit an endorsement opinion on IAS 39.

FEE also commented on the European Commission’s subsequent proposed carve-out of certain paragraphs of IAS 39 related to hedge accounting and the fair value option on financial liabilities, which was adopted on 19 November 2004. FEE underlined the serious implications arising as a consequence of partial endorsement of IAS 39, building further on the FEE paper issued in June 2004, *IFRS: Call for Global Standards*.

Future Plans

In 2005, the priority will continue to be on the work of the IASB on financial instruments, especially on the outcome of the exposure draft on the fair value option and the discussion with banking organisations on a possible interest rate margin hedge method. The Working Party will monitor more closely the work of the CEBS (Committee of European Banking Supervisors) related to the implementation of the proposed Capital Requirements Directive (CAD) and other related subjects, as long as they contain accounting or auditing aspects.

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FINANCIAL REPORTING



“The introduction of IFRS and the changes in the supervisory environment will make great demands on insurance companies. We will continue to give input to EFRAG and CEIOPS regarding the interpretation and the development of the new rules.”

*Gerd Geib
Chairman of the Insurance Working Party*

Insurance Working Party 2004

International Financial Reporting Standards (IFRS) have been the focus of the years' activities for the Insurance Working Party.

IFRS

In March 2004, the IASB published IFRS 4: *Insurance Contracts* as an interim standard. The Working Party prepared FEE's response to the EFRAG draft Endorsement Advice on IFRS 4. It also discussed the technical impact of IFRS 4 and prepared a comment letter on the drafts of International Actuarial Standards of Practice, published by the International Actuarial Association (IAA) as educational standards, dealing with the impact of IFRS 4 on the actuarial profession.

The Insurance Working Party contributed through the FEE Financial Instruments Subgroup to the discussion on the exposure draft on proposed amendments to IAS 39: *Fair Value Option*, on the exposure draft on amendments to IAS 39 and IFRS 4: *Financial Guarantee Contracts and Credit Insurance* and on the exposure draft ED 7 *Financial Instruments: Disclosures*. The comment letters were developed in collaboration with other FEE working parties and contributed to comment letters sent to the IASB by EFRAG.

European Developments and Solvency II

Regular contact with the European Commission facilitated the Working Party's input on two important projects: the possible supervision of reinsurance companies; and the Solvency II reform (the project aiming to establish a solvency system

that is better matched to the true risks of an insurance company). Now that the EU has taken the high level decisions on the latter, an increased involvement and commitment of the audit profession is necessary. The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) will be responsible for proposing implementation measures on Solvency II and FEE will support this work. Regulators, supervisors and auditors will work together within the established CEIOPS Working Parties in order to define the requirements and criteria for this important assessment of Solvency II. Since 2004, the Chairman of the Working Party, in a personal capacity, is also member of the CEIOPS Consultative Panel.

Future Plans

IFRS remains key, in particular the *Phase II Insurance Project* of the IASB as well as the interpretation and impact of IFRS 4 and the changes to IAS 39. The focus will be on technical issues raised by the different projects, as well as the auditing implications related to fair value measurement and disclosures.

As the European Commission advances with the reform of the supervisory system for insurance companies (Solvency II) there will be much overlap with accounting issues. Close contacts will be maintained with the European Commission, regulators and supervisors particularly via the cooperation with the relevant working parties of CEIOPS.

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PROFESSIONAL REGULATION



“The accountancy profession has emphasised to the European Commission the need for the proposed Services Directive to be consistent with their proposal on the recognition of professional qualifications”.

*Lino De Vecchi
FEE Vice-President & Chairman of the Liberalisation/Qualification Working Party*

Liberalisation/Qualification Working Party

The commitment of the European Commission to improve the working of the internal market for services provoked an acceleration of initiatives in the area of free movement of professionals and firms. The Working Party and its Education Subgroup chaired by Wim Moleveld, prepared FEE's response to these developments.

Directive on Recognition of Professional Qualifications

Free movement of professionals throughout the single market is possible under certain conditions which were defined by a Directive dating back to 1989. The European Commission recently proposed a new approach by which many professions were to be covered by a single Directive. FEE argued that the initial proposal was not acceptable with respect to the regulation of temporary and occasional cross border provision of services. However the text was substantially improved by the EU Council and a letter of support has been addressed to the rapporteur in the European Parliament. FEE's work on this Directive is closely coordinated with that of the other liberal professions. It is important to note that it will have a substantial impact on activities of accountants which are not connected to statutory audit.

Statutory Audit Directive

In March the European Commission issued its proposal to modernise the Eighth Company Law Directive on Statutory Audit. The proposal which intends to build a comprehensive system of regulation for auditors, addresses educational issues and the freedom of circulation throughout the internal market.

The Working Party supported the articles related to the freedom of establishment which are broadly in line with the current practice. It welcomed the proposals made regarding the management and ownership of audit firms. However FEE suggested that shareholders or members of the (supervisory) board of audit firms who are not accountants should not be allowed to exert undue influence on the professionalism and the independence of the audit firms.

Concerning the education requirements, FEE developed alternative proposals modernising the current provisions of the Directive. The proposals have been tabled as amendments in the European Parliament.

Services Directive

A letter was sent to the European Commission raising a number of questions related to the proposed Services Directive. FEE emphasised the need for consistency between this proposal and that on recognition of professional qualifications. The practical results of the country of origin principle and its impact on the supervision of accountants carrying out an activity in a country where this activity is regulated must be assessed by the legislator.

Future Plans

Following DG Competition's report on competition in the liberal professions (issued in February 2004) the Working Party decided to update its study of 1998 on the activities of accountants. A survey on the freedom of establishment of audit firms will be finalised. The Working Party will continue to focus on its on the Statutory Audit, Services and Recognition of Professional Qualification Directives.



PROFESSIONAL REGULATION

“The Working Party launched a substantial publication outlining how the principles underlying the EC Recommendation on auditor independence can be applied in practice. These principles are reflected in the proposed Eighth Directive. The paper also provides a comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants.”



*Harald Ring
Chairman of the Ethics Working Party*

Ethics Working Party

The priorities for the Working Party in 2004 were finalising the project to provide guidance on the implementation of both the EC Recommendation on Statutory Auditor's Independence and the IFAC Code of Ethics and providing a response to the IFAC Exposure Draft Proposed Revised Code of Ethics for Professional Accountants.

Publications

In October 2004, the Working Party finalised and published the study, *EC Recommendation on Statutory Auditor's Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants: Considerations on the Implementation of the Framework Approach*. It outlines how the principles underlying the EC Recommendation on auditor independence may be applied in practice. It also provides a comparison of the EC requirements with that of the independence section of the IFAC Code of Ethics. It is intended to be a tool to help legislators, regulators, supervisors, civil servants, academics, students, practitioners and institutes understand how the framework approach works. Since these principles are also reflected in the proposed Eighth Directive, the publication will assist in implementing the Directive in due course.

Audit Legislation

In March 2004 the European Commission published its proposal to revise the Eighth Company Law Directive on Statutory Audit. The Working Party provided input to the FEE comment letters on the proposal in the areas of ethics and independence. There was also a consideration of suggested terms of reference for the proposed study on the impact of a more restrictive approach on additional

services provided to an audit client, as announced in the European Commission Communication of May 2003 on reinforcing the statutory audit in the EU. These suggested terms of reference were submitted to the Commission in September 2004.

IFAC Code of Ethics

The Working Party discussed the exposure drafts in detail and expressed support for a principles based approach to ethical standard setting, supplemented by appropriate guidance, restrictions and prohibitions. A number of amendments were suggested in comments to IFAC.

European Commission and Other Initiatives

The Working Party contributed to FEE's comments on the revised OECD *Corporate Governance Principles* and on the proposal for a Directive on Services in the Internal Market. The Working Party also commented on the UK APB *Proposals on Ethical Standards for Auditors*.

The Working Party commented on the PCAOB standard *Proposed Ethics and Independence Rules concerning Independence, Tax Services and Contingent Fees*.

Future Plans

As well reacting to the expected revision of the independence section of the IFAC Code of Ethics, the Working Party will also continue to provide input to the FEE commenting process on the revision of the Eighth Directive. Additional work on non-audit services and the development of a publication to further explain the framework approach to auditor independence are under consideration.

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PUBLIC SECTOR



“The centrepiece of the Committee’s activities was the successful conference with the European Commission on accruals accounting in the public sector. It provided an excellent opportunity for the exchange of experiences between member states, the accounting profession, practitioners and academics.”

*Caroline Mawhood
Chairman of the FEE Public Sector Committee*

Public Sector Committee

In 2004 the Committee’s priority was the implementation of the accruals basis of financial reporting in the public sector. It is one of the most challenging aspects of financial management and governance for the sector.

FEE/European Commission Conference

The centrepiece of the Committee’s activities in 2004 was the successful conference held together with the European Commission (EC) on *Accruals Accounting in the Public Sector: Progress and Achievements* in September 2004. The Conference was hosted by the Commission in Brussels and it was attended by over 200 delegates from across the European Union. The Budget Commissioner Michaela Schreyer gave the keynote address and she emphasised the political commitment which underpins the EC’s own change to the accruals basis. Speakers from academe, national government, the IFAC Public Sector Committee and FEE member bodies from across Europe contributed to the exchange of experiences. They explored the rationale for the introduction of accruals reporting and issues that had arisen in their own administration.

Conference Follow Up

As a result of the Conference, the Committee will undertake further research on the accounting policies adopted by European countries that have changed, or are in the process of changing, to the accruals basis. The Committee will also publish a discussion paper on the implications for politicians of the adoption of accruals based reporting. The Committee aims to enhance the partnership it has developed with the Commission. Discussions are underway about the possibility of holding a further conference on accrual reporting, building on the

success of the September 2004 Conference. This would aim to cover practical problems arising from developing and implementing accounting policies on public sector specific areas.

IFAC Public Sector Committee

Our Committee has worked actively with the IFAC Public Sector Committee (IFAC PSC). FEE welcomed therefore the issuing of two IFAC PSC Invitations to Comment early in 2004 on *Revenue from Non-Exchange Transactions (Including Taxes & Transfers)* and *Accounting for Social Policies of Governments* to which members of the Committee had made a positive contribution as members of IFAC Steering Committees.

New Public Management

Public sector management has undergone a significant process of modernisation over the last number of years. This trend has been noted across Europe and is often referred to by academics as ‘new public management’. During the year the Committee considered new public management from the perspective of the finance practitioner and it has started to research approaches in the member states. The Committee also undertook analysis of types of financial control in member states and the relevance of sustainability reporting.

Future Plans

The Committee is planning to strengthen its links with the academic community specialising in public sector financial governance. It will progress its existing projects on sustainability reporting and the new public management. The Committee is also likely to launch a project on combating fraud and corruption in the public services.

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SME

"The SME / SMP Working Party will play a key role representing the small and medium-sized practitioners, as Europe prepares to move to International Standards on Auditing and as the International Financial Reporting Standards (IFRS) for SMEs are developed."



José María Bové
FEE Vice-President & Chairman of the SME/SMP Working Party

SME / SMP Working Party

The highlight of the year was the inaugural congress for SME accountants. In the Summer of 2004, José María Bové the FEE Vice-President for SME/SMP matters took over from Peter Langard as the Chairman of the SME/SMP Working Party.

European Agenda

One of the most important objectives of the Working Party is to represent SME/SMP interests and to contribute to the work programmes of the European Commission (EC).

European Congress for SMP/SME Accountants

The successful European Congress for SMP/SME Accountants was organised by FEE with the support of FEE's Spanish member body ICJCE and of Arc Méditerranéen des Auditeurs, in October. More than 250 accountants from 25 countries met in Sitges to discuss key issues for SMEs. At the event the Working Party also launched its latest publication *Avoiding Business Failure: a practical guide for SMEs*. This paper examines the most common causes of business failure, looks at the effects of failure for the business and its stakeholders and provides practical guidance to SME entrepreneurs by analysing the most appropriate preventive measures to avoid business failure.

IFAC SMP Permanent Task Force

In October the Working Party held a joint meeting with the IFAC SMP Permanent Task Force. During this meeting a co-operation agreement was established: FEE will provide input to the Rapid Response Team structure on ISAs, at an

early stage. This is a very important project, as the proposed revision of the Eighth Directive calls for the use of the International Standards on Auditing (ISAs) in Europe for all statutory auditors.

IFRS for SMEs

The SME Subgroup on IAS for SMEs, (consisting of members of EFRAG and FEE Accounting and SME/SMP Working Parties), initiated work on the profession's response to the IASB project on IFRS for SMEs. FEE member Gerhard Prachner represents EFRAG on the IASB's Advisory Panel for Small & Medium-sized Enterprises. A comment letter was sent to the IASB regarding their paper *Preliminary views on Accounting Standards for SMEs*.

Future Publications

Work continued on a publication to advise on how to protect SME businesses from fraud. In addition, a new project has been started on a survey on accounting networks with a guide for SMPs on how to join or establish a new accounting network. A study on audit thresholds might also be envisaged.

Future Plans

The Working Party will continue to be the profession's voice on SME and SMP issues in the EU. The European Commission's proposal to revise the Directive on statutory audit will present many challenges for small and medium-sized practitioners. FEE will continue to provide support with practical guides as well as with input to European and international level developments.

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SUSTAINABILITY



“Europe is at the forefront of sustainability and corporate social responsibility reporting. FEE’s Sustainability Working Party actively supports the continued development of the reporting infrastructure. Independent assurance is essential to building the credibility of such reporting.”

Johan Piet
Chairman of the Sustainability Working Party

Sustainability Working Party

The objective of the Working Party is to support sustainability and corporate social responsibility. This is achieved by contributing to the development of relevant and reliable management information and on assured external reporting. Accountants support companies and society with their core expertise: the quality of information. The Working Party operates in liaison with the Auditing Working Party and the Financial Reporting Policy Group.

Sustainability Assurance Subgroup

Building on the well-received 2002 *FEE Discussion Paper on Providing Assurance on Sustainability Reports* the Subgroup decided to complete this project by issuing a new paper calling for action from each of the stakeholder groups involved in CSR reporting. Independent assurance is essential in building the credibility of CSR reports. CSR reporting should have as its long-term goal the attainment of a similar quality level as that of financial reporting. The *Call for Action: Assurance for Sustainability* was launched in June 2004.

Another publication dealing with the assurance and reporting aspects of greenhouse gas emission’s trading, and primarily directed to the profession was finalised in 2004. The *FEE Alert on Emissions Trading* was published in January 2005 to coincide with the commencement of the European Union Greenhouse Gas Emissions Trading Scheme.

The Subgroup also provided comment letters on *GRI Boundary Protocol* and on *AA 1000 Assurance Standard Guidance Note on Materiality*.

Other Activities

The European Commission (Directorate General for Environment) in collaboration with FEE held a workshop on the *Implementation of the Commission Recommendation of 30 May 2001 on the Recognition, Measurement and Disclosure of Environmental Issues in the Annual Accounts and Annual Reports of Companies*. The well-attended event allowed member state representatives, the accountancy profession, industry and environmental experts and other stakeholders from across Europe to discuss the drivers and obstacles to a full implementation of the 2001 Recommendation.

The Working Party activities focused on organisations related to its work such as, the Global Reporting Initiative, AccountAbility, UN-ISAR, UN-Division for Sustainable Development, Eurosif, European Partners for the Environment (EPE), the European Commission and the global standard setters.

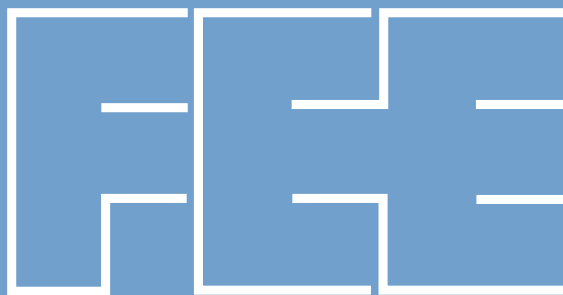
The scope may potentially extend from its clear focus on the quality of external reporting, to include management accounting and the role of accountants working in business. FEE will support the initiatives of the International Federation of Accountants in this field.

Future Plans

The Working Party has commenced a review of its strategic plan. The plan and its related working programme will outline the specific role of the profession in supporting sustainability reporting. Notably, FEE will provide support to the European Commission’s initiatives, IAASB’s *Sustainability Expert Advisory Panel* and input to GRI on specific issues. The Working Party will monitor the development of the EU Emissions Trading Scheme.

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TAXATION



“FEE’s recent paper highlighted the different domestic provisions on loss compensation for tax purposes: these provisions are detrimental to the efficient functioning of the Internal Market and impose a substantial compliance burden on businesses which operate internationally.”

Stefano Marchese
Chairman of the Direct Taxation Working Party

Direct Taxation Working Party

The Working Party focused its activities on the EU legislative agenda and has stepped-up its activities in relation to decisions of the European Court of Justice.

Publications

The Working Party prioritised its work on finalising its *Position Paper On Take Over of Losses in the EU*. The well-received paper was published in January 2005. It identified substantial differences in the treatment of domestic and foreign losses amongst member states. While loss compensation is usually available domestically this is not always the case in cross border situations meaning that foreign investment is treated less favourably than domestic investment. This implies a bias in favour of domestic investment and therefore represents a barrier to the principle of free establishment.

A survey was conducted on the tax advisors profession. A position paper will be developed based upon the survey’s results. The Working Party prepared a survey on trends in taxation reform, which will also be used as a basis to develop a position paper in 2005.

The Working Party provided input to FEE’s Ethics Working Party on the FEE comment letter of December 2004 to the PCAOB on ‘*Proposed ethics and independence rules concerning independence, tax services and contingent fees*’.

IFRS for Tax

A Subgroup has been formed which comprises of members of the Direct Taxation and Accounting Working Parties. The Subgroup will investigate the topical issue of using International Financial Reporting

Standards (IFRS) for tax purposes. It intends to provide a practical contribution to an issue currently being considered by both the European Institutions and the academic world. The Subgroup has prepared a survey on the possible use of IFRS as a starting point for a Common Consolidated Tax Base and it is currently preparing a position paper based on the results of the survey.

European Court of Justice

A subgroup was created to monitor issues related to the European Court of Justice. Decisions of the ECJ are having a significant impact on member state law and company taxation systems. The recent trend has seen ECJ cases rather than EU legislation being the key driver for change in European taxation policy. The aim of the Subgroup is to study the ECJ cases which are most relevant for direct taxation and to develop comments to be sent to the European authorities.

International Co-operation

FEE is part of the Tax Task Force of IFAC (the International Federation of Accountants). The Task Force is preparing a paper on tax services and the accounting profession, which tackles, amongst other matters, the issues arising from the provision of tax advice by auditors to their audit clients.

Future Plans

As mentioned above a number of position papers are in development. The Working party will also start work on a survey on the topic of interest and royalties.

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TAXATION

“Europe’s VAT system needs to be updated: a change in approach is required from VAT policy makers in order to reflect the reality of doing business in the EU today.”



*Stephen Dale
Chairman of the FEE Indirect Taxation Working Party*

Indirect Taxation Working Party

The working party raised its profile significantly with the marked success of the Round Table meeting organised in May.

VAT Round Table

The FEE Round Table *VAT 50 Years Young: VAT and Businesses in a Europe of 25* saw 90 participants take part in a successful meeting which was addressed by a prestigious panel of speakers. The event which brought together leading taxation experts from across Europe, had as its central theme the future of the VAT system. There has been growing concern amongst businesses that the VAT system has not sufficiently evolved over the 50 years since the introduction of the modern VAT system in Europe.

A high level mix of representatives from the European Commission, national tax administrations, the European Court of Justice, major corporations and tax practitioners ensured that real debate took place at the event which allowed the voice of the European accounting profession to be clearly heard in the area of taxation and VAT in particular.

Position Paper

The Working Party has built on the momentum of the Round Table and has started to develop proposals to make the VAT system more efficient. The resulting position paper will be submitted to the European Commission, European Parliament and the EU member states. With this initiative FEE is looking to tackle VAT fraud and to deliver solutions which will benefit both the member states and business.

VAT Proposals

The working party addressed a detailed letter to the European Commission supporting the Commission’s ‘one stop shop’ approach to VAT simplification but regretting that the proposals did not go very far in alleviating burdens on business. This had been one of the themes of the Round Table, in particular as regards invoicing requirements, payments of tax to one point and harmonisation of deduction rights. The Working Party also commented on the Commission’s proposals regarding the place of supply of services in business-to-business transactions, noting that the proposals would impact in a positive manner on business in terms of simplification, but that the risks of fraud potentially increase as the fractionated payment system no longer applied. The fractionated payment system is the basic VAT system whereby VAT is paid (and recovered) at each stage of the production and distribution cycle.

Future Plans

The Working Party will continue to monitor and comment on the development of the draft VAT Directives on travel agents, postal services, financial services, gas and electricity. The Working Party will ensure that DG TAXUD of the European Commission is fully briefed on the profession’s views. A position paper with proposals to make the European VAT system more efficient will be finalised ahead of a major meeting on VAT to be co-chaired by the Commission, due to take place in Berlin in September 2005.

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PUBLICATIONS

FEE Council approved the following publications in 2004

Position on the Proposed Audit Directive

FEE has published its position paper on the proposal to revise the Audit Directive (also known as the Eighth Directive). The profession is concerned that the current draft misses some opportunities to enhance audit quality.

Discussion Paper on the Auditor's Involvement with the New EU Prospectus Directive

The Prospectuses Directive, which comes into force on 1 July 2005, intends to simplify the raising of capital in Europe, and is seen as a cornerstone in the creation of the single market for financial services. However, the desire to create an effective 'single passport' for issuers may not be fully realised, if the lack of clarity regarding the auditor's report remains.

The Prospectuses Directive requires involvement of the auditor to give assurance on historical and prospective information. Current practice about the auditor's involvement with a prospectus varies. Where historical information is restated for investors, the audit work will fall outside the scope of the statutory audit. Although not a standard setter, FEE is recognised as a thought leader on auditing issues. That is why FEE is taking this initiative to safeguard the quality of information that will be made available to investors and other market participants.

The purpose of the FEE paper is to provide national auditing standard setters with a framework within which standards might be developed in order to address the new requirements on auditors from the EU Prospectuses Directive. It is written in such way that it enables the standard setters to use it as their own document to give guidance to practitioners.

EC Recommendation on Statutory Auditor's Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants: Considerations on the Implementation of the Framework Approach

The publication outlines how the principles underlying the European Commission's Recommendation on auditor independence may be applied in practice. The Recommendation requires auditors to identify, consider and document potential threats to their independence and to detail the safeguards which have been put in place to eliminate those threats.

The FEE publication also provides a comparison of the requirements of the EC Recommendation with that of the independence section of the International Federation of Accountants (IFAC) Code of Ethics. The publication is intended to be a tool to help stakeholders understand how the framework approach works. It represents FEE's latest contribution to the auditor independence debate.

FEE Study Mandatory Rotation of Audit Firms

The FEE Study: "Mandatory Rotation of Audit Firms" reviews the most significant reports by governments, regulatory bodies and academics on this subject. The survey includes reports from Italy, Spain, the UK, the US and Australia. It sets out the main arguments made in these reports in favour of such rotation as well as against. The overwhelming majority of studies found that the mandatory (i.e. forced) rotation of audit firms inadvertently threatens audit quality. Accompanying the FEE Study is a one-page cover note summarising the key issues.

Avoiding Business Failure – A Guide for SMEs

The guide from the European accountancy profession provides practical advice to SME entrepreneurs on responsible financial management. 'Avoiding Business Failure - a practical guide for SMEs', is available free-of-charge to SMEs. The guide: examines the most common internal and external causes of business failure for SMEs; looks at the effects of failure for the business and its stakeholders; and provides practical guidance to entrepreneurs of SMEs by analysing the most appropriate preventive measures to avoid business failure.



PUBLICATIONS

Education of Statutory Auditors

FEE believes that the educational requirements for statutory auditors in the existing Eighth Directive need to be substantially amended to ensure the continued relevance of the requirements. Read the FEE proposal to the European Commission.

FEE Call for Action: Assurance for Sustainability

CSR reporting typically sees corporations reporting on their economic, social and environmental impacts. FEE believes that independent assurance is central to building the credibility of CSR reports. Urgent action is required if CSR reporting is to attain the same level of investor recognition as that received by high quality financial reporting. The paper makes a series of recommendations for corporations, standard setters, assurance providers, sustainability indexes and NGOs.

FEE Position Paper Call for Global Standards: IFRS

FEE paper calls on all parties in the financial reporting chain need to work towards a reasonable solution if a decision on a global set of standards on financial instruments is to be endorsed in 2004. FEE has emphasised the need for 'endorsed IFRS' to be the same as 'IFRS'. The endorsement process should not be used as a means to create European standards.

Policy Document on Proposed EU Audit Directive

FEE has responded to the European Commission's proposal to revise the Eighth EU Directive on Auditing by publishing a comprehensive policy document for submission to the Commission, the Council of Ministers and the European Parliament.

Risks and Audit Implications of Electronic Service Delivery in the Public Sector

European public sector bodies are being encouraged to deliver an increasing number of services electronically. FEE's Discussion Paper notes the clear need for management to adopt a positive approach to electronic service delivery, but to be aware of the potential risks. Auditors also need to adopt a supportive approach to electronic service delivery initiatives, it is not just a matter for computer audit specialists.

Discussion Paper European Enforcement Coordination

In the context of the imminent adoption of International Financial Reporting Standards (IFRS) in Europe, FEE calls for the creation of a European enforcement coordination body, with a key role for the Committee of European Securities Regulators. An additional wider consultation mechanism is also required to give an opportunity to all stakeholders to contribute to the continuous development of the enforcement system.

MEMBER BODIES

Austria

Kammer der Wirtschaftstreuhänder (KWT)
www.kwt.or.at

Institut Österreichischer Wirtschaftsprüfer (IWP)
www.iwp.or.at

Belgium

Institut des Experts-Comptables et des Conseils Fiscaux (IEC),
Instituut van de Accountants en de Belasting-consultanten (IAB)
www.accountancy.be

Institut des Réviseurs d'Entreprises (IRE),
Instituut der Bedrijfsrevisoren (IBR)
www.accountancy.be

Bulgaria

Institute of Certified Public Accountants in Bulgaria
<http://ides.bsh-bg.com>

Cyprus

Institute of Certified Public Accountants of Cyprus (ICPA)
www.icpac.org.cy

Czech Republic

Komora Auditoru Ceske Republiky (KACR)
www.kacr.cz

Denmark

Foreningen af Statsautoriserede Revisorer (FSR)
www.fsr.dk

Estonia

Estonian Board of Auditors
www.audiitorkogu.ee

Finland

KHT-yhdistys
www.kht.fi

France

Compagnie Nationale des Commissaires aux Comptes (CNCC)
www.cncc.fr

Institut Français des Experts-Comptables (IFEC)
www.ifec.fr

Ordre des Experts-Comptables (OEC)
www.experts-comptables.fr

Germany

Institut der Wirtschaftsprüfer (IDW)
www.idw.de

Greece

Silogos Egekrimenou Logiston-Elegton Ellados (SELE)

Soma Orkoton Elegton Logiston (SOEL),
www.soel.gr

Hungary

Magyar Könyvvizsgálói Kamara (MKVK)
www.mkvk.hu



MEMBER BODIES

Iceland

Félag Löggiltra Endurskodena (FLE)
www.fle.is

Ireland

Institute of Chartered Accountants in Ireland (ICAI)
www.icaei.ie

Institute of Certified Public Accountants in Ireland (ICPAI)
www.cpairland.ie

Israel

Institute of Certified Public Accountants in Israel (ICPA)
www.icpas.org.il

Italy

Consiglio Nazionale dei Dottori Commercialisti (CNDCC)
www.cndc.it

Consiglio Nazionale dei Ragionieri e Periti Commerciali (CNRPC)
www.consrag.it

Latvia

Latvian Association of Certified Auditors (LACA)
www.lzra.lv

Lithuania

Lithuanian Chamber of Auditors
www.lar.lt

Luxembourg

Institut des Réviseurs d'Entreprises (IRE)
www.ire.lu

Ordre des Experts-Comptables (OEC)
www.oec.lu

Malta

The Malta Institute of Accountants (MIA)
www.miamalta.org

Monaco

Conseil de l'Ordre des Experts-Comptables de Monaco (COECM)

Netherlands

Koninklijk Nederlands Instituut van Registeraccountants (NIVRA)
www.nivra.nl

Norway

Den norske Revisorforening (DnR)
www.revisornett.no

Poland

Krajowa Izba Biegłych Rewidentów (KIBR)
National Chamber of Statutory Auditors
www.kibr.org.pl

Portugal

Ordem dos Revisores Oficiais de Contas (OROC)
www.cidadevirtual.pt/croc

MEMBER BODIES

Romania

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)
www.ceccar.ro

Slovak Republic

Slovenská Komora Auditorov (SKAu)
www.skau.sk

Slovenia

Slovenski Institut za Revizijo (SIZR)
www.si-revizija.si

Spain

Instituto de Censores Jurados de Cuentas de España (ICJCE),
www.icjce.es

Sweden

FAR
www.far.se

Switzerland

Treuhand-Kammer, Chambre Fiduciaire
www.treuhand-kammer.ch

United Kingdom

The Association of Chartered Certified Accountants (ACCA)
www.accaglobal.com

Chartered Institute of Management Accountants (CIMA)
www.cimaglobal.com

Chartered Institute of Public Finance and Accountancy (CIPFA)
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Institute of Chartered Accountants in England and Wales (ICAEW)
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Institute of Chartered Accountants of Scotland (ICAS)
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