

REPORT 1999



INTRODUCTION

1999 was an important year for FEE. Several important decisions were made concerning the strategy of the profession, reflecting the acceleration of the globalisation movement but also the necessity to strengthen the self-regulatory approach of the accountancy profession. A wide discussion was opened concerning the accounting and professional organisations and their structures at a worldwide level. The European accountancy profession will be significantly influenced by these discussions. Therefore, it is important to participate in the debate.

This report summarizes the activities of the Federation in 1999. Among other important decisions of the FEE Council, I would like to mention the approval of four discussion papers: the first relates to “The Financial Reporting Strategy”, the second deals with “The Liberalisation of the Accountancy Profession in Europe” and the others were produced by the Environmental working party. These papers, like so many before, prove FEE’s capacity to deliver constructive proposals to the benefit of the European Business and Professional Community.

Many changes occurred last year in FEE’s staff. I would like to address special words of thanks to those in Council and staff who assured the continuity of activities in these difficult moments.

Hélène Bon
President

GOVERNANCE

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. The Executive is responsible for the implementation of the decisions taken by the Council as well as for the day-to-day management.

In 1999, the Council met quarterly. The Executive held 11 meetings.

The Council is assisted by the Secretary General. Mr John HEGARTY left in July and was succeeded by Henri OLIVIER in November. Mrs. Saskia SLOMP, the Technical Director, covered the post during the interim.

WORKING PARTIES

Council decisions are usually drafted by specialist working parties, established to develop specific Council objectives. Even if there are no standing committees some of the working parties can expend their activities on a long period due to the characteristics of the subject they are responsible for.

All member bodies, including correspondent members, have the right to appoint a representative to serve on each working party.

THE EXECUTIVE

President : H  l  ne BON

Deputy President : G  ran TIDSTR  M

Vice President : Lino DE VECCHI

Vice President : Mary KEEGAN

Vice President : Harald RING

FEE WORKING PARTIES

- Accounting Advisory Group
- Accounting Working Party
- Auditing Working Party
- Banks Working Party
- Environmental Working Party
- Ethics Working Party
- Insurance Working Party
- Liberalisation/Qualification
- Direct Taxation Working Party
- Indirect Taxation Working Party
- Public Sector Committee
- SMEs Steering group
- Euro Working Party

Liberalisation/Qualification Working Party

In March 1999, the FEE Council approved a position paper on “The Liberalisation of the Accountancy Profession”. This important document summarizes the position of the Federation on the freedom of establishment and the free provision of services throughout the European Union.

On 16 September 1999, the Working Party organized a Round Table on the FEE report regarding the Liberalisation of the Accountancy Profession. The event was attended by a large number of delegates representing the profession and the regulatory authorities cross Europe countries as well as representatives from the European Commission. The follow-up by participants was impressive. Some aspects of the FEE study were also debated in the Committee on Auditing in Madrid on 2 and 3 December.

Minority ownership of audit firms by non-EU auditors,, GATS 2000 and the proposed directive on electronic commerce were also discussed during the three meetings of the Working Party in 1999.

Financial Reporting

FEE published a discussion paper on “A Financial Reporting Strategy within Europe”. With this paper FEE stimulated the debate with the European Commission and also with other European organisations aiming at a uniform set of accounting standards needed to integrate Europe’s capital and financial markets. The debate was also influenced by the reform of IASC.

The Discussion Paper addresses seven issues:

- European or global standards ?
- Concentrating on consolidated or individual accounts ?
- Should the use of US GAAP be allowed ?
- Should there be an allowance or a requirement to use IASs ?
- Would compliance with the EU Accounting Directives be required ?
- Should the scope be limited to listed companies or widened to all companies ?
- Would a European endorsement mechanism or body be needed ?

The European Commission is updating accounting strategy and a “Communication” was finally issued in June 2000.

During 1999, the Accounting Advisory group met eight times and the Accounting Working Party met ten times.

A study on comparison of IASs with the accounting directives was approved by Council in its March meeting and published in April.

The Accounting Working party also prepared responses for Council on various IASC and G4+1 projects and exposure drafts.

Auditing

The Auditing Working Party was set up in early 1997, following the publication of the EC Green Paper on the Role, Position and Liability of the Statutory Auditor in Europe and the consequential governmental conference in December 1996. Its primary purpose during the first 18 months of its existence was to prepare two major studies which have received substantial international publicity:

- Continuous Quality Assurance – Statutory Audit in Europe (April 1998) and
- Setting the Standards – Statutory Audit in Europe (June 1998).

The Auditing Working Party met three times in full session during 1999, with other work being conducted via ad hoc taskforces. The main objectives were to encourage the process of EC/Member State follow up to the 1998 report on auditing standards.

The working party also initiated a major study on the standards for audit reporting in Europe, which has subsequently been finalised in June 2000. Through the EU Committee on Auditing and elsewhere, the working party has continued an active public dialogue on the proposed European recommendations on quality assurance for statutory audit.

The Working party responded to IAPC exposure drafts on “Standards for small enterprises” and “External Confirmations”, contributed FEE’s views on IAPC’s work programme, represented FEE (as in prior years) at the IAPC Consultative Advisory Group and considered

the activities in the audit area of the newly formed International Forum on Accountancy Development.

Euro Working Party



FEE supported by the European Commission, has a continuous project on the changeover to euro. The Working Party prepared regular publications and updated the FEE Euro-website www/euro.fee.be, which is one of the most popular on this subject. In addition, this year, two euro-conferences were held in Amsterdam and Barcelona

Fight against organised crime and money laundering

Together with representatives of other liberal professions, FEE signed on 27 July 1999 a “Charter of European Professional Associations in Support of the Fight Against Organised Crime”, prepared by the European Commissioner responsible for Justice and Home Affairs. The profession committed itself to monitor the adoption of standards and improvement of existing mechanisms to protect its members from being involved in corruption, fraud and money laundering.

The European Commission submitted a proposed directive amending the 1991 money laundering directive that brings the profession within the scope of the directive. FEE insisted that the accountancy profession, the legal profession and other consultants should be treated equally in the directive to avoid unfair competition between these activities.

Ethics

During 1999, the Ethics Working Party met four times. In addition, a combined meeting took place with the Liberalisation/Qualification Working Party to discuss the minority holding (49%) in the ownership of audit firms.

The FEE Independence Paper was the basis for the discussion on independence in the meetings of the EC Committee on Auditing in July and December. The working party launched a Survey of Independence Requirements based on the discussion paper. The Summary of Findings was approved by FEE Council in its June meeting.

FEE also presented its independence proposals based on a framework approach in the IFAC Ethics Forum in November. Several members of the Ethics Working Party are also members of the IFAC Ethics Committee.

FEE is also represented in the Independence Standards Board in the USA. ISB has issued various discussion papers/memoranda on which FEE has commented with the framework approach as basis. Representatives of the Federation play an active role in four task forces concerning the conceptual Framework, legal services, outsourcing and firm structure

Environment

The accountancy profession is highly active in emerging social issues through a series of working party initiatives and responses on the publications of other institutions. Next to the undertaking of own initiatives, the Environmental Working Party of FEE is responding to publications of other institutions.

In 1999 the Environmental Working Party met 4 times. Two meetings were connected with other events. In March, the meeting was combined with a conference on environmental reporting and the presentation of the European Environmental Reporting Award 1998. In September the plenary was combined with a meeting of the Global Reporting Initiative.

In 1999, Council approved two discussion papers prepared by the Working Party:

“Towards a Generally Accepted Framework for Environmental Reporting” and “Providing Assurance on Environmental Reports”.

Furthermore comments were submitted to the EC concerning the revision of the EMAS Regulation, and to ISO concerning the revision of the ISO standard on Environmental Management Systems and the combined standard on Quality and Environmental Auditing.

We also commented on the draft EC Recommendation concerning recognition, measurement and disclosure of environmental issues in the annual accounts. In addition FEE plays

Banks Working Party

During 1999, the Banks Working Party met four times. In accordance with past practice three of these meetings were open, for a part of their proceedings, to other participants, including representatives of other FEE Working Parties, CEA (the European Insurance Organisation), the European Banking Federation and the financial reporting unit and banking unit of the Commission (usually referred to as Extended Banks Working Party).

The working party commented on two Basle Committee Consultative Papers related to “Sound Practices for Loan Accounting, Credit Risk Disclosure and Related Matters” and “Best Practice for Credit Risk Disclosure

The Working Party commented also on the draft text of the Commission Recommendation on Disclosure of Financial Instruments The Recommendation has not yet been published in its final form. The working party also devoted time to reviewing and discussing concerns which still remain and were earlier communicated to IASC as part of the comment process on the draft standard on financial instruments (IAS 39) and has been in close contact with IASC on these matters.

Insurance Working Party

During 1999, the Insurance Working Party met only once, since the progress on the IASC Insurance project did not require more meetings. The draft Issues Paper was discussed and comments were presented by the Chairman at the IASC Steering Committee meeting.

Taxation

Two working parties are active in the field of taxation. The first deals with direct taxes, the other with VAT and other indirect tax aspects.

Commission's officials attended regularly these meetings. The purpose of this is to ensure that the Working Parties are fully up to speed with the thinking of the Commission and also to ensure that the Commission is aware of FEE and its role in taxation across Europe.

Direct taxes

The direct tax working party held three meetings in 1999 and the principal areas dealt with are set out below:

- EU Savings Taxation Proposal : a letter to the Commission setting out our view as to the feasibility of the savings directive proposals and basically highlighting concerns with respect to its impact on the European Eurobond market was submitted and approved by FEE Council;
- Survey on Allocation of Expenses Against Dividend Income : This is an important area and one where our survey shows there are variations between Member States which work against the equal treatment of cross-border dividends within the EU. The survey was approved by FEE Council in December 1999.
- Survey on Advanced Tax Rulings : this survey will be finalised in 2000.
- The European Commission has suggested to us that it would be a good idea for us to update the survey on fiscal treatment of the transfer of small and medium-sized enterprises which was first carried out in 1997.

The Chairman of the FEE working party was asked to attend, as an expert, one of the EU Committees looking into the topic of combating tax evasion in the Single Market.

Indirect taxes

During 1999 the Indirect Tax Working Party met three times. Three surveys presented by the working party were approved by FEE Council :

- Survey on the Tax Treatment of Telecommunication Services
- Survey on Electronic Commerce and VAT

- Survey on the VAT Treatment of Software

In addition, the Working Party studied the technical problems related to the present VAT system resulting in a paper “Problems linked to the Present VAT System”. This paper was approved by the FEE Council in December 1999.

Public sector

The Public Sector Committee held two meetings during 1999. The 1999 Public Sector Committee conference was held in Cyprus.

The Committee also published during 1999 advice on the role of the public sector auditor and the introduction of the euro and also advice on the role of the internal auditor on the introduction of the euro on public sector organisations.

An important activity of the Committee during 1999 was the coordination of European attitudes to the proposals of IFAC for the development of international accounting and auditing standards for the public sector.

SME's Steering Group

Council has approved in its meeting of 30 June the SME work programme.

The main issues addressed were

- the establishment of FEE SME network; The FEE SME Network is a pool of available national experts and will deal with technical matters and produce technical papers and advice. .
- potential projects to be included in the working programme; lobbying and contacting activities; and
- FEE paper on business succession.

Another important activity of the committee during the year was its involvement in the 3rd Round Table between Bankers and SME's and the influence it was able to have in the framing of the report addressed to the European Commission.

FEE working parties held 69 meetings in 1999 in order to prepare decisions for the Council. They also organised :

- *Two Euro conferences, in Amsterdam and Barcelona;*
- *A public sector conference in*

Nicosia;

- *A Round table with representatives of the EU Members States on the free movement of accountants' firms across the EU.*

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