

Fédération des Experts Comptables Européens

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Foreword

It has been a significant year for the European accounting profession. During 2001, top-level European political interest has been focused on the future role of the profession.

Common financial reporting standards, high quality audit and good corporate governance have been recognised as central to the creation of a single, integrated European capital market. The profession's proven reporting expertise has been valued by the European Institutions and this confidence in the profession has been confirmed by the principle of monitored self-regulation which has been supported by the European Commission, Parliament and Council.



President Göran Tidström

A lot of hard work came to fruition with the launch of EFRAG (European Financial Reporting Advisory Group). It is an achievement of which FEE can be proud. Also, it has allowed us to strengthen ties with other key stakeholders at the European level, including preparers and users of financial information.

Since the creation of EFRAG in June, FEE has made enforcement of IFRS a priority area. It is important that an effective mechanism be in place by 2005. Broad stakeholder support will be necessary to ensure the success of the enforcement mechanism. FEE will participate in CESR's consultation on the issue, and FEE's discussion paper on enforcement will trigger and inform the debate at European level.

FEE's Proposal on ISAs in the EU, launched in November clearly stated FEE's commitment to harmonised global auditing standards. The launch of this paper has been received positively by stakeholders across Europe.

Final discussions on the European Commission's Recommendation on Auditor Independence have been prolonged by considerations of the Enron collapse. However, the impact will be limited in Europe due to the proactive work undertaken by FEE (the conceptual framework approach) and the European Commission before Enron.

In addition to Capital Markets priorities necessitated by the Commission's ambitious Financial Services Action Plan, FEE will also prioritise SME and SMP issues. Strong contributions in the complex field of taxation are also expected. On enlargement, positive developments can be expected at the next General Assembly. Also, increased coordination and cooperation with IFAC, the ECG and EFAA is envisaged.

The Euro project was finalised after high profile and successful work to the benefit of European business. It created much goodwill for FEE, and continues to do so as the website will continue.

FEE's output is determined by its working parties. Their commitment and activity has allowed FEE to lead the debate in some areas (e.g. Sustainability Assurance Provision and the ISA proposal). This fact is now being made clear internally and externally by strengthened communications work.

Göran Tidström
FEE President

GOVERNANCE OF FEE

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 the year 2001 the Council met quarterly. The Executive held ten meetings.

The Executive in 2001:

Mr. Göran Tidström	President
Mr. David Devlin	Deputy President
Mr. José Maria Bové	Vice President
Mr. Robert Hodgkinson	Vice President
Mr. Stefano Marchese	Vice President
Mr. Jacques Potdevin	Vice President & Treasurer
Mr. Harald Ring	Vice President
Mr. Henri Olivier	Secretary General
Ms. Saskia Slomp	Technical Director



Chairman:
Mr. Benoît Lebrun

ACCOUNTING WORKING PARTY

During 2001 the Accounting Working Party met eight times. In addition it operated subgroups on Modernisation of the Accounting Directives, Pensions (IAS 19), Extractive Industries and Business Combinations meeting a further eight times. The Accounting Working Party also participated in the Financial Instruments Subgroup.

The working party has been actively involved in the Modernisation of the Accounting Directives debate: after submitting a letter indicating FEE's preference for a high level approach, a Discussion Paper on the Modernisation of the Accounting Directives was published in Spring, setting out all possible alternatives. Moreover the current text of the Modernisation of the Directives was reviewed later in 2001 with direct input to EFRAG.

Another important study was the factual study on Enforcement Mechanisms in Europe addressing in particular the enforcement of Accounting Standards. The study concluded that for nearly half of the countries surveyed there was no institutional system in place for enforcement of accounting standards.

A study was published on how European companies are applying IAS 19 (revised) on pension accounting which received wide attention in the press.

The working party contributed to the work of IASC/IASB directly and via input to the EFRAG. Projects in 2001 included comments on: draft SIC Interpretations D27 to D34 and on IASC Issues Paper – Extractive Industries; ED Proposed Preface to IFRS; EFRAG paper on reporting formats; and on the proposed IASC Constitution changes related to SIC. The Working Party discussed the Joint Working Group of Standard Setters Draft Standard and Basis for Conclusion's on Financial Instruments and Similar Items as input to the FEE Financial Instruments Subgroup. Contributions were also made to the Banks Working Party on the Fifth and Sixth Batch of Proposed IAS 39. In addition there was a FEE letter to IASB requesting higher priority for the SME project on the IASB agenda.

Furthermore the Working Party has been active on the following projects which continued in 2002: the monitoring of business reporting on the Internet and XBRL; the impact of IAS on EU statistics, (at request of Eurostat, the statistical office of the European Commission); and the Survey on Business Combinations. The Working Party started discussion on how to restructure its work in the financial reporting area to respond to the demands of EFRAG and IASB. In 2002 the main focus will be commenting on the numerous IASB projects and providing input to EFRAG.



Chairman:
Mr. Robert Hodgkinson
FEE Vice President

AUDITING WORKING PARTY

The working party has been very active in 2001, progressing a number of key issues. In all, the working party met five times, to work on discussion papers, comment letters and other documents. The IAASB Chairman regularly attends the working party's meetings.

A major achievement was the "Proposal on International Standards on Auditing in the EU" which was launched in November 2001. The paper is a clear indicator of FEE's commitment to harmonised

standards for all audits. The issue of auditing standards is high on the agenda of the European Commission's Committee on Auditing. Therefore, the launch of this paper has seen FEE lead the debate on the future of auditing standards in the EU.

The Chairman has had several meetings with the European Commission, attended the Committee on Auditing meetings in Oslo and Paris, attended the IAPC Consultative Advisory Group in Madrid and presented the ISA proposals to the European Contact Group.

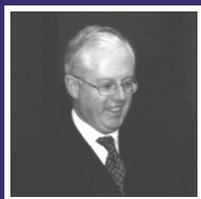
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In addition the working party has given input to the Capital Markets Advisory Group's draft paper on Enforcement of IAS. Furthermore it has produced various comment letters and other contributions to standard setters' initiatives and to external organisations: e.g. to the European Commission, IAPC, IFAC Task Force reviewing IAPC, and input to FEE's response to the GRI on overarching principles for sustainability assurance.

The Auditing Working Party currently has three active Subgroups. The **IAPC Subgroup** communicates electronically on IAPC comment letters as required, most significantly and recently on exposure drafts relating to fair values and e-business. The **Interim Reporting Subgroup** carrying out a survey on interim reporting, met twice during the year. The **Assurance Subgroup** preparing a discussion paper on assurance engagements also met twice.

Activities started in 2001 and expected to be finalised in 2002 include the survey and discussion paper mentioned above. A round table on quality assurance systems may be organised in 2002 or 2003.

In the light of recent events, a review of auditing strategy in the EU, to further enhance audit quality can be expected. The working party anticipates being involved in practical follow-up to its Discussion Paper on ISAs, (e.g. with the proposed forum of standard setters). At the global level, input will be made to the IAASB revision of the audit risk model; revision of ISA 100 to address moderate assurance; and the important proposal's for a revised US auditing standard on fraud. A busy 2002 can be expected for the Working Party.



Chairman:
Mr. David Devlin

**FEE Deputy
President**

CAPITAL MARKETS ADVISORY GROUP

In 2001 the Accounting Advisory Group was extended with capital markets experts, following the decision of FEE Council in its 26 June meeting to give full support to undertaking activities in the capital market area. The Group was renamed Capital Markets Advisory Group. In November, Deputy-President David Devlin took over the chairmanship of President Göran Tidström. There were five meetings in 2001: one of the Accounting Advisory Group and four of the Capital Markets Advisory Group.

During 2001, the Advisory Group has been involved in a number of important developments that will have long term implications for the future of the European profession. By developing the joint proposals for an expert level endorsement mechanism, the Accounting Advisory Group led FEE's drive towards the establishment of EFRAG, (European Financial Reporting Advisory Group). This represents a major achievement for the profession. Together with the group's contacts with the European institutions, regarding the proposal for an IAS Regulation, in all the Capital markets Advisory Group had a very productive first half of the year.

The Chairman's report on capital markets issues, emphasising the Lamfalussy Report and initial proposals for action by FEE in the capital markets area was given full support at the Council in June. The proposals require a pro-active role for FEE in the consultation process with CESR (the Committee of European Securities Regulators), as they establish

the framework principles for implementation of the capital markets programme in the EU. This has provided the focus for future work of the Capital Markets Advisory Group. The group has initially focused principally on developing a Discussion Paper on Enforcement of IFRS within Europe. Throughout the year the Chairman has had several meetings with the members of the European Institutions (including CESR). In relation to EFRAG, meetings have taken place with the Task Force of European Organisations, EFRAG Supervisory Board, European Institutions, IASC Trustees and IASB.

Comment letters were sent regarding: the Proposed Directive on Prospectuses; the Commission Consultation Document on Regular Reporting; and the CESR Draft Statements of Consultation Practices together with a comment letter concerning input to the CESR work programme. The group has also updated Council on EFRAG and progress on the proposed IAS Regulation as well as proposing FEE nominations to the EFRAG Supervisory Board.

The Discussion Paper on Enforcement of IFRS within Europe will be published in April 2002. Other activities expected to be finalised in 2002 include a response to further Commission proposals on regular reporting and work on the Prospectuses Directive. A new Corporate Governance Subgroup was approved by Council in March 2002, and will be an important initiative.



Chairman:
Mr. Hans van Damme

BANKS WORKING PARTY

In June 2001, Hans van Damme took over the chairmanship of Martyn Taylor. There were four meetings of Banks Working Party and Extended Banks Working Party (extended with industry and other experts) in 2001. In addition seven meetings of the Financial Instruments Subgroup were held with combined membership of the Accounting, Banks and Insurance Working Parties.

The main focus for 2001 was on financial instruments. The Working Party prepared comment letters on the Sixth and Fifth Batch of Proposed IAS 39 Implementation Guidance – Questions and Answers. In addition regular input was given to the Financial Instruments Subgroup in preparing the comment letter on the Joint Working Group of Standard Setters Draft Standard and Basis for Conclusions Financial Instruments and Similar Items.

Moreover the Working Party assisted the Commission in reviewing the fair value proposals to amend the Accounting Directives' extension to the Bank Accounts Directive (facilitating the use of IAS 39).

The Working Party gave proactive input to the IAS 30 Steering Committee on issues that need to be considered in the revision of IAS 30. Furthermore the input/comments were provided on the New Basel Capital Accord of the Basel Committee.

Comments were provided on the IFAC/IAPC ED "The Audit of Commercial Banks" and the IFAC/IAPC/BIS ED "The Relationship between Banks Supervisors and Banks' External Auditors"

The main focus for the year 2002 will be on financial instruments, IFRS and the Basle Committee.



Chairman:
Mr. Stefano Marchese

FEE Vice President

DIRECT TAX WORKING PARTY

In September, Vice-President Stefano Marchese took over the chairmanship of Terry Browne. There were four meetings in of the Direct Tax Working Party in 2001.

The Survey on Group Taxation Domestically and Across Borders within Europe together with the Survey on the Aspects of the Taxation of Occupational Pensions in the EU were the major, proactive contributions of the working party.

Contacts with the European Commission were good and officials from DG Taxud participated at the working party's meetings.

The working party participated in the CEPS Tax Task Force contributing to the report published in November 2001, "EU Corporate Tax Reform". It was decided to strengthen contacts with international organisations such as OECD. Also, the working party

has started work on organising a round table on company taxation, which will be held in Autumn 2002.

A number of position papers are expected to be finalised in 2002: a position paper on CFC Legislation; a position paper on take over of Losses; a position paper on taxation of corporate re-organisations; and a position paper on the proposal for a Directive to ensure effective taxation of savings income.

New projects being considered include work on stock options; fiscal residence of companies and individuals and consequence of their migration; taxation base for the European company; transfer pricing; and updating the work on the parent/subsidiary Directive. The Commission's European Corporate Taxation Conference and the Transfer pricing Forum will set the agenda for 2002; a busy year is in prospect.



Chairman:
Mr. Noel Hepworth

EURO WORKING PARTY

The Euro Working Party met twice during 2001. The focus for the year was clear: the introduction of the Euro on January 1st, 2002.

In addition to the meetings there were quarterly meeting with the European Commission's urgent issues Euro changeover panel. Also there was the publication of advice regarding the introduction of the new currency. Two conferences were organised on the Euro in 2001, one taking place in Athens and the other in Brussels.

The Chairman represented FEE at numerous conferences on the Euro and gave talks and provided information at various events. He also attended meetings with representatives of the European Central Bank.

Due to the success of the changeover the working party will probably cease its main activities. Only if additional countries should decide to join the Eurozone is further work envisaged. However the website www.euro.fee.be is still operational and its use increased dramatically in the final months of the year.



Chairman:
Mr. Harald Ring

FEE Vice President

ETHICS WORKING PARTY

The Ethics Working Party met seven times during the year 2001.

One of the main issues discussed during 2001 was the draft EU Recommendation on Statutory Auditors' Independence. The Working Party commented on several drafts and provided input to the FEE representatives in the Committee on Auditing meetings.

The national situation on implementation of the draft recommendation and other developments in the area of independence were closely monitored.

Also the developments in the Committee on Auditing were closely followed. In addition a document on the advantages of the framework conceptual approach under editorship of Peter Owen: "FEE Paper The Conceptual Approach to Protecting Auditor Independence" was published.

Another main item was the IFAC Ethics Committee Exposure Draft on Ethics "Independence – Proposed Changes to the Code of Ethics for Professional Accountants": input was provided to the European members on the IFAC Ethics Committee and the drafting subcommittee and comments were submitted on the re-exposed exposure draft in June.

Furthermore the ISD ED 00-2 "Statement of Independence Concepts – A conceptual framework for Auditor Independence" as issued by the US Independence Standard Board was commented on.

The Working Party considered possible future projects and has decided to give first priority to the project on Guidance on Implementation of both EC Recommendation on Statutory Auditors' Independence and the IFAC Code of Ethics. This project is intended to result in a publication in 2002 and has become highly relevant post-Enron.

INDIRECT TAX WORKING PARTY

The Indirect Tax Working Party met 3 times during the year. Most of the work was concentrated on the development of the Round Table meeting and building on the relationship with the European Commission.

The Round Table on VAT, "Can it survive in the 21st Century?" was held on April 24th, 2001 and was considered by all the participants as being a great success for FEE. The daylong event was very well received by the Commission, the participants, and national and European organisations. The main items debated during the Round Table were: VAT management costs; the real objectives of the tax and whether they were still met; VAT's adaptability to new ways of doing business; and the challenges posed by globalisation of business.

The conclusions reached in the Round Table, suggested that the VAT system must get back to its original objectives of being a simple tax on final consumption, collected in stages. VAT should be neutral for all businesses, and the compliance and administration costs need to be reduced. Harmonisation as an end in itself was not welcomed, but was required to enable businesses to operate more efficiently across borders within the EU.

Comment letters were sent to the Commission's DG TAXUD concerning turnover taxes, and the proposed amendments to the Directive 77/388/EEC, aimed at harmonising the conditions for invoicing in respect of VAT.

Contact with the Commission was enhanced by the attendance of officials from DG TAXUD at the working party's meetings. Information exchange and discussions concerned: the Directive on invoicing; the Directive on electronic commerce; the implementation of Directive on taxable persons, the Directive proposals on place of supply; and the Austrian proposals concerning fraud in VAT.

Representatives of other European organisations also participated at the working party's meetings, for example the European e-business Tax Group. This made for a useful exchange of views on technical issues.

During 2002 the working party will comment on the Commission's plans for the harmonisation of national laws regarding the place of supply of installed goods and the special scheme for travel agents, the directive on e-commerce, consolidation of the 6th Directive, the revision of the place of supply rules for gas and electricity and all of the services rules in article 9 of the Directive, the application of VAT to "public services", including postal services, and the impact of fraud on functioning of the VAT system. The Directive on invoicing will also be addressed. The working party will continue to monitor developments at European and international level in the area on Indirect Taxation.



Chairman:
Mr. Stephen Dale



Chairman:
Mr. Gerd Geib

INSURANCE WORKING PARTY

In its two meetings during 2001, the Insurance Working Party focused on four main areas: the IASB Project on insurance contracts; the demarcation of the roles of auditors and actuaries in life and non-life insurance companies; the joint working group draft standard on financial instruments; and a possible change of the Insurance Accounts Directive in order to bring it in line with IAS 39 (fair value amendment).

Attendance at their meetings by representatives from the European Commission, has allowed the Insurance Working Party to discuss the issue of possible changes to the Insurance Accounts Directive. The working party has not prepared an official response but rather gave its input directly at the meetings. It also provided an opportunity to comment directly on several papers prepared by the Commission.

Following up on the comment letter the working party sent in 2000, regarding the IASB project on

Insurance (Issues Paper), developments are continued to being monitoring in this area. This process has been greatly facilitated by the invitation of IASB Steering/Advisory Committee members to the meetings.

The working party also participated in the Financial Instruments Subgroup, which prepared the FEE response to the IASB on the Joint Working Group Draft Standard on Financial Instruments.

The IASB project on the further developments of an International Accounting Standard for Insurance Contracts will be the main focus of the Insurance Working Party's Activities 2002.

The Working Party will give input to the EFRAG Insurance Subcommittee of which the Chairman Gerd Geib is a member.



Chairman:
Mr. Lino de Vecchi

LIBERALISATION-QUALIFICATION WORKING PARTY

The Liberalisation–Qualification Working Party meet four times in 2001. The working party has been developing a 'Code of Conduct E-Commerce'. This is a major proactive project, which will be the first such paper from one of the liberal professions. Another important project was the letter sent to Commissioner Monti concerning the EC Survey on "The economic impact of regulation of liberal professions".

The working party also responded to a number of EC initiatives: the Communication on Internal Market Strategy for Services; the EC questionnaire on "The Future Regime of Professional Qualification"; the EC questionnaire on "Barriers to trade in business services"; and participation in European Services Forum meetings and approval of the papers sent to the Commission concerning "Domestic Regulation" and "Free movement of key personnel"

The Chairman undertook several official meetings with EU Officials on behalf of FEE. There were also a number of meetings with representatives, at the European level, of the other regulated professions.

The Code of Conduct E-Commerce is expected to be finalised early in 2002. Other projects will include a survey on admission to the profession and possibly new projects on benchmarking of costs for the establishment of a firm in the member states and analysing the effects on the profession of the Bologna declaration of European Ministers of Education.

The working party will also be reacting to the Commission's new strategy on mutual recognition of professional qualification (to be presented to the Barcelona meeting of European Council in March 2002) and the European Court of Justice's likely ruling on multi-disciplinary practices.



Chairman:
Mr. Noel Hepworth

PUBLIC SECTOR COMMITTEE

FEE's Public Sector Committee addressing the impact of the IFAC public sector accounting and auditing standards pronouncements on the European public sector. The Committee had two meetings in 2001.

In the year 2001, the most important IPSASs developments concerned: the length of transitional periods required for the adoption of certain of the standards; concern about the lack of translations from English; highlighting specific European issues with the Exposure Draft on Related Party Disclosures; and the perceived complexity of the proposed IFAC cash standard (the Committee took the view that the proposed standard needed to be revised into two standards (one dealing with basic cash accounting issues and the second with the issues that would arise from consolidation).

The Chairman of the Public Sector Committee has had contacts with the European Commission's Head of Internal Control and spoke at a conference organised by the Commission in November. There has also been informal discussions with representatives of the European Court of Auditors

and of the Commission to discuss closer co-operation between the Court, the Commission and the Public Sector Committee. Other organisations contacted included the World Bank and CIGAR (group of European academics researching public sector accounting and audit issues).

In addition to monitoring IFAC Public Sector output, activities to be finalised in 2002 will include a report on the impact of the introduction of the Euro and reports on: internal control including risk management; developments in E-Government; the use of budgets by Governments to manage expenditure; environmental/sustainability reporting by the public sector; and the contents of public sector bodies annual reports.

In addition to these particular issues, the committee is considering how it can strengthen contact with public sector committees of FEE member bodies, and also between the public sector audit institutions and the private sector profession. The Committee is examining the possibility of promoting a conference to discuss matters of mutual interest in October 2002, in the UK.



Chairman:
Mr. Peter Langard

SME STEERING GROUP

The Group held three formal meetings during the year as well as several Subgroup meetings to consider and edit the publications in progress.

During the year the Steering Group prepared a fresh business plan for the years 2001/2002 which was presented by the Chairman to both the Executive and Council of FEE, in the summer. The group has endeavoured to optimise the use of its resources. There have been many good developments leading towards our strategic goal with FEE obtaining improved recognition for its SME activities from the Commission, other Trade Associations in Europe and member bodies generally.

The Steering Group issued its second publication: "Business Valuation - A Guide for Small and Medium Enterprises" which was successfully launched, resulting in a very favourable response from the European Commission. They felt that FEE's work in this area corresponded well with their own plans for important SME topics and they expressed interest in FEE's plans for future guides in this series.

The Chairman has been working on developing relationships and building up a network of relevant contacts. Hence a number of meetings were held in Brussels with both DG Enterprise and other business organisations. There was also participation in a CEN

Workshop that discussed the varying types of counselling and support services available to small business in Europe and a virtual world congress of Young Entrepreneurs and SMEs.

In order to maximise the groups impact, the Chairman has been meeting with the representatives of FEE's member bodies during the year. As a result of these meetings there is a distinct improvement in the member body support for the Group's activities.

We commented on the Commission proposal to amend the recommendation 96/280/ED (which includes the definition of small to medium sized enterprises).

Activities which should be finalised in 2002 include: the publication "How to Prepare for the Successful Sale of a Family Business"; and comments on the SME section of the Commission paper "Towards an Internal Market without Tax Obstacles". The meetings will continue throughout 2002, aiming at a consolidation of information and activities of all FEE member bodies in the SME/SMP arena. A directory of member bodies' individual SME and SMP publications is also being considered. A number of new publications are to be started, including "General Principles for Writing a Business Plan".



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SUSTAINABILITY WORKING PARTY

FEE's Environmental Working Party changed its name to Sustainability Working Party in order to illustrate the extension and gradual shift of activities in the Working Party from EMAS Regulation to the areas of environmental accounting, reporting and audit through to closer involvement in sustainability reporting and the GRI Sustainability Reporting Guidelines. The working party met four times in 2001.

Education programs for accountants concerning sustainability issues and the education of specialised accountants are a very important topic. Following a survey, started in 2001, FEE will give recommendations and overall concepts for co-operation to its member institutes. In October an "Update on Sustainability and the Accountancy Profession" was published with the aim of informing the 'ordinary' accountant about sustainability issues.

The Sustainability Working Party produced comments to the EU Green Paper on Promoting a European Framework for Corporate Social Responsibility and the Overarching Principles of the GRI Verification Working Group. The Chairman gave a presentation to the ISO TC 207 (environmental management) in July about the verification of environmental reports by accountancy firms. He also

participated in an ad hoc group on the applicability of the new ISO 19011 standard to the validation and verification of greenhouse gasses and environmental reports.

FEE has supported the activities of UN Division of Sustainable Development in the field of 'environmental management accounting'. Furthermore, the Working Party has communicated with the European Commission, European Accreditation, IAPC, IASB, GRI, UNEP and ISO.

One subgroup has been active: the Sustainability Assurance Subgroup, which met 8 times during 2001. This subgroup was preparing the FEE discussion paper "Providing Assurance on Sustainability Reports" and has supported initiatives from organisations such as IAPC and GRI.

For 2002, the Working Party will continue to develop the position of the accountancy profession towards sustainability accounting, reporting and assurance providing. The launch of a new discussion paper profiling assurance on sustainability reports will be combined with a FEE-FSR Sustainability Conference in April 2002 in Copenhagen. Also, special attention will be paid to the consequences for the accountancy profession of the Kyoto protocol.



Chairman:
Mr. Johan Piet

ANNUAL REPORT 2001