



REPORT 2000

Foreword

Several decisions and initiatives of the European Institutions in 2000 will have major consequences on the future of the profession. The Lisbon Summit encouraged the transition to a competitive, dynamic and knowledge-based economy and the creation of an environment for the development of innovative businesses, especially SMEs. The Nice Summit paved the way for the enlargement of the European Union.

The main focus of FEE's attention in 2000 was on three important documents published by the European Commission:

- *the Communication on the Financial Reporting Strategy,*
- *the Communication of Quality Assurance for the Statutory Audit, and*
- *the publication of a draft communication on the Independence of the Statutory Auditor.*

FEE will continue to play a major role in these three areas by the presentation of surveys, comments and proposals to the Commission.

This report summarizes the activities of the Federation in 2000. I would particularly like to mention the publication of four important position papers in 2000:

- *"The Auditor's Report in Europe",*
- *"Free Movement of Firms",*
- *"What Would Happen to a Company in January 2002 that Had Not Converted to the Euro",*
- *"Accounting Standard Setting in Europe".*

These papers, like so many before, prove FEE's capacity to deliver constructive proposals to the benefit of the European Business and Professional Community.

I would like to especially thank those in Council, Working Parties and staff who are working diligently towards building a future for the profession in Europe.

*Göran Tidström
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 2000, the Council met quarterly. The Executive held 8 meetings.

The General Assembly held on 6 December elected Mr Göran Tidström, former Deputy President and country representative for Sweden and the Nordic Federation, as the new President of the Federation for the two years to come.

Council approved on 5 December, the Internal Rules of the Federation, which will be included in the Internal Reference Manual of the Federation

THE EXECUTIVE IN 2000

President : Hélène BON
Deputy President : Göran TIDSTRÖM
Vice President : Lino DE VECCHI
Vice President : Mary KEEGAN
Vice President : Harald RING

THE TECHNICAL STAFF

Secretary General : Henri OLIVIER
Technical Director : Saskia SLOMP
Director Regulatory Affairs : Hélène PARENT
Head of Communication : Marie KELLY
Project Managers : Maria José BARRADO ORTIZ , Maria Eduarda OSORIO

WORKING PARTIES

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

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

The following working parties have had activities in the year 2000 :

- *Accounting Advisory Group: Chairman G. TIDSTRÖM*



- *Accounting Working Party: Chairman B. LEBRUN*
- *Auditing Working Party: Chairman M. KEEGAN*
- *Banks Working Party: Chairman. M. TAYLOR*
- *Environmental Working Party: Chairman J. PIET*
- *Ethics Working Party: Chairman Dr H. RING*
- *Insurance Working Party: Chairman G. GEIB*
- *Liberalisation/Qualification: Chairman L. DE VECCHI*
- *Direct Taxation Working Party: Chairman T. BROWNE*
- *Indirect Taxation Working Party: Chairman S. DALE*
- *Public Sector Committee: Chairman N. HEPWORTH*
- *SMEs Steering group: Chairman P. LANGARD*
- *Euro Working Party: Chairman N. HEPWORTH*

Euro

FEE's Euro Working Party remains concerned about the continuing lack of preparedness of businesses for 2002. Council urged SME's in the Euro zone and outside to prepare the introduction of the single currency.

The FEE publication "*What Would Happen to a Company in tomorrow 2002 that Had Not Converted to the Euro*" was the subject of an article in the Commission's newsletter "Info Euro".

The Euro FEE website was awarded a 4 star (out of a possible 5) rating in a recent Euro website review by Accountancy Age. 58 papers prepared by the Euro Working Party in different languages are available on the website. Easy access is also given to national information networks.

ACCOUNTING WORK PARTIES

Accounting Advisory Group

The Accounting Advisory Group advises the Executive in the financial reporting area and coordinates the work of the Working Parties concerned. During the year it also prepared political decisions for the Council of FEE.

FEE has continued to contribute significantly to the debate on the financial reporting strategy in Europe both before and after the publication of the Commission Communication "EU Financial Reporting Strategy: the way forward" on 13 June 2000. The Accounting Advisory Group developed a note for debate "*Financial Reporting Strategy – Main Issues at Stake*" which intended to provide background to the dialogue with interested parties that could play a role in the technical level of endorsement mechanism, in particular concerning European coordination and creating a European proactive role.

On 31 July 2000, FEE accepted the Commission's invitation to contribute to the development of the technical level of the endorsement mechanism in exploring ways and means to bring about coordination



of the accounting profession, users and preparers in the EU as well as accounting standards setters. FEE agreed to organise this dialogue with the aim to produce joint proposals, which have the support of all key interested parties. Both the Accounting Advisory Group and FEE Council have been actively involved in the development of the joint proposals for the technical level of the endorsement mechanism – the Establishment of the **European Financial Reporting Advisory Group (EFRAG)**. The joint proposals have been submitted to the European Commission on 10 November. The Accounting Advisory Group provided a platform for brainstorming on preparation of the FEE side in the meetings of the Task Force of European Organisations that discussed the establishment of EFRAG.

The Accounting Advisory Group has also been actively involved in stimulating European nominations for the Trustees and the IASC Board. Former FEE President Jens Røder has been selected and is now active as member of the IASC Trustees. Together with the Accounting Working Party and the Auditing Working Party, a response was drafted to the SEC concept release with a focus on European support for IAS.

Accounting Working Party

The first objective of the Accounting Working Party is to comment on exposure drafts issued by IASC: 3 proposed limited revisions to existing standards and 7 SIC Draft Interpretations were commented in the year:

The Accounting Working Party has also given its input on comment letters drafted by the Banks Working Party on the various series of questions and answers issued by IASC for the implementation of IAS 39 Financial Instruments.

The Accounting Working Party does also produces surveys and position papers in relation to current accounting issues. Five subjects were put on the agenda in the year. The first two studies are aimed to investigate how companies in Europe accounted for two major issues: employees' benefit and business combinations. These studies were conducted by subgroups with the help of a trainee from the Netherlands. Other studies are:

- *To What Extent Can Options in IASs Be Used for Consolidated Accounts under the EU Accounting Directives;*
- *Accounting Standards Setting in Europe.* This document describes the national organisations in charge of the accounting standards setting. Two main categories of standard setters have been identified: private organizations and government-linked institutions.
- The review of *Enforcement Mechanisms in Europe* existing in each country.

The Accounting Working Party has worked closely with the Commission on various initiatives to change the Accounting Directives. It has provided the Commission with its suggestions on the draft Directive designed to introduce fair value in the Fourth and Seventh Directives for certain financial instruments and has also acted as an advisor to the European Parliament and ECOSOC. At the end of the year, the Accounting Working Party elaborated on the possible ways to “modernise” the Accounting Directives. After a first letter was sent to the Commission, a discussion paper was decided to be developed.



AUDITING WORKING PARTY

Thirteen of the EU Member States are represented together with Norway, Switzerland, the Czech Republic and Slovenia. 17 countries participated in the production of the Auditing Working Party's latest survey on the Auditor's Report. This survey was initiated in 1999 and follows FEE's more general survey to benchmark national auditing standards, published in 1998.

"The Auditor's Report in Europe" presents a detailed comparison of the compliance of auditors' reports for statutory audit of financial statements in European countries with International Standard on Auditing ISA 700. This report was approved by FEE Council in June and presented in final form to the EU Committee on Auditing in Berlin in November 2000. The survey demonstrates that European professional organisations have now, in all material respects, incorporated ISA 700 in their respective national standards. Areas of difference in auditor reporting that remain are largely concerned with differences in the national legal role and responsibilities of the auditor.

Auditing Standards

The Auditing Working Party continued to use its influence to:

- Respond to IAPC Exposure Draft on *"The auditor's Responsibility to Consider Fraud and Error"*.
- Represent FEE (as in prior years) at the IAPC Consultative Advisory Group and contributed to European IAPC members our views on IAPC's work programme.
- Continue both public and private dialogue with the EU Commission on the harmonisation of auditing standards in Europe.

Quality Assurance (QA)

- Building on the success of round table of November 1998, the Auditing Working Party continued to monitor Member Body progress in setting up and improving systems and initiated a process to facilitate the exchange of information on national QA systems.
- Through the EU Committee on Auditing mainly, continued an active public dialogue on the proposed recommendations on QA for Statutory Auditors, following the publication of FEE's report on audit quality assurance in 1998. On 15 November 2000, the European Commission published its recommendation on *"Quality assurance for the statutory audit in the EU: minimum requirements"*.

In December 2000, Ms M. Keegan stepped down after four years as Chairman of the AWP. Mr R. Hodgkinson replaced her.



FIGHT AGAINST ORGANISED CRIME AND MONEY LAUNDERING

FEE has continued to be active in debate with the European Commission and Member State governments following up the “Charter of the European Professional Associations in Supporting the Fight Against Organised Crime”.

FEE has, in particular, sought to get the position of the accountant treated the same way as the lawyer in the proposed EU Directive on Money Laundering and continued intensively to lobby the European Parliament, the European Council of Ministers Working Party and the Commission and briefed Member Bodies for political action at European and national levels, concerning the proposed Directive on Money Laundering.

LIBERALISATION/QUALIFICATION WORKING PARTY

In 2000, FEE produced a paper on the Free Movement of Firms. FEE is currently developing a further position paper as barriers to free movement still remain.

The Working Party started a new project on the implementation of the EU Directive on Electronic Commerce. FEE successfully lobbied to exclude statutory auditing from the scope of the Directive. Furthermore, Article 8 of the Directive requires the regulated professions to "establish a code of conduct applicable at Community level in order to determine the types of information that can be given for the purpose of commercial communication" on the net. A draft code will be submitted to Council in September 2001.

Banks Working Party

As in previous years, much of the business was open to representatives of the Banking Industry and others (e.g. the European Insurance Organisation (CEA), the European Banking Federation, and the financial reporting unit and banking unit of the Commission - “Extended Banks Working Party”).

In 2000, the Banks Working Party has been active in the following areas:

- *Financial Instruments – IAS 39*: The Banks Working Party in consultation with the Accounting and Insurance Working Parties has prepared comments/amendments to IAS 39 and several batches of Implementation Guidance on IAS 39. The developments in the joint working group of standard setters and the joint working group of banking associations were monitored.
- *Review of IAS 30*: The Working Party has created a subgroup to provide input to the IASC review of IAS 30, Disclosures the Financial Statements of Banks and Similar Institutions.
- *Cash flow statements*: a survey and summary on cash flow statements by banks has been carried out as input to the IAS 30 project.
- *Basel Committee*: comments were prepared on various papers:
 - Paper on Sound Practices for Managing Liquidity in Banking Organisations



- Consultative Paper Internal Audit in Banking Organisations and the Relationship of the Supervisory Authorities with Internal and External Auditors (together with the Auditing Working Party)
- *IFAC/IAPC Proposed International Auditing Practice Statement - Auditing Derivative Financial instruments* (together with the Auditing Working Party)
- *Proposed revisions to the Accounting Directives* to permit fair value accounting for certain financial instruments – possible extension to banks.

The Chairman and Secretariat held meetings during the year with Sir Bryan Carsberg of IASC and with Paul Chisnall of the British Bankers Association to discuss matters of mutual interest.

Insurance Working Party

2000 was largely dedicated to commenting on the IASC's paper on *Insurance Issues Paper* (November 1999). The Paper, which represents the first stage of IASC's project on insurance accounting, identifies the important issues and evaluates the merits of alternative approaches. A Draft Statement of Principles or an Exposure Draft will be issued for public comment before the final outcome of the project; the publication of an International Accounting Standard (IAS) on Insurance, which is envisaged for the year 2003.

A detailed comment letter was prepared and submitted to the IASC in May 2000.

The Joint Working Group of Standard Setters on Financial Instruments has developed proposals for a comprehensive approach to accounting for financial instruments other than insurance contracts. The Insurance Working Party has participated in a joint work with the Extended Banks Working Party in the preparation of a FEE comment letter on IAS 39 – Implementation Guidance Questions and Answers (first batch) in questions related to financial reinsurance.

The Role of the Actuary

The Insurance Working Party is currently considering the document "The Role of the Actuary" issued by the Groupe Consultative des Associations d' Actuaire des pays des Communautés Européennes (April 2000). Of particular concern is the question of the conflict of functions between the auditor and the actuary. The Working Party is developing a position paper on this subject, and hopes to enter into a dialogue with the actuaries at European level.

<p>The European Union's Economic and Finance Ministers constituted on 17 July 2000 a Committee of Wise Men to report on the regulation of European securities markets. The Nice European Council in December 2000 gave its broad agreement to the initial report of the Committee. The capital market regulation will be a major development for Europe, and an area of work for FEE.</p>

Direct Tax Working Party

The Working Party's work of 2000 has been concentrated on developing contacts with the European Commission and the preparation of tax studies on current European tax issues. The Working Party has



also developed a good working relationship with the Centre for European Policy Studies and have been represented at all their working party meetings with respect to European direct tax harmonisation.

Publications and reports prepared during 2000 are as follows:

- a FEE survey on *Taxation of Cross-Border Dividends* was released and highlighted a number of impediments still existing despite the generally successful implementation by Member States of the Parent Subsidiary Directive.
- a FEE study was issued on SME family business succession entitled *Keeping it in the Family – Planning for Yourself, Your Business and the Next Generation*. The Direct Tax Working Party updated this study in the areas of capital gains and inheritance taxation with respect to both the sale of a business and its transfer to family members without consideration.
- a year 2000 update was completed and issued on the FEE survey on the *Fiscal Treatment of the Transfer of Small and Medium-Sized Enterprises*. This study concluded that action in favour of mitigating tax cost on transfer of SMEs is urgently requested both at a community and on a national level.
- the FEE survey on *Advance Tax Rulings*. This study concluded that the provision of tax rulings dealing with tax law and practice is helpful and should be encouraged. It did stress, however, the need for all taxpayers to be treated equally and, accordingly, that all important rulings should, for the sake of transparency, be published. FEE concluded that rulings should not be available on the basis of negotiated special situations applicable only to specific industries or specific taxpayers as this can create unfair competition and potentially distort normal commercial relationships.

Harmonisation and Co-ordination of Corporate Tax in the EU

The Working Party has spent a considerable time in meeting with representatives of the Commission and debating tax issues which are seen as impeding the development of intra-EU trade. In October 2000, a detailed letter was sent to the EU Commission, in which major concerns were identified and suggestions as to steps to improve the position presented, so that the Commission could take our comments into account along with the results of many other studies being carried out as they formulate their recommendations to the European Parliament in this area.

Indirect Tax Working Party

The Working Party monitored, reviewed and commented on the following European Commission initiatives:

- Telecommunication services (proposed amendments to the 6th Directive)
- Tax representatives
- Harmonisation of deduction rights
- Reduced rates on some labour intensive services
- Change in the legal status of the VAT Committee



FEE published the following surveys in 2000:

- *Study on the VAT Treatment of Telecommunication Services* (January 2000)
- *Problems linked to the Present VAT System* (December 1999)

The Indirect Tax Working Party is currently working on:

- Comment on a proposal for a European Council Directive on VAT and Electronic Commerce
- Follow-up of problems with the transitional VAT regime in EU Countries

PUBLIC SECTOR COMMITTEE

A successful conference organised by the Committee with considerable support of the Royal NIVRA “9th FEE Public Sector Conference on Government Governance – Corporate Governance in the Public Sector” was held in Amsterdam.

Following issues were discussed in 2000 :

1. The impact of the introduction of the euro on the public sector.
2. Corporate governance in the public sector
3. The impact of the IFAC public sector accounting and auditing standards pronouncements on the European public sector.
4. Reforming the European Commission.
5. Developments in E-Government.
6. Management of capital investment by public authorities.
7. Performance measurement in the public sector.

The Public Sector Committee published the following in 2000:

1. *Approaches to corporate governance in the public sector.*
2. *The use of benchmarking in the public sector to improve performance.*
3. *The use of business planning techniques in the public sector.*
4. *Protecting against computer abuse.*

One of the more important activities of the committee is to comment to IFAC on the development of the International Public Sector Accounting Standards. Where there are technical issues of limited impact, individual Member Bodies of FEE comment directly to IFAC. However, where there are overarching European wide issues, then the FEE Public Sector Committee comments on behalf of the European profession generally to IFAC. This arrangement evolved following discussions in 1999 about IFAC’s proposal for the development of four bases of accounting. Due in large measure to pressure from FEE on behalf of the European Member Bodies, IFAC eventually agreed to drop their proposal for four bases of accounting and two bases were subsequently adopted.

In the year 2000, the most important European wide issue in connection with the development of the IPSASs has been the length of transitional periods required for the adoption of certain of the standards. FEE has advised IFAC that, for the standards to be acceptable in Europe, a transitional period of more



than 5 years for the most critical standards (to do with assets and liabilities) would be needed. FEE has also offered comments on the IFAC proposals for a standard on cash accounting, where its view was that the proposed standard was far too complex and it would be more appropriate to deal with the issues raised by the publication of two standards; one dealing with basic cash accounting issues and the second with the issues that would arise from consolidation.

Members of the profession are not involved in the management of Public Sector institutions and governments do not look to the profession as a source of information and advice. Our aim must be to change that. To try to do this, the Public Sector Committee has opened discussions with the European Court of Auditors and the auditors of regional public sector bodies. The Public Sector Committee has also sought to enrol the Auditors General or Courts of Auditors in different countries in our activities. So far this has not had too much success, but the Committee would aim to continue these initiatives into the future.

SUSTAINABILITY WORKING PARTY

Environment/Sustainability

The Environmental Working Party proposed to change its name into 'Sustainability' Working Party in December 2000. Although, in principle, the term 'environment' was covering all elements of 'sustainable development' since the founding in 1993, the Working Party preferred to include social and business ethical topics into its work field. The concept of **People - Planet - Profit** reflects the responsibility of corporations and other institutions towards external stakeholder groups. Accounting, reporting and auditing of 'profit' will be covered by existing FEE working parties in general. The non-financial aspects, however, will be part of the terms of reference of the newly renamed Working Party.

In 2000, the following were published:

- *"Towards a Generally Accepted Framework for Environmental Reporting"* (which is adopted by GRI in its Sustainability Reporting Guidelines of June 2000).
- *"Analysis of Responses to FEE Discussion Paper on Providing Assurance on Environmental Reports"*, published in October 1999.

Furthermore, the Working Party communicated with European Commission, European Accreditation, IAPC, IASC, GRI and ISO.

SME WORKING PARTY

During 2000, the SME Steering Group has been successful both in developing external connections and in building a reputation within the European Commission through its research and publications.



The Steering Group published its survey *SME Family Business Succession – Keeping it in the Family* (August 2000), dealing with succession planning in family enterprises. The study focuses on generational change from psychological, legal, financial and fiscal angles. It is ideally intended for accountants to give to their clients as part of a process of structured review of succession issues.

This survey has been very well received, both by the European Commission and by many of the Member Bodies of FEE. As a result, the Working Party is working on publications on the following topics:

- *Valuation of a SME*; the Steering Group is developing the original IDW draft Standard for carrying out business valuation (IDW HS1) into a European Guidance for SMEs and SME accountants.
- *Buying and Selling a family Business*
- *The Role and Activities of Auditors in Business Transfers over Europe*
- Work on the causes and effects and limitation of business failure.

Third Round Table of Bankers and SMEs

A particular success for the SME Steering Group results from its participation in the programme of the Third Round Table of Bankers and SMEs during 1999/2000. FEE has made a valuable contribution both to the debate and to the publication of the Third Round Table's report, thus ensuring that the role of the profession received due recognition.

THE FEE WEB-SITE: <http://www@fee.be> ...

... was under reconstruction for some time. On the occasion of the General Assembly in December 2000, a new site has been launched. It gives an efficient access to the main issues addressed by the European institutions and FEE, as well as a direct link with Member Bodies' web-sites.



The European Federation of Accountants

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