



Issue No. 2 / 2002

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LATEST NEWS:

FEE has responded to the second consultation on Regular Reporting

FEE has also provided input to the high-level consultative group focusing on the modernisation of the Company Law Directives

<http://www.fee.be/secretariat/Positionpaper.htm>

FEE President Mr. Göran Tidström will be speaking at: 'A Single Capital Market in Europe: Challenges for Global Companies' to be held in Brussels on October 9th-10th

<http://www.fee.be/secretariat/Whatsnew FEE News.htm>

ENFORCEMENT: SAFEGUARDING THE STANDARDS FOR EUROPE

Following adoption of the IAS Regulation, many companies will have to use International Financial Reporting Standards (IFRS) by 2005. Welcoming this development, FEE is now launching a timely discussion paper outlining a strategy for achieving effective enforcement of accounting standards in Europe.

'Enforcement of IFRS in Europe' - the discussion paper is now available from FEE's web site

The IAS Regulation will require all listed companies in the EU to prepare consolidated financial statements under IFRS. Member States will also have the option to permit or require other companies to prepare single company or consolidated financial statements under IFRS.

Use of IFRS will facilitate the comparability, reliability and quality of financial reporting. For this reason it is essential that the Regulation be a success. It is crucial, therefore, that there is effective enforcement of all IFRS in place by the 2005 deadline.

Having studied the mechanisms currently in place,

and considered the further steps necessitated by the IAS Regulation, FEE has just published a Discussion Paper on Enforcement of IFRS within Europe. The paper concludes that urgent action is necessary to ensure that effective European enforcement of IFRS becomes a reality.

The wider corporate governance issues should be noted; an effective system of enforcement requires that all those with an influence on financial reporting play their part in the process.

FEE believes that there is a need to strengthen corporate governance arrangements so that they are equally effective

across Europe in relation to financial information using IFRS. It is important that the enforcement body supports the effective functioning of the roles of management, Directors and the Supervisory Board or the Audit Committee and the external audit.

In the vast majority of cases, the combination of careful preparation, review and approval within the reporting enterprise and high quality external audits by the statutory auditor ensures that errors and omissions are avoided.

The enforcement mechanism provides an additional safeguard to maintaining confidence and reliability of

ENFORCING THE STANDARDS

(Continued from page 1)

financial statements. The appropriate means of rectification of incorrect financial information should range from restatement of defective financial statements to subsequent disclosures or other forms of publication.

The primary emphasis of an enforcement body should be on correcting inappropriate application of IFRS, so that the integrity of financial information is upheld. While sanctions are an essential feature of effective enforcement, the means by which they are applied can vary. They should not involve an additional system to those already in place through other legal or regulatory arrangements. The new enforcement system for Europe should be accompanied by broadly equivalent sanctions.

Ultimately the objective should be to establish one enforcement system for all those that use IFRS throughout the world. However, a single enforcement system is currently an unrealistic goal. Therefore, European enforcement should be built on effective national enforcement bodies, with a European level coordination.

All EU Member States are recommended to review their arrangements for enforcement. In countries where such an enforcement body does not exist, it is recommended that an enforcement body be established, based on a review panel model (generating the broad stakeholder support necessary to meet the fast approaching deadline). Such a model would be sufficiently flexible to extend enforcement to all IFRS companies, including public interest companies, banks and insurance undertakings.

Although the scope could be limited to start with, ideally the enforcement system should extend to all documents that provide price-sensitive financial information using IFRS, and should not be limited to annual financial statements or just to listed companies.

It is the Committee of European Securities Regulators' (CESR) responsibility to make formal proposals at the European level on the

enforcement of IFRS for listed companies. It must be remembered that non-listed companies will also use IFRS. All companies using IFRS should be subject to enforcement. Therefore it is important that effective enforcement mechanisms are also in place for non-listed companies using IFRS.

Interpretation of IFRS by enforcement bodies may give rise to difficulties. Enforcement should not result in inadvertent standard setting. In view of this, enforcement bodies should be cautious in issuing interpretations. Guidance should be referred to EFRAG and IASB to be considered for general application / interpretation.

Furthermore, enforcement decisions on financial information prepared using IFRS need a European-level coordination in order to create a level playing field across Europe. Consistency is vital in order to avoid the unwanted possibility of 'enforcement shopping'.

A European Enforcement Coordination (EEC) will require action by the European Commission, CESR and

national enforcement bodies. The procedures for co-ordination will need to be carefully developed.

As envisaged by FEE, the coordination mechanism should be established as a partnership between the national enforcement bodies. Its aim should be to facilitate convergence and harmonisation of enforcement decisions. A mixed-model approach can be used, combining both the securities regulator and review panel models. The mechanism will allow information exchange on important enforcement decisions. Ideally, the coordination mechanism should be consulted before a national enforcement body takes a decision in an individual case that could set a significant precedent of general European significance.

FEE has started a dialogue on the issues raised in the paper with primary stakeholders such as the Commission, the Committee on Auditing and CESR.

If you have any comments, FEE would welcome your input. Email Saskia Slomp, FEE Technical Director: Saskia_Slomp@fee.be

Enforcement is a key part of the framework for high quality reporting. It is also a fundamental component without which the IAS Regulation would be ineffective.

FEE supports the Regulation's aim of helping to create a fully integrated European capital market and recognises CESR's role in this task.

In addition, FEE stresses that effective enforcement mechanisms must be in place for all companies using IFRS, not only listed companies.

Mr. David Devlin
FEE Deputy President
Capital Markets Advisory Group Chairman

Download the paper from the publications section of FEE's web site:

<http://www.fee.be/publications/LatestPubs.htm>

SELLING THE FAMILY BUSINESS ?

Download a copy of the Guide free-of-charge from:

<http://www.fee.be/publications/main.htm>

To order copies by email:

Secretariat@fee.be

Third publication in a series of practical guides for SMEs and SMPs (small and medium sized accountancy practices).

The FEE publication, entitled **'How to Prepare the Successful Sale of an Established Family Business'**, discusses the general principles of selling an established family business. Use of the content can be tailored to the particular circumstances of a sale.

Selling the business is recognised as being one of the most stressful events a small or medium enterprise can undertake. Careful preparation can do much to lessen such fears.

By outlining the necessary steps, FEE's SME/SMP Working Party is utilising its expertise to give valuable advice that has real relevance to the majority of European companies.

It can take several years to move from the decision to sell to the point where the business is ready for disposal, therefore a lot of emphasis needs to be given to planning.

The guide carefully details the essential features of the selling process. It follows the process from the starting point of 'why sell ?' through to getting your business ready for sale, finding the buyer, broking the deal and analysing the role of the adviser.

To date this initiative of giving practical advice to SMEs and SMP's has been positively received by key European stakeholders.

The other publications in this series are also available from the FEE web site:

Keeping it in the Family: SME Family Business Succession: *How to organise a succession plan which takes into account the needs and interests of all the generations in the family.*

Business Valuation: a guide for Small and Medium Sized Enterprises: *General principles for valuing a business are outlined as well as specific matters arising for SMEs.*

FEE NEWS

The Role of Accounting and Auditing in Europe

FEE Paper
Role of Accounting
and Auditing
in Europe

<http://www.fee.be/secretariat/Positionpaper.htm>

Recent high profile international business failures have raised concerns about the credibility of the financial information presented to the market place, and the regulatory system which is put in place to protect investors.

Recognising the fundamental importance of public trust in the accountancy profession and the need to work continuously to maintain that trust, FEE's new position paper highlights the essential issues for the accountancy profession at the centre of the current debate.

The key areas concern: financial reporting standards; enforcement of standards and corporate governance; auditing standards and quality assurance; ethical standards and independence; oversight of the profession; and auditor liability.

The paper reviews recent developments and suggests the future steps necessary to safeguard the quality and reputation of financial reporting.

Fact Sheet: Greenhouse Gasses

FEE's Sustainability Working Party has produced a new fact sheet explaining the implications for the accountancy profession of the Kyoto Protocol (under which industrialised countries agreed to reduce the combined emission of greenhouse gasses by at least 5%).

The protocol proposes three market mechanisms (financial instruments) designed to reduce greenhouse gas emissions. The accountancy profession's reporting expertise will be necessary for the successful adoption of the protocol. The fact sheet is intended to raise awareness on this important issue.

For more information about the Fact Sheet contact Mr. Johan Piet, Chairman Sustainability Working Party:
jjpiet@worldonline.nl

Download the Fact Sheet at:
<http://www.fee.be/publications/main.htm>
If you would like a paper copy of the Fact Sheet, contact Lorraine_Diamond@fee.be

FEE Direct Tax Round Table - October 16th

FEE is bringing together the key stakeholders for a high-level round table meeting, which will focus on the future development of direct taxation in Europe.

Taking place in Brussels on October 16th, the European Commission, national tax administrators and representatives of leading European business organisations will be represented.

The round table will focus on 4 main themes: common (consolidated) base taxation and impact of IAS; a European company tax system; developments of EU case law; and a European tax system for SMEs.

The topics are chosen to be particularly relevant in the context of the European Commission's recent Communication 'Towards an internal market without tax obstacles'.

For more information contact Ms. Maria Jose Barrado, Project Manager - Taxation and SMEs.
e-mail: Maria_Jose_Barrado@fee.be

KEY EUROPEAN DEVELOPMENTS

June saw significant developments that will impact strongly on the profession. New legislation will commit Europe to international financial reporting standards. Another major development was the publication of the recommendation on auditor independence, in May.

References:

IAS Regulation

http://europa.eu.int/comm/internal_market/en/company/account/news/index.htm

EFRAG

www.efrag.org

Modernisation of the Accounting Directives

http://europa.eu.int/comm/internal_market/en/company/account/news/index.htm

Recommendation on Auditor Independence

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

FEE Paper: The Conceptual Approach to Protecting Auditor Independence

<http://www.fee.be/publications/main.htm>

Commission's Enron Paper

http://europa.eu.int/comm/internal_market/en/company/company/news/index.htm

The IAS Regulation

Council adopted, in a single reading, the IAS Regulation requiring companies listed on a regulated market, including banks and insurance companies, to prepare their consolidated accounts in accordance with International Accounting Standards (IAS) from 2005 onwards. EU Regulations have the force of law without requiring transposition into national legislation

Member States now have the opportunity to extend this requirement to unlisted companies and to annual accounts. Where endorsed IAS is not applied, the 4th and 7th Accounting Directives will continue to act as the basis of EU accounting requirements.

The Regulation will help eliminate barriers to cross-border trading in securities by ensuring that company accounts are more reliable, transparent and comparable. It contributes to increased market efficiency and reduced cost of raising capital.

The Regulation also establishes a new EU mechanism to assess IAS and to provide legal endorsement for use within the EU. The Accounting Regulatory Committee will decide whether to endorse IAS on the basis of Commission proposals.

The role of the European Financial Reporting Advisory Group, (EFRAG) is officially recognised in the IAS Regulation. EFRAG will provide the Commission with technical expertise concerning the use of IAS.

In June EFRAG sent an endorsement letter to the European Commission confirming that there are no remaining incompatibilities between IFRS (from IAS 1 to 41 with related SIC interpretations) and the Fourth and Seventh Directives.

Proposal to Amend the Accounting Directives

The European Commission has proposed amendments to the existing Accounting Directives. The proposals aim to complement the IAS Regulation and to bring existing EU rules into line with current best practice.

Where endorsed IAS is not applied, the detailed provisions of the 4th and 7th Accounting Directives will continue to act as the basis of EU accounting requirements. These Directives may therefore continue to be applicable to up to 5 million companies in Europe.

The Commission's proposal would bring EU accounting requirements into line with modern accounting theory and practice. And in so doing, it would remove all inconsistencies with IAS.

As well as modernising accounting requirements, the proposed amendments make clear that, in the annual report, the analysis of risks and uncertainties facing the company should not be restricted to financial factors. This is in order to encourage disclosure of key social and environmental aspects, where relevant.

The proposed new requirements also move towards a more harmonised presentation of statutory audit reports, by being consistent with those of International Standards on Auditing issued by IFAC.

Recommendation on Statutory Auditors' Independence

The Commission's Recommendation on Statutory Auditors' Independence was published in May. It is intended to serve as a clear benchmark of good practice to be immediately applied throughout the EU.

The Recommendation sets out fundamental principles for the

profession. Auditors are prohibited from providing services which compromise their independence. Also, partners involved in performing audits should not join the audit client before the end of a two year cooling-off period. Furthermore, key audit partners must not audit the same client for more than seven years in succession.

A principles-based approach to auditor independence covering threats and safeguards is set out in the Recommendation. Safeguards include the full disclosure, at least annually, of fees for audit and non-audit services, and a written declaration confirming independence, which must be made by the auditor to the audit client's governance body, for example a board of non-executive directors or a supervisory board.

In 1998, FEE issued a policy paper on audit independence and objectivity, which set out a common core of principles concerning independence issues. Since then FEE has further developed the conceptual approach to auditor independence. The Commission's recommendation adheres to the spirit of the FEE framework conceptual approach.

As the Recommendation is not legally binding, the Commission will review its application in three years time to consider whether further EU legislation will be required.

Commission on Enron

The European Commission's has published its analysis of the repercussions for the EU of the collapse of Enron. The paper, entitled "A first response to Enron related policy issues" outlines steps that need to be taken to guard against similar events in Europe.

The paper emphasizes that the EU is already working on most Enron-related regulatory issues through the Financial Services Action Plan. Policy initiatives are highlighted in five areas: financial reporting, statutory audit, corporate governance, transparency and regulation of financial analysts and credit rating agencies.

COMPANY TAX OBSTACLES

Download the
Position Paper
free-of-charge
from:

[http://www.fee.be/
publications/
main.htm](http://www.fee.be/publications/main.htm)

To order copies by
email:

secretariat@fee.be

FEE's new position paper tackles the issue of taxation of Controlled Foreign Companies (CFC), making a number of key recommendations.

The 'Position Paper on Controlled Foreign Company Legislations in the EU' consists of a comprehensive study of fiscal laws regarding CFCs, and a reflection on how CFC rules are structured and applied by EU Member States. Furthermore it analyses differences and similarities of national CFC laws, together with the consistency of the current legislation with the fundamental principles of the EC Treaty (in particular with the non-discrimination provision).

The position paper makes the following three recommendations:

Firstly, that no CFC legislation should be applicable within the internal market, provided that the tax regime of the subsidiary is in line with the prescriptions of the Code of Conduct;

Secondly, a better coordination is required in the tax treaty policy towards non-EC countries with regard to the application of CFC rules, to avoid distortions in the allocation of resources within the internal market; and

Thirdly, a better coordination is needed among the different CFC legislations in place in the EU Member States, to avoid international double or multiple taxations.

International anti-avoidance provisions used to justify CFC law should be balanced with the need to assure a full implementation of the internal market without tax obstacles.

If not, such obstacles serve to create distortions in the economic allocations of resources and hence inefficiencies.

Mr. Stefano Marchese
FEE Vice President & Direct
Tax Working Party Chairman

NEW E-COMMERCE CODE

Download the
Model Code of
Conduct from:

[http://www.fee.be/
publications/
LatestPubs.htm](http://www.fee.be/publications/LatestPubs.htm)

To order copies by
email:

secretariat@fee.be

Model code of conduct launched governing on-line commercial communications

The use of the World Wide Web and the Internet continues to grow exponentially. And this growth is affecting all professions. Important issues like privacy, freedom of speech, and protection of intellectual property have acquired a new meaning in the information age. It is essential that the enormous potential of this technology is not undermined by inappropriate use.

The Directive on electronic commerce (2000/31/EC) is an important step in preparing Europe's transition to a knowledge-based economy. Its goal is to create an ideal environment to accelerate e-commerce, and it seeks to ensure that electronic commerce benefits fully from free movement of services and freedom of establishment in the Internal Market.

Amongst other things, the Directive encourages the regulated professions to draw up Codes of Conduct in order to determine the types of information that can be provided, in conformity with the rules regarding these professions.

It can be expected that the Internet will play an increasingly important role in facilitating the provision of accounting and consulting services. Many professional accountants have created their own web sites as a means of both communicating the services they can provide to the general public and, in some cases, providing those services by electronic means.

FEE Council believes that the accountancy profession should be proactive in this area. Hence, they have approved a Code of Conduct that provides guidance both to FEE Member bodies and to their members on what constitutes acceptable and unacceptable on-line commercial communications, according to recognised standards of professional conduct.

PUBLIC SECTOR CONFERENCE

'Exploiting the e-opportunity in Europe' is the title of the 10th FEE Public Sector Committee Conference taking place in the UK from 10-12 October.

Held every 18 months, the FEE Public Sector Conference attracts finance directors and public sector professionals from across Europe. This year the focus is on e-opportunity in Europe'.

Public authorities throughout Europe are struggling to promote e-government and e-activities generally. The public sector in Europe, whether at central, regional or local government level, needs to develop effective strategies to benefit from 'e' technology. Converting strategies into cost effective practical applications is a real challenge.

The purpose of this conference is to explore alternative strategies and ideas. The programme provides an overview of developing practice and utilizes the workshop format to explore particular examples in depth. 'E' activity transcends national boundaries in a way few other developments are able. Hence benchmarking best practice can work to reduce costs and to generate new ideas.

The Chartered Institute of Public Finance and Accountancy, CIPFA, is hosting this conference on behalf of FEE.

For more details visit:
[http://www.fee.be/secretariat/
Whatsnew FEE News.htm](http://www.fee.be/secretariat/Whatsnew FEE News.htm)

or email:
Heather.Dunlop@cipfa.org



SUSTAINING CREDIBILITY



Danish Minister of the Environment, Mr. Hans Chr. Schmidt (fourth from the right) with the winners of this year's European Environmental Reporting Awards. The awards were combined with the FEE/FSR Sustainability Conference, held on April 29th in Copenhagen.

New discussion paper focusing on the future of assurance provision for sustainability reporting

The principle of Sustainable Development, as outlined in the UN's "Earth Summit" in Rio de Janeiro, ten years ago, delivered a challenge to the business community. Could it respond to society's demands and demonstrate that strategy formulation, process improvement and performance measurement were being led by considerations other than simple financial profit?

Since then sustainability reporting has evolved through a process of continuous innovation in corporate reporting. Today,

such reports typically include environmental, social and economic information. The proven reporting expertise of the accountancy profession has helped to strengthen the credibility of sustainability reporting and assurance.

Continuing its leading role on sustainability issues, FEE has recently launched a timely new paper, ahead of the forthcoming UN World Summit on Sustainable Development in Johannesburg.

The Discussion Paper: Providing Assurance on Sustainability Reports, aims to stimulate debate on an element that is key to the wide scale acceptance of sustainability reporting. Third party, independent assurance provision enhances the quality and credibility of company reporting.

The paper asks whether sustainability reporting is now mature enough to withstand the highest levels of such scrutiny.

Achieving generally accepted, high quality reporting requires an inclusive approach, (indeed many accountancy firms currently use multi-disciplinary teams when providing sustainability assurance). Therefore, FEE encourages a multi-stakeholder dialogue on the issues raised by the paper.

Download a copy of the publication free-of-charge from the FEE website:

<http://www.fee.be/publications/main.htm>

Order hard copies from Ms. Sylvie Romancide, email:

Sylvie_Romancide@fee.be

Providing Assurance on Sustainability Reports

By issuing this paper, FEE's long-term goal is to raise the quality and the credibility of sustainability reporting.

It is vital that all stakeholders are fully aware of the issues surrounding assurance provision.



Mr. Lars-Olle Larsson

FEE Sustainability Assurance Subgroup Chairman

EUROPEAN Update

Please send comments and suggestions to:

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