



Issue No. 3 / 2002

- Liberalisation of Profession
- First Time IAS Application
- Corporate Governance
- Sarbanes-Oxley Act

LATEST NEWS:

FEE to organise meeting of National Standard Setters to discuss ISA 700

<http://www.fee.be/issues/auditing.htm>

Read the FEE response to the FATF Consultative Paper on Money Laundering

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

Jaap Winter to address the FEE General Assembly on December 19th (see page 3)

## LIBERALISATION: CREATING A LEVEL (AND REGULATED) PLAYING FIELD

*The European Commission's proposal to simplify the EU rules regarding the freedom to provide services and freedom of establishment can be expected to have a major impact upon the future shape of the European accountancy profession.*

Read the FEE response to the proposal for a Directive on the Recognition of Professional Qualifications:

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

The proposal for a directive on the recognition of professional qualifications aims to achieve greater liberalisation of the provision of services, automatic recognition of qualifications and increased flexibility in the procedures for updating the directive. This new proposal would replace fifteen existing directives, but may also replace some existing safeguards of the European accountancy profession.

### Safeguards

Responding to the Commission's consultation, FEE supported the underlying objective of the proposed directive. Whilst welcoming any facilitation of freedom of establishment and freedom to provide services, a number of issues specific to the accountancy profession need to be taken into consideration.

These safeguards will ensure that the liberalisation

benefits are not offset by a consequent endangering of the high standards and quality of the profession.

Firstly, the regulated and non-regulated areas of the profession's activities must be differentiated. The proposal's definitions of 'regulated profession' and 'professional qualification' will create difficulties as, (aside from statutory audit, which is regulated by the Eighth Directive), there is no uniform delineation of regulated activities for the profession.

### Scope of Activities

Hence, the effect of recognition will be problematic where the scope of activities diverges substantially between the home and host member states. Furthermore, some activities allowed to one profession in the country of origin are reserved to another in the host member state.

Regarding establishment,

due to continuing differences in national tax and company law, it is likely that for some time to come member states will unfortunately need to require compensation measures for accountants wishing to establish on their territory. FEE believes the aptitude test to be the best solution.

### Quality Assurance

Other issues addressed in FEE's detailed response include quality assurance on the work of the migrant, requirements in addition to professional qualification, provision for appropriate sanction when abuses have been identified, language issues and the need to apply a different treatment to statutory auditing.

It is essential to ensure that all necessary safeguards apply to protect statutory audit, as the public interest dimension is most acute for this activity of the profession.

# EVERYTHING IN ITS RIGHT PLACE

## - GETTING READY FOR IFRS

*Success in Europe is crucial if IFRS is to become a credible global standard. Hence the importance being attached to the IASB's exposure draft on first-time application of IFRS. EFRAG is gathering European reaction to the proposals.*

Responding to the need to facilitate a successful transition to International Financial Reporting Standards, (IFRS), in Europe, the International Accounting Standards Board, (IASB), has issued an exposure draft on its first-time application project. This development is welcomed by preparers, users and other stakeholders alike.

Although the IASB exposure draft explains how an entity should make the transition to IFRS, the key message for those organisations making the change is to start early. Bearing in mind the need to have comparative figures, leading companies can be expected to make the changeover after 2003 at the latest.

Reassurance in the ability to produce high quality information that is transparent for users and comparable over all periods presented is essential. Recognising these demands, the IASB's first-time application project was initiated with two main objectives in mind. The first is to secure the greatest comparability between all entities that issue financial statements in full compliance with IFRS. And the second is to make the implementation of IFRS for first adopters as practical as possible without compromising the basic concepts and accounting principles forming the framework of IFRS.

The proposals require an entity to comply with all existing IFRS when it first adopting the standards. Also, first-time preparers of financial statements are required to disclose how the transition affected the entity's reported financial position, financial performance and cash flows by comparing to their national GAAP.

The proposals seeks to ensure that investors have sufficient information to analyse the entity's first financial statements using IFRS. Indeed, entities will have to present comparative information in their financial statements that is as close as possible to the information provided to existing users.

Some targeted and specific

exemptions are included, where retrospective application is likely to cause undue cost or effort.

The draft proposals replace the requirements of the existing Interpretation SIC-8 (the existing guidance on first-time application) by: clarifying that (in most cases) an entity applies only the latest version of IFRS; proposing that an entity's estimates under IFRS at the date of transition should be consistent with estimates made for the same date under an entity's previous accounting (assuming there is no difference in accounting policies and no evidence that estimates were in error); and comparing the financial statements under IFRS to those derived from its previous accounting standards.

Commenting on the exposure draft the IASB Chairman noted the key input

made by France's Conseil National de la Comptabilité (CNC) in the development of the proposals. However, the IFRS impact will be felt far beyond Europe. The list of countries requiring companies to use international standards continues to grow. Australia recently proposed a similar move to Europe's IAS Regulation.

In the coming years the number of jurisdictions adopting IFRS can be expected to grow. The problems faced by any entity adopting an entire accounting regime for the first time are highly complex, hence this new guidance on first-time application will be broadly welcomed, both in Europe today and the rest of the world tomorrow.

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The proposals are set out in exposure draft ED 1 First-time Application of International Financial Reporting Standards. It is published in a new three-part format to enhance the clarity of presentation. The draft standards, the basis for conclusions and the implementation guidance are all clearly separated.

ED 1 First-time Application of IFRS  
[http://www.iasb.org.uk/cmt/0001.asp?s=1098986&sc=\(72CBB8FF-598A-4101-8CFE-79545915A171\)&n=67](http://www.iasb.org.uk/cmt/0001.asp?s=1098986&sc=(72CBB8FF-598A-4101-8CFE-79545915A171)&n=67)

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### EUROPEAN REACTION TO THE EXPOSURE DRAFT

EFRAG, the European Financial Reporting Advisory Group, will directly contribute to IASB's due process by providing the voice of European stakeholders. At present EFRAG is involved in a wide consultation seeking comments on its preliminary observations, and will complete its final response in October.

FEE contributes to the EFRAG consultation process by providing comments on the EFRAG preliminary views on the exposure draft. FEE's Accounting, Banks, Insurance and SME/SMP working parties have been active on this issue.

The European Union's IAS Regulation adopted in June 2002, requires that (at least) publicly traded companies use IFRS in their consolidated accounts by 1 January 2005. EFRAG plays a key role in the formal EU endorsement process. It will advise the European Commission on endorsement of the definitive IFRS.

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EFRAG  
<http://www.efrag.org/>

IAS Regulation  
[http://europa.eu.int/comm/internal\\_market/en/company/account/official/directives/index.htm#2002\\_1606](http://europa.eu.int/comm/internal_market/en/company/account/official/directives/index.htm#2002_1606)

FEE responded directly to EFRAG regarding the exposure draft on first-time application of IFRS

# CORPORATE GOVERNANCE

Download a copy  
of FEE's letter to  
the High Level  
Group from:

[http://www.fee.be/  
secretariat/  
Positionpaper.htm](http://www.fee.be/secretariat/Positionpaper.htm)

*Mandate of the Group of High Level Company Law Experts extended in light of recent developments. FEE provides detailed response to the consultative document.*

In September 2001, the European Commission set up a Group of High Level Company Law Experts with the objective of initiating a discussion on the need for the modernisation of company law in Europe. Since then the mandate of the group has been extended to cover additional corporate governance issues in the light of the repercussions of the Enron

affair and it is expected to produce its final recommendations later this year.

FEE responded to the High Level Group's consultative document 'A Modern Regulatory Framework for Company Law in Europe' in June. In addition, FEE has also provided detailed comments on two of the subjects included in the extension of the mandate of the High Level Group, namely: the role of non-executive directors; and the responsibility of management for the preparation of financial information.

With respect to the role of non-executive directors, FEE's recommendations encourage the use of audit committees, focusing on the principal features of the non-executive directors with emphasis on the audit committee

function: tasks and due process, including reviewing and monitoring and ethics policy for the company, membership and independence, skills and competence, time commitment, appraisal of performance, right to information and independent advice, reporting and communication obligations and maintaining an appropriate relationship with the external auditors.

FEE is at present developing a discussion paper on the role of non-executive directors with focus on the audit committee function in both the one tier and two tier system. The Chairman of the group, Mr. Jaap Winter will address the FEE General Assembly, in December.

## FEE NEWS

### ADVICE FOR SMEs

*New directory listing all SME-targeted publications issued by the European accountancy profession.*

The European accounting profession has long been a reliable partner to the SME sector. Indeed, as well as providing financial services to SMEs, many accountancy firms are themselves SMPs (small and medium size practices).

#### Key advisor

The accountancy profession recognizes the importance of its role as a key advisor and values its contribution to the SME sector.

FEE's new Directory of SME Publications compiles the large quantity of high-quality material which the European accountancy profession has produced at national level. The publications help SMEs with the business realities they face on a day-to-day basis.

The directory will be a key reference for all those involved with SME issues and is available from the FEE website.

### GENERAL ASSEMBLY: December 19th, 2002

*Announcing the new format for the biennial event.*

The FEE General Assembly will take place on Thursday, December 19th at the Residence Palace, Brussels.

#### New format

This year's event will have a new format, inviting a select high-level audience to a discussion on the highly topical subject of corporate governance.

Jaap Winter, the Chairman of the high-level consultative group focusing on the modernisation of the Company Law Directives has confirmed that he will address the Assembly.

The morning session will comprise of guest speakers together with an address from the FEE President. Following this there will be a cocktail and lunch reception. In the afternoon the administrative part of the Assembly will take place.

If you would like to attend the event, more information is available from the FEE Secretariat (email: [secretariat@fee.be](mailto:secretariat@fee.be))

### NEW STAFF FOR FEE

*Some new staff have joined the FEE Secretariat over the Summer.*

#### Project Manager

Catherine Ameye has been recruited as FEE's Project Manager - Financial Reporting. Having previously worked at KPMG, she has much experience of auditing financial statements prepared according to IAS.

A qualified chartered accountant, Catherine is bilingual - French and English. She will be primarily be working with the Accounting, Insurance and Banks working parties.

#### Reception

In August, Monika Roggeman replaced Vanessa Mandefo at the FEE Reception. As well as being Spanish / Dutch mother tongue, Monika also speaks French and English

The Directory of  
SME publications  
in Europe

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



## KEY EUROPEAN DEVELOPMENTS

*The law, known as Sarbanes-Oxley, which has been recently enacted in America, has a number of extra-territorial provisions that are raising concern across Europe. FEE has sent a detailed letter to the European Commission outlining the potential problems. The Commission is discussing the matter with the U.S. Securities and Exchange Commission (SEC).*

## EUROPEAN Update

Please send comments and suggestions to:

Mr. Derek McGlynn  
[derek\\_mcglynn@fee.be](mailto:derek_mcglynn@fee.be)

## IMPLICATIONS OF SARBANES-OXLEY

In July, the European Commission reacted to the implications of the extraterritorial rules in the US's Sarbanes-Oxley Bill. However the arguments developed in Commissioner Bolkestein's letter were not taken into consideration and the Bill has subsequently been enacted.

### SEC Contact

The Commission is currently in contact with the SEC seeking to ensure that the implementing measures will be as compatible as possible with Community law and member states legislation.

The US law will not only apply to 300 EU companies listed in the USA but also to their subsidiaries in Europe. Consequently, many audit firms, including smaller practitioners will have to register with the SEC because they play a 'substantial' role in the preparation of the audit report of the parent company.

Detailed rules in the Sarbanes-Oxley Act will be more fully understood when the Public Companies Accountancy Oversight Board, (PCAOB),

has been established. However some of the difficulties are already apparent.

### Extraterritoriality

The extraterritorial rules cover areas such as: appointment of auditors by the audit committee; obligation for foreign accountancy firms to register with the PCAOB; application of US auditing standards; and submission of working papers to inspection by the PCAOB.

A major problem with the extraterritorial rules of the act is that it assumes that the problems arising in the US and the solutions used to solve them are identical all over the world. This approach fails to take account that EU solutions in these areas are equally effective for the protection of investors and other stakeholders. Furthermore, the European principles-based approach is reflected the EU's legal framework.

Access to working papers will be another major obstacle in EU member states where violation of professional secrecy is criminally sanctioned. FEE has launched a

survey to identify member states where this problem will arise.

From the preliminary of the survey it appears that the implementation of the US Act in several member states will face legal problems. When complying with section 104, 106 and to some extent 105 of the Sarbanes-Oxley Act, auditors in several EU countries could infringe a domestic law and be subject to criminal sanctions in their home country.

### Barrier to Trade

This will de facto create an absolute prohibition for European public accounting firms to operate in the US market and therefore should be considered and addressed by the EU in terms of competition and barrier to trade.

FEE has sent the Commission a comprehensive letter detailing the implications of the Sarbanes Act on: enforcement and certification of financial reporting; auditors; audit committees; management's statement about internal control; and other aspects of the US Act.

Download a copy of the FEE's letter to the European Commission:

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

FEE Survey on the implications of Sarbanes-Oxley

<http://www.fee.be/issues/auditing.htm>

Securities and Exchange Commission

<http://www.sec.gov/>