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Issue No. 4 / 2002

- **Challenges for the Profession**
- **EU Company Taxation**
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LATEST NEWS:

Speakers finalised for major FEE Seminar being held in Brussels on 19 Dec. For details and invitation visit:

[http://www.fee.be/secretariat/FEE Event.htm](http://www.fee.be/secretariat/FEE%20Event.htm)

FEE has submitted its comments to IASB on the exposure draft on amendments to IAS 32 and IAS 39

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

STRENGTHENING THE EUROPEAN FINANCIAL REPORTING FRAMEWORK

Göran Tidström, FEE President addresses the ICAEW Conference



FEE President outlines the current priorities for the European accountancy profession. Trust in reported information is at stake.

The article is based on a speech made by Göran Tidström at the ICAEW Conference in Brussels on 10 October 2002

For more details visit:

[http://www.fee.be/secretariat/Whatsnew FEE News.htm](http://www.fee.be/secretariat/Whatsnew%20FEE%20News.htm)

Alan Greenspan, Chairman of the US Federal Reserve Board noted, "when trust and reputation disappear, so does value". Currently markets are at their lowest level for many years. Recent business failures, as well as destroying trust, have seen widespread criticism of the market participants, including the accountancy profession.

The recent failures have even led some to ask if the financial reporting system has failed. The profession has come under attack; it must

now face the challenge of rebuilding confidence.

Predating the current malaise, FEE has been actively contributing to solutions which will result in the production of financial information of the highest quality and improved corporate governance in Europe. FEE considers the following areas a priority:

Financial Reporting Framework

It is essential that each participant involved in the framework of high quality financial reporting assumes its

responsibilities and is subject to appropriate enforcement. This includes standard setters, preparers of accounts, investment bankers, financial journalists and others.

Corporate Governance

Enforcement can't be addressed without consideration of appropriate governance structures. Corporate governance is the first pillar of high quality financial reporting. FEE notes that company directors have the ultimate collective responsibility for financial reporting.

Also, FEE believes that the role of non-executive directors should be enhanced by: encouraging use of audit

CHALLENGES FOR THE PROFESSION

(continued from page 1)

committees; and by due consideration of the role of the non-executive directors (e.g. reviewing and monitoring an ethics policy for the company). The recommendations of the recent Winter report on company law are welcomed in this context. FEE will also publish a discussion paper in this area.

IFRS by 2005

International Financial Reporting Standards (IFRS) will be mandatory in Europe from 2005 onwards for listed companies. In June 2001, FEE, together with 9 other European Stakeholder Organisations, created EFRAG – the European Financial Reporting Advisory Group. EFRAG will become the voice of Europe on financial reporting.

The task of EFRAG is twofold: to give an active contribution to the work of IASB; and to advise the Commission on the endorsement of IFRS and IFRIC interpretations for application in Europe. EFRAG is key to the success of the IAS Regulation in Europe. And the Regulation will help to drive-up confidence in the markets by enhancing the comparability and reliability of financial reporting.

Enforcement of IFRS

FEE's Discussion Paper on Enforcement of IFRS within Europe notes that EU member states should urgently review their arrangements for

enforcement of accounting standards. There should be consistent and rigorous application of financial reporting standards throughout Europe.

Enforcement should be built on effective national enforcement bodies with strong stakeholder support. Those countries without an effective enforcement body are recommended to establish one based on the review panel model. The creation of a European enforcement coordination would encourage consistency in application decisions within Europe. In this respect FEE welcomes the recent CESR Statement of Principles on Enforcement but emphasises the need for European coordination.

Public Oversight

FEE supports the development of common EU principles on the composition, structure and duties of public oversight arrangements with coordination at European level. Non-practitioners should be involved. There needs also to be a clear linkage with the disciplinary systems. The common regulatory framework in Europe should also be suitable for mutual recognition with the US, aiming ultimately at a global solution.

Independence

A fundamental ethical issue cannot be adequately dealt with solely through rules and prohibition. FEE fully sup-

ports the principles-based 'threats and safeguards' approach of the EC Recommendation which deals with all circumstances and situations. This approach is consistent with the IFAC Ethical Code. The focus should now be on the enforcement of the principles based approach.

ISAs

FEE supports the mandatory application of International Standards on Auditing (ISAs) for all audits in Europe (and beyond). By 2005, EU national audit standard setters should require auditors to perform audit procedures that comply with ISAs and report on financial statements in accordance with these ISAs. FEE recommends the establishment of a Forum of European auditing standard setters to help to identify areas of European concern.

Conclusion

There is a collective responsibility on all market players to restore confidence in the capital market. The above-mentioned items are intended to highlight that the European accountancy profession accepts its responsibility. FEE will continue to play its part by contributing solutions of value to the public interest.



Göran Tidström addresses the ICAEW Conference

References:

FEE Discussion Paper on Enforcement of IFRS in Europe:
<http://www.fee.be/publications/>

FEE Position on the Sarbanes Oxley Act:
<http://www.fee.be/secretariat/Positionpaper.htm>

FEE Proposal on International Standards on Auditing in the EU
<http://www.fee.be/publications/>

SOLVIT started operations in June 2002, for more information visit:

http://europa.eu.int/comm/internal_market/solvit/

EUROPEAN COMMISSION NEWS

SOLVIT

Do you believe that certain benefits of the European internal market are being denied to you due to a misapplication of the rules by a public administration in another Member State ?

SOLVIT is a new European Commission initiative. It works to better enable EU citizens and businesses benefit from the Internal Market. Resolving misapplication of internal market rules without the need for legal action, the SOLVIT service is free-of-charge.

How does it work ?

The system operates through a network of SOLVIT Centres based in

the national administration of each Member State.

Your local SOLVIT Centre will enter your case into an on-line database system, allowing it to be forwarded automatically to the SOLVIT Centre in the member state where the problem has occurred.

The SOLVIT Centre confirms within one week whether or not it will take on your case. The target dead-

line for finding a solution to the problem is 10 weeks.

SOLVIT constitutes an alternative dispute resolution mechanism. If a problem goes unresolved, or if an applicant considers a proposed solution to be unacceptable, more formal proceedings can still be initiated.

The types of problems that SOLVIT is dealing with include: voting rights, car registration, border controls, market access of goods and services, public procurement, taxation, establishment of a company and setting-up as self-employed in the host state.

FUTURE OF EUROPEAN COMPANY TAXATION

Download a copy of the press release from the FEE Round Table:

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

FEE Round Table "Company Taxation and Europe – Today and Tomorrow", brought together the key players from the world of direct taxation.

The aim of the Round Table was to discuss the tax obstacles to cross-border economic activity in the EU internal market. The European Commission's most recent taxation policy papers formed the basis for discussion.

The Round Table consisted of four distinct discussion topics. The main conclusions can be briefly summarized as follows:

International Accounting Standards (IAS) will create real challenges for tax purposes. However it is also an opportunity to move towards convergence and simplification of EU tax systems. Integration would be facilitated by the identification of best practice in the taxation of business entities under which member state taxation laws, in key areas, could converge.

If the European Company (Societas Europaea) is to be a success, the taxation strategy must ensure that taxation costs for transferring an existing company are eliminated.

SME cross-border activity would be increased if the compliance burden for SMEs was reduced. Several alternative systems were proposed.

Recent case law has shown that the European Court of Justice is increasingly influential in the application of domestic taxation rules. The Round Table concluded that the Court is a positive driver of convergence of European tax systems.



Robert Verrue, Director General, DG TAXUD, European Commission

KEY EUROPEAN DEVELOPMENTS

CESR PRINCIPLES ON ENFORCEMENT

On October 22, 2002, CESR issued its Proposed Statement of Principles of Enforcement of Accounting Standards in Europe. The paper provides a definition of enforcement of financial information, selection techniques applicable by enforcers and a description of the responsibilities of the different parties involved.

The document is CESR's contribution to the task of developing and implementing a common approach to the enforcement of International Accounting Standards (IAS) in Europe. FEE has been actively involved on this issue (launching the Discussion Paper on Enforcement in April 2002).

CESR will hold an open hearing on January 7, 2003 in Paris. The deadline for submitting responses to the consultation paper is 15 January 2003.

Also, CESR has issued a consultative paper concerning the detailed technical measures needed to implement the proposed Directive on Prospectuses

Henrik Bjerre Nielsen to speak at FEE seminar, Brussels, 19 Dec

COMPANY LAW: REPORT ISSUED BY HIGH LEVEL GROUP OF EXPERTS

The high-level group of company law experts was established by the European Commission to make recommendations on a modern regulatory framework in the EU for company law.

The final report on corporate governance issues was presented to the EcoFin Council on November 5.

The main substance of the report concerns how European companies can be better monitored to prevent repeats of the corporate scandals recently witnessed in the US. The report makes five key recommendations.

Disclosure: listed companies should outline, in their annual accounts, the key elements of their corporate governance structure and practices.

Shareholders: facilities should be provided to allow all shareholders to participate in the company's operation.

Company Board: EU listed companies should have a unitary board structure (with executive and non-executive directors) or a two-tier board structure (with managing directors and supervi-

sory directors). As a matter of EU law, it should be confirmed that the financial and key non-financial statements are the collective responsibility of the board.

Auditing practices: the audit committee, consisting of non-executive or supervisory directors who are in the majority independent, should be responsible for: selecting the external auditor for appointment by shareholders, monitoring the relationship with the external auditor, reviewing accounting practices, and monitoring internal audit procedures and the company's risk management system.

Regulation: a single European code of corporate governance is not recommended, due to the wide variance in member state legislation.

Jaap Winter to speak at FEE seminar, Brussels, 19 Dec

FEE Seminar: http://www.fee.be/secretariat/FEE_Event.htm

Winter Report: http://europa.eu.int/comm/internal_market/en/company/company/modern/index.htm

For more information about CESR:

<http://www.europefesco.org/v1/default.asp>

FEE Discussion Paper on Enforcement of IFRS:

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



EU TERMINOLOGY

Understanding 'Comitology'

The Lamfalussy report recommended greater use of 'comitology' in order that the European Commission's drive to streamline securities legislation becomes a reality. The European Commission and the Council have since signalled that this process should be extended to the Banking and Insurance sectors. Below follows a brief explanation of comitology.

COMITOLOGY

Comitology refers to the process whereby implementing measures for legislative acts are adopted by the European Commission in consultation with a committee of experts (hence the word comitology).

Although the process is again in the headlines, it dates back to the early 60's (originally focused on agricultural issues). The existing Comitology Decision of Council (June 1999) details the procedures for the exercise of implementing powers conferred on the European Commission.

Lamfalussy & Comitology

The Lamfalussy report was mandated to suggest the steps necessary for the reform of the regulatory framework for European financial markets, which was deemed to be ill-adapted to the needs of modern financial markets.

In February 2001, the report concluded that a more efficient process was necessary to meet the targets set by the Financial Services Action Plan. In essence the report proposed that detailed implementing legislation be left to specialist committees following the adoption of primary legislation. Comitology was proposed as the key driver of effective, flexible legislation.

Two new high-level committees have since been created: (i) an EU securities committee (ESC) – a

regulatory committee; and (ii) an EU securities regulators committee (CESR), with advisory functions.

The Lamfalussy report stressed the importance of consultation and transparency throughout the legislative process. In addition it recommended that there be clear mandates and operating methods for the committees, as well as fixed deadlines to speed up the decision making process.

Comitology & IAS

The IAS Regulation of July 2002 utilises the comitology process as foreseen in the Lamfalussy report. Article 3 and Article 6 note that the Commission decides on the applicability of the international accounting standards within the EU, and that it is assisted by a committee in this task.

The Accounting Regulatory Committee has been created for this purpose. In addition the private sector has created EFRAG to provide technical assistance on financial reporting to the Commission.

How Comitology Works

The Comitology Decision sets out three procedures in which the Commission is assisted by a committee, composed of representatives of the Member States and chaired by a Commission representative.

The committee delivers its opinion on a draft submitted by the

Commission. The decision is taken by qualified majority voting (weighting as per article 205(2) of the Treaty). If the vote is positive, the Commission adopts the proposal.

There are three distinct types of committees: the Advisory, the Management and the Regulatory Committee. Each has different powers and procedures. While under the first procedure the committee is purely advisory, in the second and third (each of which has two variants) the committee has more power. If the Commission proposal is not approved the decision may be sent back to Council and European Parliament.

Comitology & Democratic Control

The von Wogau report set out Parliament's conditions for acceptance of the original Lamfalussy procedures.

EU Finance Ministers and the European Commission now support an extension of the Lamfalussy procedure to the banking and insurance sectors. However, concerns have been raised regarding a lack of democratic supervision in the process.

Thus, MEPs are insisting on the right to "call-back" or to look again at implementing legislation not conforming to the wishes of Parliament. It is a precondition for Parliament's support of the extension of the Lamfalussy process.

EUROPEAN Update

Please send comments and suggestions to:

Derek McGlynn
derek_mcglynn@fee.be

Comitology Decision:

http://europa.eu.int/comm/internal_market/en/indprop/design/design_draft.htm

Lamfalussy Report:

http://europa.eu.int/comm/internal_market/en/finances/general/lamfalussy.htm

IAS Regulation:

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

EFRAG:

<http://www.efrag.org>

Von Wogau Report:

<http://www.europarl.eu.int/>

Ref: A5-0011/2002 - Report on the implementation of financial services legislation. Rapporteur: Karl von Wogau.