

Endorsement of Financial Reporting Standards

Current Status:

- The IAS Regulation was adopted on 19 July 2002. By requiring listed companies to use IFRS (International Financial Reporting Standards), the IAS Regulation will ensure a high degree of transparency and comparability of financial statements. FEE strongly supports this landmark decision of the EU.
- The IAS Regulation is a key pillar of the European Commission's Financial Services Action Plan. The aim of this initiative is to create an integrated financial services market in the EU. The IAS Regulation will facilitate a more efficient functioning of the European capital market.
- For each financial year starting on or after 1 January 2005, publicly traded companies shall prepare their consolidated accounts in conformity with IFRS. Furthermore, EU member states have the option to permit or require other types of companies to also apply IFRS.
- Each International Financial Reporting Standard must be officially endorsed at European level before it can be used. The endorsement procedure is laid down in Article 6 of the IAS Regulation
- The European Commission is assisted in the endorsement process by the Accounting Regulatory Committee, (ARC). The ARC is composed of representatives of the EU member states. The approved standards must be published in the Official Journal of the European Communities. The applicability of and related interpretations within the Community is subject to a decision taken by the Commission
- The ARC is assisted in its work by a technical body, called EFRAG, (the European Financial Reporting Advisory Group). EFRAG's responsibilities are:
 - o To provide a proactive contribution to the work of the International Accounting Standards Board;
 - o To help the European Institutions in their assessment of possible non-conformity of an IAS/IFRS or related interpretations with the EU Directives and to recommend appropriate changes to existing Directives;
 - o To provide technical opinions to the European Institutions confirming or conversely rejecting an IAS/IFRS or related interpretations for application in the European Union;
 - o To identify issues for which IASB general interpretation guidance is not sufficient to ensure the consistent application of a given standard in the European Union, to communicate with the IASB and urge for appropriate solutions;
 - o In cooperation with European securities market supervisors, to develop implementation guidance specifically relevant to EU listed companies.
- EFRAG was created by the main parties interested in financial reporting in Europe, namely the users, the preparers, and the accountancy profession, (supported by the national standard setters). FEE is a founding member of EFRAG.
- On 16 July 2003, the ARC voted unanimously in favour of the draft Commission Regulation proposing the endorsement of all existing IAS and related interpretations, with the exception, at this stage, of IAS 32 and 39.

(continued overleaf)

Next Steps:

- Currently IASB maintains contacts with the national standard setter in each member state. Over time EFRAG should develop into the primary European contact for the IASB. This would require EFRAG to increase its pro-active work, which would only be possible with increased resources.
- A proper process for nominations should be established, which makes the nominations of EFRAG's technical experts fully open and transparent.
- The EFRAG supervisory Board (on which FEE has 6 out of 23 seats) will decide on its future strategy in the Autumn. Demonstrating its interest in EFRAG, the European Commission invited ARC members to suggest possible improvements to the role and the functioning of EFRAG.

FEE Reference:**EFRAG Joint Proposals**

FEE Paper on the Expert Level of the Endorsement Mechanism – The Establishment of the EFRAG
<http://www.fee.be/publications/main.htm>

European Reference:**IAS Regulation**

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards
http://europa.eu.int/comm/internal_market/accounting/officialdocs_en.htm

FSAP

European Commission Financial Services Action Plan.
http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

EFRAG

The European Financial Reporting Advisory Group
<http://www.efrag.org/>

Other Reference:**International Accounting Standards Board**

<http://www.iasb.org.uk/cmt/0001.asp>

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About FEE:

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 41 professional bodies from 29 countries. Between them, these bodies have a combined membership of 500,000 individuals.