



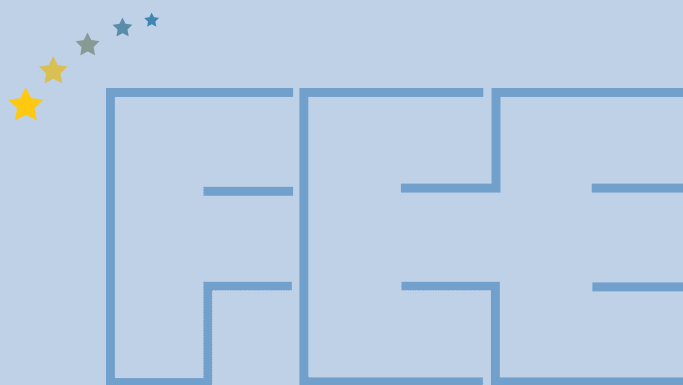
FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS  
EUROPEAN FEDERATION OF ACCOUNTANTS

# ANNUAL REPORT



*Representing  
the Accountancy  
Profession in Europe*

# 2005



FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS  
EUROPEAN FEDERATION OF ACCOUNTANTS

[www.fee.be](http://www.fee.be)



## **Fédération des Experts Comptables Européens European Federation of Accountants**

FEE is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 44 professional institutes of accountants from 32 countries. FEE member bodies are present in all 25 member states of the European Union and three member countries of EFTA. FEE member bodies represent more than 500,000 accountants in Europe.

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By FEE President David Devlin

# FOREWORD

The year has been a most memorable one for the profession. A new era can be said to have begun as the European Union finalised the single biggest reform of auditing in more than 20 years. In addition, Europe's public interest entities have had to face the challenge of preparing their financial statements in a new reporting language, namely, International Financial Reporting Standards (IFRS).

Of course FEE continues to be active in all areas of interest to the European accountancy profession. As you will see from this Annual Report, aside from auditing and financial reporting issues, the profession is actively contributing at the European level to relevant initiatives on SME policy, company taxation, sustainability reporting and public sector accounting.

## Audit Directive

The European Commission's proposal to revise the Eighth Company Law Directive on Statutory Audit was approved by the European Parliament and Council. It truly signals a new era for auditing in Europe. The Directive covers all aspects of the audit profession, from qualification and registration through to quality assurance and oversight. FEE's working parties coordinated their efforts to ensure that the European accountancy profession made a meaningful contribution to the process, providing input of real value to the legislators.

In supporting the Directive, FEE's position was clear: reform must deliver high quality financial reporting and auditing in the public interest. And what of the result? FEE believes that Europe has adopted reforms that are supportive of high quality audit and will drive the further harmonisation of audit practice. The profession particularly welcomes proposals on key issues such as application of International Standards on Auditing (ISAs), quality assurance, audit committees and new arrangements for public oversight of the profession which underpin audit quality in the EU.

In 2006, the implementation process will start. The member states have two years to implement the Directive, following its publication in the Official Journal of the EU. FEE has already started its work to support the successful implementation of the Directive, the objective of which is to avoid divergent interpretations of the Directive at member state level.

Implementation work will also continue at the European level. FEE has been invited to contribute expert advice to the European Commission's ISA Subgroup of the EGAOB, regarding the drafting, adoption and use of ISAs. In addition, the European Commission has committed to undertake a study on the economic impact of liability regimes for auditors. FEE is represented on the expert group that will advise the Commission on the long awaited study. The profession believes that there are a number of solutions, depending on the national liability system. Proportionate liability and a legal cap on the potential damages, or a combination of these measures, are the most often considered solutions.

## Financial Reporting: Convergence

Throughout 2005 the accountancy profession has had an ongoing dialogue with key financial reporting stakeholders, including two meetings with IASCF trustees. At a FEE event in October, Commissioner McCreevy emphasised the importance of IFRS for the European Union and the necessity on making progress on the roadmap towards equivalence between IFRS and US GAAP. Looking to move the policy debate forward, in December FEE organised a major seminar on IFRS which addressed progress on the convergence roadmap and considered issues regarding consistent application of IFRS in Europe.

Welcoming the European Commission's and the SEC's commitment to global accounting convergence expressed at the Seminar, FEE believes that the time is right for the acceptance of IFRS as truly global financial reporting standards.

FEE's position paper on Convergence, Equivalence and Mutual Recognition notes that mutual recognition and the attendant elimination of reconciliation requirements, is justifiable today provided that IFRS and US GAAP are properly applied. Hence, the implementation of IFRS in Europe is critical and major efforts are being undertaken by preparers, the accountancy profession, regulators and others in this, the first year of IFRS application in Europe. It is important that there is a clear understanding of what is meant by consistent application of IFRS in Europe.

Whilst supporting the goal of global standards, FEE emphasises that the convergence project must not come at the expense of principle-based IFRS. It is also crucial that a specific level of convergence is not needed for

mutual recognition of IFRS and US GAAP. Convergence needs to proceed at a realistic pace, recognising that a stable platform of IFRS is required in the short-term.

### Financial Reporting: EFRAG

The Accounting Regulatory Committee (ARC), chaired by the European Commission decides whether IFRSs and related IFRIC interpretations are to be endorsed for use in the EU. EFRAG, the European Financial Reporting Policy Group, provides the European Commission with advice on endorsement and interpretation of IFRSs; it also participates in the early phases of debates on new and upcoming issues in the area of financial reporting standards. FEE's working parties in the field of financial reporting provides these bodies with the views of the European profession, commenting on their proposals. The profession, together with the other founding organisations, support the continued development of EFRAG and welcome the Working Arrangement recently agreed between EFRAG and the European Commission.

### Risk Management and Internal Control

As the European Union seeks to reform aspects of its regulation of corporate governance and company law, the spotlight has fallen on the issue of company reporting on risk management and internal control. FEE believes that a robust debate with a wide range of stakeholders is required to ensure that Europe's approach to risk management and internal control builds on best practice and is based on evidence that the benefits to companies, shareholders and the public interest will exceed the costs involved.

FEE's March 2005 discussion paper on Risk Management and Internal Control in the EU provided a review of best practice amongst companies, recent regulatory developments in the EU and US and a survey of regulatory requirements on risk management and internal control in EU member states. Building on the interest the discussion paper generated, FEE organised a Forum in October with participation from key stakeholders in the debate, including the European Commission and the SEC. The Forum considered practical issues involved in the implementation of internal control and risk management requirements in Europe, as well as analysis of reforms recently imple-

mented in France, the Netherlands, Sweden, UK and the US. FEE will continue to drive the debate on risk management and internal control reporting and will soon publish an analysis of the responses received to the discussion paper.

### Regulatory Process

The nature of regulation has changed greatly over the past few years. As a result of the Lamfalussy approach to regulation, the European Commission has created committees to implement and enforce measures adopted in a series of framework Directives. In addition there has been a noticeable desire to improve stakeholder dialogue in the regulatory process. FEE has responded to the challenge of this more complex regulatory environment to ensure that the profession's view is heard at the relevant hearings, consultations, forums and meetings, for example FEE participates in the work of CESR, CEBS, CEIOPS and FEE representatives have accepted membership, in a personal capacity, of the European Commission's Europe Corporate Governance Forum and the Advisory Group on Corporate Governance and Company Law. In 2005, FEE has in particular delivered an important contribution to CESR on the implementation measures of the Prospectus Directive

It is equally important that member bodies are kept aware of FEE's active contribution to the regulatory process. Hence the meeting of FEE Presidents in Warsaw, kindly hosted by Polish member body KIBR, was particularly useful in this regard.

### FEE Developments

On behalf of the European accountancy profession I would like to thank European Commissioner McCreevy who officially opened FEE's new offices on 18 October 2005, making a memorable speech entitled 'IFRS: no pain, no gain'. Over 120 people joined us for our 'housewarming' event. FEE's virtual home also changed: the redesign of the FEE website allows users a greater insight into the current priorities of the profession.

# FEE GOVERNANCE

## COUNCIL

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. In 2005, the Council met four times.

## EXECUTIVE

The Executive is responsible for the implementation of the decisions taken by the Council as well as for the day-to-day management of the Federation. The Executive held ten meetings in 2005.

## WORKING PARTIES

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

All member bodies, including correspondent members, have the right to appoint a representative to serve on each working party. Approximately 1400 participants attended meetings held at FEE during 2005.

### Executive Members in 2005:

David Devlin	President
Jacques Potdevin	Deputy President & Treasurer
José Maria Bové	Vice-President
Torben Haaning	Vice-President
Klaus-Günter Klein	Vice-President
Stefano Marchese	Vice-President
Andrew Popham	Vice-President
Hans van Damme	Vice-President



FEE Executive

# MEETING OF PRESIDENTS

## SPECIAL REPORT

### Meeting of Presidents of FEE Member Bodies

The FEE General Assembly is held biennially in Brussels. In years when there is no General Assembly a meeting of Presidents and Chief Executives of FEE member bodies takes place. On 16 September 2005, 63 delegates of the FEE member bodies met in Warsaw on the invitation of KIBR, (the Polish Chamber of Auditors).



The purpose of the meeting was to allow the leaders of the accountancy profession an opportunity to discuss major strategic issues for the profession in Europe. Following a keynote address by the Polish Vice-Minister of Finance, Mr. Stec, the debate focused on three main themes: accountants in society; modernisation of the Statutory Audit Directive; and financial reporting architecture.



Accountants in Society: the debate focused on two main issues, the positive contribution of high quality financial reporting in the transition to a developed economy; and how to attract and retain top level graduates within the profession.

Modernisation of the Statutory Audit Directive: the implications of the public oversight reforms on the future role of professional institutes of accountants and questions regarding the audit in medium sized companies were the main discussion points.



Financial Reporting Architecture: participants focussed their attention on the challenge of consistent implementation of International Financial Reporting Standards for SMEs and on the enhancement of European input to the international debate on financial reporting standards through EFRAG.

The meeting was preceded by a splendid dinner hosted by KIBR in the Royal Lazienki Palace on the Water. FEE is most grateful to its Polish member body and its President Piotr Rojek for hosting this unique, high-level event.



# NEW OFFICE

## SPECIAL REPORT

### FEE Office Opening

In 2005 the FEE Secretariat moved to Brussels' Schuman district. The office is now located at the heart of the EU quarter. FEE organised an event to celebrate the move of office, which was held on 18 October 2005. In all, more than 120 people attended. Guest of honour European Commissioner Charlie McCreevy officially opened the new office. In his keynote speech he emphasized the importance of IFRS for the European Union and the necessity on making progress on the roadmap towards equivalence between International Financial Reporting Standards (IFRS) and US GAAP.



# FINANCIAL STATEMENTS

## Income and Expenditures for the year ended 31/12/2005

(abridged version; in €)

ACTIVITIES	31/12/2005	31/12/2004
<b>INCOME</b>	€	€
Member body contributions	2.183.999,00	1.952.550,50
Contributions received on behalf of EFRAG	300.000,00	297.450,00
Publications (sales)	1.642,00	847,00
Royalties and other income	1.672,99	1.320,13
<b>Total income</b>	<b>2.487.313,99</b>	<b>2.252.167,63</b>
<b>EXPENDITURES</b>		
Personnel costs	1.432.375,24	1.260.840,88
Office occupancy	244.725,21	174.756,85
Communications	51.824,09	47.861,99
Office supplies	29.112,30	21.226,73
Office maintenance	31.597,62	20.930,50
Library and subscriptions	9.866,13	8.830,06
Hospitality	74.290,84	79.823,16
Travel and subsistence	127.938,95	153.491,40
Contribution to other organisations (incl.EFRAG)	317.700,28	325.079,90
Equipment rental and maintenance	49.096,13	45.488,25
Publications	37.267,11	48.930,07
Other expenses	102.106,64	149.920,10
<b>Total expenditures</b>	<b>2.507.900,54</b>	<b>2.337.179,89</b>
RESULTS FROM ACTIVITIES	-20.586,55	-85.012,26
FINANCIAL RESULTS	15.113,89	22.742,98
TOTAL NON CASH EXPENDITURES	-136.398,39	-23.661,11
<b>RESULT OF THE YEAR</b>	<b>-141.871,05</b>	<b>-85.930,39</b>

The auditor, Deloitte & Touche & Co, represented by Mr. Michel Denayer, reviseur d'entreprises, delivered an unmodified report on the annual accounts. The full version of the annual accounts and the auditor's report are made available separately to the member bodies.

# AUDIT

**“FEE has a key role to play in building understanding of audit issues between the profession, legislators and oversight bodies. This understanding will be critical to harmonisation through adoption of International Standards on Auditing in Europe”**

**Andrew Popham**  
FEE Vice-President & Auditing Working Party Chairman



## Auditing Working Party

The Working Party addresses policy issues arising from developments in auditing, with a particular interest in harmonisation across Europe. The bulk of the working party's activities are dealt with by subgroups, which have been active in the areas of IAASB proposed standards, internal control and quality assurance.

### Audit Legislation

The Working Party welcomed the approval of the revisions to the Statutory Audit Directive in the autumn of 2005. Contributions were made to the Federation's input on areas such as statutory audit and audit reporting, quality assurance systems, auditors' liability, public oversight and the audit of public interest entities. The Working Party is now developing its plans relating to the implementation of the Statutory Audit Directive by member states.

FEE particularly welcomed the initiative of the European Commission to coordinate the work of national audit regulators through the European Group of Auditors Oversight Bodies (EAOB). Coordination and, ultimately, harmonisation of oversight activities will serve the public interest and provide a stable platform within which European networks of auditors can work effectively. The Working Party is keen to support the work of the EAOB both in relation to standards on auditing and in relation to its other responsibilities.

### Towards Harmonised Auditing Standards

International Standards on Auditing (ISAs) for Europe came a step closer in 2005. The Statutory Audit Directive provides for ISAs to be adopted by the European Commission under the 'comitology' procedure for secondary regulation. FEE, together with the European audit standard setters, considered alternative structures for the

adoption process and discussed their advantages and disadvantages with the European Commission.

Through the Auditing Working Party, FEE is an active participant in discussions relating to the further enhancement of ISAs. Our input is guided by three important principles. Firstly, the standards must contribute to good quality auditing which relies on auditors using their insight and judgement rather than simply following required procedures. Secondly, the standards must allow flexibility in their detailed procedures in order that the same standards can apply to all sizes of audit and in order to encourage innovation. Thirdly, the standards must find an appropriate balance between achieving these two principles and serving the needs of those responsible for monitoring audit quality.

At the end of 2005, FEE was invited by the European Commission to be a member of the ISA Subgroup of the EAOB. This Subgroup is intended to give advice to the EAOB and the European Commission on auditing standards, and its initial work has been directed at the Commission's response to the consultation by the International Auditing and Assurance Standards Board (IAASB) in relation to the clarity project. The Subgroup has proved to be an invaluable forum for dialogue between the profession, regulators and other interested parties on the future direction of auditing standards.

FEE is also actively involved in direct discussions with the IAASB through the Consultative Advisory Group (CAG), through involvement in the IAASB Clarity Forum in July 2005 and through FEE's further comment letters on the clarity of IAASB standards. Comment letters were also sent to IAASB in response to all of the Board's consultations during the year. These included audit documenta-

FEE Secretariat  
Contact

**Hilde Blomme**  
Director of Practice Regulation  
hilde.blomme@fee.be



tion, accounting estimates, materiality, group audits, communications with those charged with governance and five standards on audit reporting.

### Quality Assurance

Following issue in 1998 of a FEE Paper on 'Continuous Quality Assurance – Statutory Audit in Europe' and in 2000 the EU's Recommendation on Quality Assurance for the Statutory Audit, a wide spectrum of quality control systems have developed throughout the European Union. As part of its programme of support for the coordination of audit oversight in Europe, FEE is surveying the current quality assurance arrangements in member states in order to highlight best practice. We hope this report will be of use to the EGAOB as it develops appropriate benchmarks for quality assurance systems in Europe.

### Looking Ahead

The next few years will be critical for the future harmonisation of auditing standards in the European Union. ISAs need to develop in a way that meets the public interest, can be implemented effectively by the profession and gain support from member states as a basis for harmonisation. FEE is convinced that there is a middle ground that achieves these objectives, but there needs to be full, open dialogue between all interested parties to build a common understanding. Without that understanding, harmonisation will be delayed and the current patchwork of auditing standards across Europe will increasingly fail to meet the needs of the single market. FEE looks forward to taking an active role in building mutual understanding.

# AUDIT

**“FEE has completed the main phase of a project to develop a position on how management, those charged with governance and external auditors can responsibly report on companies’ systems of internal control and risk management in ways that serve the public interest.”**



**Robert Hodgkinson**  
Internal Control Working Group Chairman

## Internal Control Subgroup

**The discussion paper on Risk Management and Internal Control in the EU generated much feedback and provided a basis for debate at the high level conference organised in October.**

### Risk Management and Internal Control

In March 2005, FEE published a discussion paper *Risk Management and Internal Control in the EU*. The paper, inter-alia, contained the following suggestions: staging the introduction of potential requirements related to risk management and internal control would be sensible, recognising that companies and member states may face implementation challenges that will take time to resolve; there should not be a relentless increase in requirements at the European level; and when listed companies operate in securities markets where they are generally subject to shareholder influence, shareholders can often bring about real changes in behaviour in a more proportionate and cost-effective manner than detailed legal requirements.

### High Level Conference

Believing that debate was required to ensure that Europe’s approach to risk management and internal control builds on best practice and that requirements should be based on evidence that the benefits to companies and shareholders will exceed the costs involved, FEE organised a conference of key stakeholders in October 2005.

The successful conference saw participation from investors, senior corporate executives, regulators and auditors. The keynote speaker at the conference was Dr Alexander Schaub, Director General of DG Internal Market. Other speakers, from several member states and the USA, included leaders in the development of public policy in this area.

There was support from regulators for a principle-based approach to regulation. It was generally agreed that disclosure and description were preferable to compliance with a set of rules. Indications that the European Commission would not follow a prescriptive approach were widely welcomed. A broad, business focussed approach to internal control was favoured ahead of a solitary focus on financial reporting controls.



### Future Plans

In 2006, the Working Group will publish a document summarising the responses to the discussion paper and the feedback received at the October conference. Initial analysis of responses has indicated that there is little support for a Sarbanes-Oxley type effectiveness statement in Europe and little appetite for an EU Framework on internal control and risk management. However, there is broad support for FEE’s proposed regulatory principles and principles of disclosure. The debate on risk management and internal control is still very much open.

FEE Secretariat  
Contact

**Hilde Blomme**  
Director of Practice Regulation  
hilde.blomme@fee.be



# AUDIT

**“The profession is actively supporting the implementation process of the new Audit Directive, which will deliver real reform.”**



**Klaus-Günter Klein**  
FEE Vice-President & Regulatory Task Force Chairman

## Regulatory Task Force

**The Task Force coordinates activities related to EU draft legislation relevant to the work of several FEE working parties. It works under direct supervision of the Executive.**

### Statutory Audit Directive

The clear priority for the Task Force was on the revision of the Statutory Audit Directive. The Task Force followed the work of the European Parliament very closely. It focused on the committees preparing reports or opinions on the Directive and prepared briefing material which was used in contacts with MEPs.

### Forum on Auditor's Liability

The Task Force welcomed the European Parliament's amendment to the draft Directive that addressed the issue of auditor liability. The Parliament's initiative has led to a commitment by the European Commission to report on the impact of current national liability systems before the end of 2006. As announced in its Communication of 2003, the European Commission launched a study on the subject. A Group of Market Experts on liability was also established to advise the Commission. The Regulatory Task Force Chairman, Klaus-Günter Klein, was appointed to the group.

### Public Oversight

As announced by Director General Alexander Schaub in the last FEE General Assembly, the European Commission has decided on 14 December 2005 to set up a group of experts to advise the Commission and to facilitate cooperation between public oversight systems for statutory auditors and audit firms.

As recommended in the FEE discussion paper “European Coordination of Public Oversight” published in 2003, public oversight arrangements should be put in place as soon as possible in all Member States in order to make the newly established EGAOB fully operational.

FEE welcomed the Commission's proposal to organise a dialogue with European associations. The contribution of practitioners is critical if EGAOB is to be involved in regulatory activities which go beyond oversight. In its capacity of representative organisation for the accountancy profession in Europe, FEE is keen to provide contributions in all areas where the European Commission and EGAOB might consider it useful.

### Future Work

The implementation of the Audit Directive will be the focus of the Task Force's work in 2006. FEE member bodies have appointed a national coordinator to monitor the transposition of the Directive in their country. The Regulatory Task Force will work with national coordinators to help identify, and find solutions to, any difficulty in the implementation process.

FEE Secretariat  
Contact

**Henri Olivier**  
Secretary General  
henri.olivier@fee.be

# CAPITAL MARKETS

**“The revised 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives will have important consequences for corporate Europe - reforms of board responsibilities, corporate governance statements, related parties and off-balance sheet arrangements.”**



**Erich Kandler**  
Company Law and Corporate Governance Working Party Chairman

## Company Law and Corporate Governance Working Party

The Working Party was established as a result of a merger between the Company Law Task Force and the Corporate Governance Subgroup.

### 4<sup>th</sup> and 7<sup>th</sup> Directives

The proposed amendments to the 4<sup>th</sup> and 7<sup>th</sup> Company Law Directives were high on the agenda of the Working Party. The reforms of board responsibilities, corporate governance statements, related parties and off-balance sheet arrangements will have important consequences for corporate Europe. The Working Party particularly focused on the European Parliament, developing a special briefing note for MEPs highlighting the importance of the location of the corporate governance statement given the related audit implications and noting that the requirements regarding related party transactions should not exceed IAS 24. Following adoption of the Directive, expected in late Spring 2006, the Working Party will turn its attention to implementation. The Working Party also prepared FEE's input to the European Commission's second consultation on fostering an appropriate regime for stakeholders' rights.

### Capital Maintenance

The Working Party responded to the European Commission's (EC) proposed Directive on companies' capital formation, maintenance and alteration. A subgroup has been created to lead a proactive project focusing on capital maintenance and alternative regimes, including the solvency test, with a focus on accounting and auditing aspects. It will closely monitor the progress on the EC feasibility study on an alternative to the existing capital maintenance regime.

### Corporate Governance Statements

A second subgroup will develop a project on the auditor's role regarding providing assurance on corporate governance statements. The aim is to stimulate debate, with the ultimate objective being to encourage a global standard or guidance from IAASB.

### Representation

The accountancy profession's high level contribution to the European debate in corporate governance is well recognised. FEE President David Devlin is a member of the European Corporate Governance Forum and in April 2005, Erich Kandler was appointed to the European Commission's Advisory Group of non-governmental experts on corporate governance and company law. Both have been appointed in a personal capacity. In addition, the profession provided active contributions to many high profile seminars in the corporate governance debate, such as the UN/ISAR Consultative Group on Corporate Governance, the CEPS Task Force on Corporate Governance Reform and the ECGI's Transatlantic Corporate Governance Dialogue.

### Next Steps

At the end of 2005, the EC launched a consultation regarding future priorities for the action plan on modernising company law and corporate governance in the European Union. Preparing FEE's contribution will be an immediate priority for the Working Party.

FEE Secretariat  
Contact

**Saskia Slomp**  
Technical Director  
saskia.slomp@fee.be





# CAPITAL MARKETS

**“FEE’s analysis of the auditor’s involvement with the Prospectus Directive highlighted issues which, if left unattended, could undermine the benefits for investors and other market participants of the ‘single passport’ for issuers.”**



**Jan Buisman**  
European Capital Markets Reporting Project Group Chairman

## European Capital Markets Reporting Project Group

**The Project Group’s specific mandate is to provide guidance for the accountancy profession in relation to prospectuses, supporting the development of a single European capital market. The Group had to work within a defined timeframe directly related to the Prospectus Directive. The Chairman is grateful to the members of the Group for their dedication and commitment.**

### Reporting

An issue on which FEE had previously called for more attention. The Prospectus Directive came into force on 1 July 2005 and intends to simplify the raising of capital in Europe. The Project Group actively monitored and contributed to CESR’s Level 3 guidance regarding the European Commission’s Regulation on Prospectuses. CESR’s final recommendations for consistent implementation were published in February 2005. The Group contributed to the CESR consultation on complex financial histories. FEE had previously called for more attention to circumstances in which the issuer has not prepared its historical financial information as a single business during the whole period of reporting.

### Auditors and Prospectuses

The Project Group analysed the responses received to the FEE Discussion Paper on the *Auditor’s Involvement with the New EU Prospectus Directive*, which had been published in November 2004. The draft analysis was presented at the European Auditing Standard Setters meeting held in April with the aim of stimulating the development and the update of national pronouncements by audit standard setters in particular with a focus on historical information, prospective financial information and pro-forma financial information.

In October 2005 FEE published the *Analysis of Responses to FEE Discussion Paper on the Auditor’s Involvement with the new EU Prospectus Directive*. The paper analysed comments from a range of different stakeholders and put forward key proposals in relation to the audit report and the auditor’s responsibility.

### Comfort Letters

In April 2005, FEE published a Discussion Paper on *Comfort Letters Issued in Relation to Financial Information in a Prospectus*. Now that the Prospectus Directive is effective, market participants (underwriters, issuers and their auditors) need to prepare for the new rules and understanding of each participant’s role and responsibility needs to be updated. The comfort letter is a crucial instrument in this process. The paper provides auditors and auditing standard setters with a consideration of the procedures to be performed by an auditor and the reporting on it, with regard to comfort letters. The single prospectus can be used in different countries and both issuers and auditors are exposed to the liability regimes in all countries. The work performed by the auditor therefore needs to have regard to the most onerous national liability regime (in the absence of a European regime). The Discussion Paper and the responses received were discussed with the European Auditing Standard Setters in their meetings of April and October 2005 to stimulate guidance in this area.

### Future Plans

The Group will continue to monitor developments related to the Prospectus Directive and is ready to assist CESR and the European Commission in this domain. The Project Group will publish in Spring 2006 an analysis of the responses to the Discussion Paper on comfort letters.

FEE Secretariat  
Contact

**Corinne Soubies**  
Senior Project Manager  
corinne.soubies@fee.be



# FINANCIAL REPORTING

**“Mutual recognition of IFRS and US GAAP, provided they are properly applied, is justifiable as both can now be considered as equivalent high quality sets of standards.”**



**Hans van Damme**  
FEE Vice-President & Financial Reporting Policy Group Chairman

## Financial Reporting Policy Group

The Group deals with policy and strategic matters in the financial reporting area and coordinates FEE's work in the financial reporting area. Since the beginning of 2005, the Group has also been active on capital market issues. The Group supports FEE representatives on the EFRAG Supervisory Board in preparing FEE positions.

### IFRS and US GAAP

In April 2005, the European Commission (EC) and the SEC agreed on a “roadmap” toward equivalence between IFRS and US GAAP setting out the steps to the eventual elimination of the SEC's reconciliation requirement. In December 2005, FEE continued the momentum by organising a high level policy seminar on the theme of *IFRS Convergence and Consistency*. Commissioner McCreevy, Ethiopis Tafara (SEC), David Tweedie (IASB), Michael Crooch (US FASB) and Pervenche Berès (European Parliament) were amongst the participants. The Seminar concluded that: there was strong support for global standards and clear recognition of their benefits; Europe's preparers require a stable platform of standards; for removal of the reconciliation requirement the SEC does not expect complete or even a particular degree of convergence; consistent application of IFRS means acceptable within the boundaries of IFRS standards; and that no IFRS interpretations should be considered at European level. FEE has recently published a position paper on convergence, equivalence and mutual recognition in Spring 2006.

CESR carried out a consultation on equivalence of third country GAAP in the first half of 2005 and published its final advice in June. FEE contributed to the consultation calling on CESR to consider an interim period to allow companies to list in Europe, without having to provide

remedies in the form of additional disclosures in the light of the anticipated convergence between GAAPs.

### IFRS: Consistent Application

Consistent application of IFRS is central to the successful adoption of the international standards in Europe and is a prerequisite to the SEC's consideration of eliminating the reconciliation requirement. In July, the EFRAG Supervisory Board published a discussion paper on achieving consistent application of IFRS in the EU. The discussions, including those in the Advisory Forum held by EFRAG on 21 September 2005, alluded to the need for some sort of coordination of European views and requests to support IFRIC in its work. The Financial Reporting Policy Group led FEE's reaction to the EFRAG paper and the Advisory Forum.

The EC is to create a forum of European accounting experts to identify emerging and potentially problematic accounting issues in relation to consistent application of IFRS. It is intended to act as a filter mechanism and it will not be making any interpretation or guidance itself. FEE has accepted to participate in the forum.

### EFRAG

The Group has contributed to strategic and policy issues regarding EFRAG, the European Financial Reporting Advisory Group. EFRAG has recently concluded an agreement regarding its working arrangements with the EC. A prime objective of this clarification of the relationship with the EC is a formal recognition of EFRAG by the Commission. The working arrangements have recently been published.

### IASC Foundation

In 2005, FEE took the initiative of organising regular meet-

FEE Secretariat  
Contact

**Saskia Slomp**  
Technical Director  
saskia.slomp@fee.be



ings with Chairman Volcker and some other IASCF Trustees, in order to allow an exchange of views with representatives from preparers, auditors, users and EFRAG. The first European Coordination meeting was held in February and mainly addressed the changes to the IASCF Constitution and the position of Europe within IASCF and IASB. The second, November, meeting focused on the convergence project, consistent application of IFRS and the IASB working programme.

### IASB Working Groups

The Group maintained good relationships with IASB staff and commented on a series of consultation papers, including the *Draft Memorandum of Understanding on the Role of Accounting Standard Setters and Their Relationship with the IASB*. In April, FRPG had a special meeting with the European representatives on the IASB Working Groups to discuss cooperation and relationship with FEE.

### Transition to IFRS

International Financial Reporting Standards (IFRS) as adopted by the international standard setter, IASB, will

not always be identical to those recognised under European law. This is primarily because each standard has to be endorsed by the European Commission and this process can take some time. In addition, as the experience with IAS 39 shows, the European Commission may decide to carve out certain parts of a standard while endorsing the rest. Hence, companies and their auditors will have to deal with a situation whereby IFRSs as adopted for use in the EU may deviate from those approved by the IASB. Addressing these issues in April 2005, FEE published a discussion paper on *Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report*. In October, FEE published the analysis of responses to the discussion paper outlining steps to ensure users of accounts are clear as to the financial reporting framework being used. In December, FEE issued a Communication to its member bodies strongly urging the profession to use the standard reference on the financial framework in the EU, concerning endorsed IFRS, in order to give a clear message to the market and to users of financial statements in and outside the EU.



# FINANCIAL REPORTING

**“What are the benefits of fair valuing goodwill as per the IASB proposal on business combinations? We question whether preparers and auditors need put such effort into accounting for goodwill when the business community seems to express no need for any change.”**



**Benoît Lebrun**  
Accounting Working Party Chairman

## Accounting Working Party

**The Working Party focused on IASB related work. In particular, work on service concession arrangements and business combinations was prioritised as well as a strong input to the IFRS endorsement process.**

### International Financial Reporting Standards

The Working Party reacted to a series of important IASB exposure drafts published during the year. Input was provided regarding: amendments to IFRS 3 on business combinations (phase II); amendments to IAS 27 on consolidated and separate financial statements; amendments to IAS 37 on provisions, contingent liabilities and contingent assets; and amendments to IAS 21 on net investment in a foreign operation. The Chairman represented FEE in the Roundtable on business combinations organised by the IASB in November 2005.

In addition, comments were provided to EFRAG and to IFRIC regarding the interpretations published by IFRIC on: liabilities arising from participating in a specific market (WEEE); changes in contribution to employee share purchase plans; service concessions arrangements; the scope of IFRS 2; and group and treasury share transactions.

### EFRAG

The Working Party contributed to EFRAG's endorsement advice concerning a number of interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) including, IFRIC 2 - members' shares in co-operative entities, IFRIC 4 - determining whether an arrangement contains a lease, IFRIC 5 - decommissioning restoration and environmental rehabilitation funds, and IFRIC 6 - liabilities arising from participating in a specific market. Comments were also provided regarding the endorsement of IFRS 6 which deals with exploration for and evaluation of mineral resources and on the amendments to IAS 19 on employee benefits. EFRAG provided a

negative endorsement advice to the European Commission regarding IFRIC 3 on emission rights. Although FEE supports global, principle-based standards, the profession supported EFRAG's position. However, the European Commission did not finally have to make an endorsement decision as the interpretation was subsequently withdrawn by IASB.

### IFRS for SMEs

The Working Party, together with the SME/SMP Working Party, commented to both EFRAG and IASB regarding the IASB questionnaire on possible recognition and measurement modifications for SMEs. Members of the Working Party also participated in the joint EFRAG/FEE Group on IFRS for SMEs. FEE participated in the IASB Roundtable to discuss the Questionnaire.

### Other Projects

The Working Party contributed to FEE's response to EFRAG's discussion paper on achieving consistent application of IFRS in the EU, on the IASB proposal regarding technical corrections policy and on CESR's recommendation on alternative performance measures.

The Working Party provided input to FEE's reaction to the proposal to amend the Fourth and Seventh Directives, analysing the provisions on related party transactions and off-balance sheet arrangements. The Working Party has begun its consideration of the IASB discussion paper on management commentary, and it contributed to the drafting of the FEE position paper on convergence, equivalence and mutual recognition of IFRS and US GAAP.

### Future Plans

In 2006, the Working Party will continue to make high-level contribution to the international standard setting process and to the European IFRS endorsement procedure on behalf of the profession.

FEE Secretariat  
Contact

**Catherine Ameye**  
Project Manager  
catherine.ameye@fee.be



# FINANCIAL REPORTING

**“FEE welcomed the revised approach to the fair value option in IAS 39. The IASB proposals struck the right balance and have allowed the option to be endorsed in the EU.”**



**Hans van Damme**  
FEE Vice-President & Banks Working Party Chairman

## Banks Working Party

The main focus for the Working Party has been on financial instruments, particularly amendments to the international standard, IAS 39. The Working Party operates a Financial Instruments Subgroup in which members of the Accounting, Banks and Insurance Working Parties participate.

### IAS 39

The Financial Instruments Subgroup developed the Federation's position on the proposed amendments to IAS 39 regarding the fair value option. FEE welcomed IASB's (International Accounting Standards Board) revised approach to the fair value option. The proposals strike the right balance between the views of those in favour of the previous fair value option in IAS 39 and those requiring a revision of the standard in respect of the fair value option.

An element of IAS 39 still remains to be agreed and the Working Party has monitored the ensuing discussion between IASB and the banking organisations regarding a possible interest rate margin hedge method. The discussion will continue in 2006 with the objective of eliminating the last carve-out in the endorsed IAS 39.

### EFRAG & IFRIC

The Working Party responded to EFRAG's (European Financial Reporting Advisory Group) endorsement advice on issues such as the amendment to IAS 39 Fair Value

Option, the amendment to IAS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions, the amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts and the new IFRS 7 regarding financial instrument disclosures. Following the European endorsement of the revised Fair Value Option, the Subgroup was consulted by the European Commission on a proposal to amend Article 42 of the Fourth Directive. The purpose of the proposal was to align the wording of the Fourth Directive with the amended IAS 39. The IFRIC Draft interpretation D15 on Reassessment of Embedded Derivatives was discussed and comment letters were submitted to both EFRAG and IFRIC.

In 2005, the Working Party also monitored and discussed working documents of CEBS (the Committee of European Banking Supervisors) relating to the framework for supervisory disclosure, the financial reporting framework and validation of risk management. A number of publications by the Basel Committee on Banking Supervision were also considered by the Working Party.

### Future Plans

In 2006, the priority for the Working Party will again be the work of the IASB on financial instruments. In addition, accounting or auditing aspects of CEBS implementation of the proposed Capital Requirements Directive (CAD) will be closely monitored.

FEE Secretariat  
Contact

**Catherine Ameye**  
Project Manager  
catherine.ameye@fee.be

# FINANCIAL REPORTING

**“There is a need to determine in much clearer form what is meant by each request for audit input in the framework of Solvency II. At present the scope of the work contemplated can only be guessed at.”**



**Gerd Geib**  
Insurance Working Party Chairman

## Insurance Working Party

**The EU project on Solvency II and the work of the CEIOPS were the focus of the years' activities for the Working Party.**

### Solvency II

Regular contact with the European Commission and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), facilitated the Working Party's input on the reform of the supervisory system for insurance companies, known as Solvency II. The project aims to establish a solvency system that is better matched to the true risk of an insurance company. In its development of detailed rules and implementation measures on Solvency II, CEIOPS has consulted with the audit profession. Members of the Working Party were invited to participate in CEIOPS working groups on 'Pillar I', 'Pillar II' and 'Accounting/Pillar III'. The chairman of the Insurance Working Party is also member of the CEIOPS Consultative Panel.

FEE contributed to the process by submitting comment letters to CEIOPS on their draft answers to the European Commission on the first and second wave of calls for advice in the framework of the Solvency II project. A FEE comment letter on the draft answers on the third wave of calls for advice is in preparation.

### European Developments

FEE provided input to other projects initiated by the EU and CEIOPS, namely to the new Reinsurance Directive, to the CEIOPS investigation on 'Implications of IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings' and the 'Report on possible need for amendments to the Insurance Groups Directive'.

### IFRS

In March 2004, the IASB published *IFRS 4: Insurance Contracts* as an interim standard. The Working Party discussed the technical impact of IFRS 4 and prepared a comment letter on the two sets of drafts of International Actuarial Standards of Practice, published by the International Actuarial Association as educational standards and dealing with the impact of IFRS 4 on the actuarial profession. The third set of drafts standards will be discussed in the beginning of 2006.

Due to close contact with European representatives of IASB working groups several IFRS issues with impact on insurance accounting were discussed. These include the 'fair value' option, amendments to IAS 39, financial guarantee contracts, the amendments to the IFRS 4 implementation guidance according to the issuance of IFRS 7 and the developments within Phase II Insurance Project of the IASB which commenced in late 2004. Members of the FEE Insurance Working Party participate in the EFRAG Working Groups on Insurance Accounting and Financial Instruments.

### Future Plans

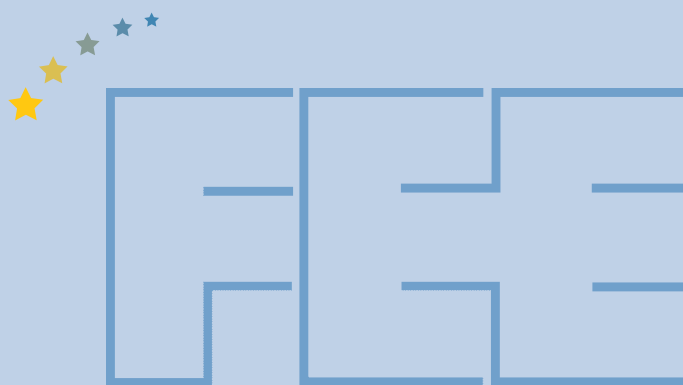
IFRS remains a key issue; in particular the Phase II Insurance Project of the IASB as well as the interpretation and impact of IFRS 4 first-time adoption. The focus will be on technical issues raised by the different projects, as well as the auditing implications related to fair value measurement and disclosures.

As the European Commission advances the Solvency II reforms there will be much overlap with accounting and auditing issues. Close contacts will be maintained with the European Commission, regulators and supervisors, especially via the cooperation with the relevant working parties of CEIOPS.

FEE Secretariat  
Contact

**Catherine Ameye**  
Project Manager  
catherine.ameye@fee.be





FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS  
EUROPEAN FEDERATION OF ACCOUNTANTS

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# PROFESSIONAL REGULATION

**“The accountancy profession operates, in the main, in activity areas where there are no market access rules restricting or prohibiting the entry of other service providers.”**



**Jacques Potdevin**  
FEE Deputy President  
& Liberalisation / Qualification Working Party Chairman

## Liberalisation/Qualification Working Party

**The Working Party closely followed the legislative agenda on all aspects linked to the recognition of profession qualifications and the cross-border provision of services. It also finalised a study on market access to accountancy services.**

### Recognition of Professional Qualifications Directive

The Directive was adopted in September 2005. It adds new provisions related to cross-border provision of services under the home country title to existing rules concerning establishment in another country. In its representation on the Directive, FEE emphasised that, where they wish to, member states should be allowed to subject cross border service providers to the rules and disciplinary provisions linked to professional qualifications in the country where the services are provided.

FEE strongly argued in favour of clear legislation whereby all aspects related to statutory audit could be found in one Directive. This argument was accepted in the final version of the Directive.

### Services Directive

The Commission's proposal to improve cross-border provisions of services, in line with the Lisbon Agenda generated much interest and controversy in 2005. FEE has communicated its main concerns to the EU institutions since the proposal was first issued in 2004. It is important that there is consistency between the Services Directive and other legislation, particularly on recognition of professional qualifications and statutory audit. The main concern related to the clarity of the scope of the Directive.

### Competition and Market Access Rules

Responding to the European Commission's growing interest in competition policy and the regulated professions, the Working Party launched a study to ascertain the cur-

rent situation regarding market access and restricted rights to practise within the accountancy profession. The survey concluded that the accountancy profession operates in the main in activity areas where there are no market access rules restricting or prohibiting the entry of other services providers. Only in the areas of statutory audit and to some extent other reports which are required by European company law directives, do market access regulations oblige consumers to acquire services from the accountancy profession.

### Education Subgroup

The Education Subgroup is chaired by Prof. Wim Moleveld. In 2005, its activities focused on issues connected to lifelong learning. The Subgroup prepared FEE comments on the European Commission's working document 'Towards A European Qualifications Framework for Lifelong Learning'. It organised a meeting with directors of continuous professional development in member states to discuss the implementation of the IFAC Standard IES 7, which is effective from 1 January 2006.

Despite amendments tabled in the European Parliament based on FEE proposals on education, the concerns were not taken onboard in the final text of the statutory audit Directive.

### Future Plans

The Services Directive progress will be closely monitored in 2006 as well as the debates on services at the international level, in the World Trade Organisation. The Working Party will conduct studies on two important issues related to the Statutory Audit Directive: ownership of audit firms; and the practical organisation of the aptitude test in member states.

FEE Secretariat  
Contact

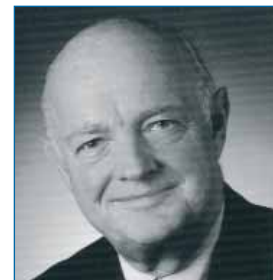
**Henri Olivier**  
Secretary General  
henri.olivier@fee.be



# PROFESSIONAL REGULATION

**“The accountancy profession has strongly supported auditor independence reform in Europe. A stable platform on independence is now required to focus more broadly on the common goal of high audit quality.”**

**Harald Ring**  
Ethics Working Party Chairman



## Ethics Working Party

**There were two main priorities for the Working Party in 2005: finalising the survey on the implementation of the EU Recommendation on Statutory Auditor's Independence and contributing to the expected revision of the independence section of the IFAC Code of Ethics.**

### Survey on Independence

In February 2006, the Working Party published a survey on the implementation of the EU Recommendation on Independence. It outlines how the principles underlying the Recommendation, recently given a legal underpinning by the revised Statutory Audit Directive, are applied in the European Union member states. The principles of the Recommendation have been implemented in about three quarters of member states. Most European Union countries have taken regulatory initiatives on auditor independence in the last few years. The accountancy profession has strongly supported auditor independence reform in Europe. It is now important that there be a regulatory pause to allow this new approach to auditor independence time to prove its worth to users of audit reports. A stable platform on independence is required to focus more broadly on the common goal of high audit quality.

### Audit Legislation

In September and October 2005 the European Parliament and ECOFIN approved the Statutory Audit Directive, revising the existing Eighth Company Law Directive on Statutory Audit. The Working Party closely followed the development of the proposals in the areas of ethics and independence. The Working Party also outlined its plans on the implementation of the Statutory Audit Directive.

### IFAC Code of Ethics

The Chairman of the Working Party was invited in 2004 to participate in the newly formed Consultative Advisory

Group of the International Ethics Standards Board for Accountants, formerly the IFAC Ethics Committee. He has actively contributed to its workings in 2005 by continuing to express support for a principles based approach to ethical standard setting, supplemented by appropriate guidance, restrictions and prohibitions.

The Working Party also discussed the IFAC Ethics Committee exposure draft on network firms definition in detail and advocated for a network definition in line with the one included in the Statutory Audit Directive.

### PCAOB Rule

The Working Party commented on the US PCAOB proposed rules concerning independence, tax services and contingent fees. These rules stipulate that the provision to an audit client of services for a contingent fee or a commission, the provision of assistance in planning or tax advice on certain types of potentially abusive tax transactions and the provision of tax services to certain senior officers of an audit client impair the independence of an audit firm.

### Future Plans

The Working Party will continue to provide input to FEE's work on the implementation of the Statutory Audit Directive, by identifying the members state options and other national developments in relation of Articles 21 and 22 of the Statutory Audit Directive. A revision of the Common Core of Principles elaborated by FEE in 1998 and being used as the basis for discussions at EU and IFAC level and the development of a publication to further explain the framework approach to auditor independence are under consideration.

FEE Secretariat  
Contact

**Hilde Blomme**  
Director of Practice Regulation  
hilde.blomme@fee.be



# PUBLIC SECTOR

**“Public sector organisations looking to tackle external fraud need to take a strategic approach, set targets and identify controls to use in the prevention of fraud.”**



**Caroline Mawhood**  
Public Sector Committee Chair

## Public Sector Committee

**In 2005 the Committee's priorities were taking forward our research on the implementation of accruals basis of financial reporting in the public sector and on New Public Management.**

### Accrual Accounting in the Public Sector

The Committee followed up the successful conference held with the European Commission late in 2004, by undertaking a survey of the implementation of accrual accounting in the public sector. The purpose was to understand how member states apply the standards; differences in approaches and the potential for advice. The Committee is collating the results and is confident that the work will result in a useful overview of how member states have adopted accruals accounting at different levels of Government. In early 2006 we published a discussion paper on the implications for politicians of the adoption of accruals based reporting.

### New Public Management

The Committee carried out a survey on how member states interpret the term, 'New Public Management'. The survey inquires about corporate governance, the role of internal and external audit and performance management. The objective is to produce a booklet analysing the characteristics of new public management, the accounting structures associated with it and how different European Union countries are handling its implementation.

### Public Sector Accounting Standards Board

The Committee has worked actively with the IFAC International Public Sector Accounting Standards Board. Two members are technical advisors on the Board. The

Committee seeks to comment on issues of concern to European members, for example, formal comments we submitted on IPSAS ED 24 relating to disclosures on external assistance. The Committee had a key input into FEE's comment on the international exposure draft on service concessions.

### Tackling External Fraud

The Committee published a guide to Good Practice Guide on Tackling External Fraud in 2005. The key messages focused on the importance of organisations taking a strategic approach to fraud; assessing the scale of the fraud threat; understanding the types of fraud risk; setting targets and monitoring performance; and identifying controls to use in the prevention of fraud.

### European Institutions and Academia

The Committee has continued to develop relations with key European Institutions and academia. The Committee was represented at the European Parliament seminar on improving financial accountability in the European Union. A strong relationship has been established with the Comparative International Government Accounting Research (CIGAR) network of academics.

### Future Plans

The Committee is planning work on a survey of private sector contribution to internal control, corporate governance and auditing in the public sector. The Committee will study the 'legality' assurance requirement for public sector work, which may lead to a publication building on existing work in the member states.

FEE Secretariat  
Contact

**Saskia Slomp**  
Technical Director  
saskia.slomp@fee.be

# SME

**“The FEE European Congress for SMP/SME Accountants, to be held in September 2006 in Versailles, France, will build on the success of the inaugural Congress held in Sitges, Spain, in 2004.”**

**José Maria Bové**  
FEE Vice-President  
& SME/SMP Working Party Chairman



## SME/SMP Working Party

**The Working Party is the accountancy profession's voice on issues relevant to SMEs and SMPs (small and medium-sized practitioners) in the EU.**

### European Agenda

The Working Party's primary focus is on representation of SME/SMP interests at European level. The European Commission's DG Enterprise is a key contact in this regard. Representatives of the Working Party regularly participated in events organised by the European Commission (EC) and SMEs organisations throughout the year. The Working Party has been asked to contribute to the 5<sup>th</sup> EC Round Table between Banks and SMEs, which will start in 2006 and will focus on access to finance, including mezzanine financing and securitisation.

### ISAs

The Working Party provided informal input from a European SME/SMP perspective to IFAC's SMP Committee on ISAs (International Standards on Auditing). In addition, input was provided to the Auditing Working Party which prepared FEE's responses to ISA exposure drafts. ISAs work will feature prominently in 2006, and the Working Party seeks to highlight SME/SMP concerns when responding to IFAC's clarity project, which will see the redrafting of all ISAs.

### IFRS for SMEs

A joint EFRAG/FEE Group dealing with financial reporting for SMEs is contributing to IASB project on IFRS for SMEs.

The group provides input to both EFRAG's Technical Expert Group and the European members of the IASB's SME Working Group. FEE also commented on the IASB's questionnaire on possible recognition and measurement modifications for SMEs, broadly supporting the views of EFRAG. In addition, FEE was represented on the IASB round tables held by the IASB in October 2005. Gerhard Prachner, a member of FEE's Accounting and SME/SMP Working Parties, represents EFRAG on the IASB SME Working Group.

### Publications

In November 2005, the guide *How SMEs can reduce the Risk of Fraud - Limiting Fraud Risk - What SMEs can do* was published. The Guide analyses the impact of fraud, provides practical suggestions to identify, detect and prevent fraud and recommends implementing internal control systems tailored to specific needs.

### Future Plans

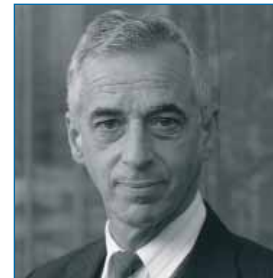
A highlight will be the second FEE European Congress for SMP/SME Accountants, to be held on the 7<sup>th</sup> & 8<sup>th</sup> of September 2006 in Versailles, France. The Working Party will also monitor the implementation of the new 8<sup>th</sup> Directive on statutory audit, which will present many challenges for small and medium-sized practitioners. The Working Party fully supports FEE's policy of 'an audit is an audit' and will work closely with the Auditing Working Party.

FEE Secretariat  
Contact

Chiara Pisano  
Project Manager  
chiara.pisano@fee.be

# SUSTAINABILITY

**“The growing importance of extra-financial information for entities and their stakeholders and its relevance for long-term financial performance, provides challenges and opportunities for the accountancy profession.”**



**Johan Piet**  
Sustainability Working Party Chairman

## Sustainability Working Party

**The accountancy profession due to its expertise on quality of information has a significant contribution to make to developments in the sustainability area. The Working Party operates in liaison with the Auditing Working Party and Financial Reporting Policy Group.**

### Strategic Plan

During 2005, the Working Party updated its strategic plan. The plan outlines the specific role of the accountancy profession in supporting sustainability reporting and related assurance. It provides a framework for the Working Party as it looks to meet the challenges and opportunities for the profession stemming from the growing importance of extra-financial information for entities and their stakeholders, and its relevance for long-term financial performance. The accountancy profession is the key supplier of advice on preparation of reliable financial and non-financial information, including sustainability information and in giving assurance thereon.

### Emissions Trading Alert

In January 2005, the *FEE Alert on Emissions Trading* was published to coincide with the European Union Greenhouse Gas Emissions Trading Scheme (EU ETS), which commenced operation on 1 January 2005. The scheme is a major part of Europe's strategy to comply with the UN's Kyoto Protocol. The FEE publication considers the financial reporting and auditing issues, impacting upon the financial statements, arising from the EU ETS.

### Stakeholder Dialogue

During 2005, the Sustainability Working Party invited key stakeholders to participate in its meetings to facilitate an informal exchange of views on aspects of reporting, accounting and assurance provision in the field of sustainability and corporate social responsibility. Senior representatives from the European Commission, John Kellas, Chairman of the International Auditing and Assurance Standards Board (IAASB) and Matt Christensen, Executive Director of the European Social Investment Forum (Eurosif), were amongst those who joined the Working Party discussions.

The Working Party cooperates with organisations such as the GRI (Global Reporting Initiative), United Nations (UN-ISAR, UNEP), IFAC (International Federation of Accountants), Eurosif (European Social Investment forum), AccountAbility (Institute of Social and Ethical Accountability), as well as with the European Commission and other EU institutions.

### Future Plans

The start of 2006 saw the publication of the GRI G3 Sustainability Reporting Guidelines Exposure Draft. On 17 March, FEE hosted a European event to raise awareness and discussion regarding G3, the third generation of sustainability reporting guidelines from GRI. The Working Party will continue to produce innovative initiatives on sustainability.

FEE Secretariat  
Contact

**Corinne Soubies**  
Senior Project Manager  
corinne.soubies@fee.be



# SUSTAINABILITY

**“More work is required from standard setters, notably the IAASB, if they are to meet the needs of the marketplace for suitable standards for assurance that will increase the credibility of sustainability reports.”**



**Lars-Olle Larsson**  
Sustainability Assurance Subgroup Chairman

## Sustainability Assurance Subgroup

The Subgroup operates in liaison with and under the supervision of the Sustainability Working Party. The Group is principally active on sustainability assurance aspects but acts also as a detailed discussion and drafting group on reporting issues.

### Assurance for a Sustainable Supply Chain

Building on its series of well received papers in the assurance domain, a new paper was published in 2005 entitled *Assurance for a Sustainable Supply Chain*. Many European companies work with suppliers from all over the world. The supply chain forms an important element in the management of business risk, opportunity and responsibility. It is critical to relationships with many stakeholders and to the governance of companies generally. Codes of conduct for suppliers can benefit corporate reputation, brand and “triple bottom line” if properly safeguarded by independent assurance. The discussion paper gives insights to a range of factors relevant to assurance provision.

### GRI

The Subgroup provides input to the Global Reporting Initiative (GRI), notably in the process of development of the “G3” exposure draft of its Sustainability Reporting Guidelines. The Group contributed to the GRI survey on shaping new GRI reporting levels, as well as the GRI survey on external verification/assurance of GRI-based reports. The Group drafted the FEE response to the GRI G3 Guidelines.

### Representation

The Chairman of the Group represents FEE on the IFAC Sustainability Experts Advisory Panel (SEAP). The Chairman also made a presentation in October 2005 to a meeting of European Auditing Standard Setters at which the harmonisation of sustainability assurance standards was addressed.

### Comment Letters

The Subgroup developed the FEE responses to the Dutch Royal NIVRA Exposure Drafts ED3410 ‘*Assurance Engagements Relating to Sustainability Reports*’ and ED 3010 ‘*Practitioners Working With Subject Matter Experts From Other Disciplines on Non-Financial Assurance Engagements*’. It also gave input to the FEE comments on the draft endorsement advice on IFRIC 3 on Emission Rights.

### Future Plans

The Group will soon publish a Discussion Paper provisionally entitled: *Key Issues in Sustainability Assurance – An Overview*. The paper attempts to identify areas of commonality in the various national pronouncements issued to date as well as analysing their differences. It is hoped that the paper will provoke debate that will enhance the ability of national and international standard setters, notably the IAASB, to meet the needs of the marketplace for suitable standards for assurance that will increase the credibility of sustainability reports.

FEE Secretariat  
Contact

**Corinne Soubies**  
Senior Project Manager  
corinne.soubies@fee.be

# TAXATION

**“European Court of Justice rulings are having far reaching consequences for company taxation. FEE has highlighted the issues at stake.”**

**Stefano Marchese**  
FEE Vice-President & Direct Tax Working Party Chairman



## Direct Taxation Working Party

**In 2005 the Working Party has focused activities on significant cases before the European Court of Justice and the European Commission project on a common consolidated tax base.**

### Common Corporate Consolidated Tax Base

The European Commission project on the Common Corporate Consolidated Tax Base (CCCTB) for companies operating cross border in the EU, generated momentum throughout the year and is currently high on the Commission's list of priorities and is supported by most FEE member bodies. The European Commission has created a Working Group on CCCTB comprising of Commission and member states representatives.

In December 2005 FEE was invited to participate in a meeting of the Working Group on CCCTB. It was the sole meeting of the Working Group open to external academics and experts. The Direct Taxation Working Party has carried out a survey which will be used as a basis for a new publication, which will analyse issues related to dependency of tax and accounting, the common tax base and the application of IFRS on the common base. The Working Party also contributed to the report of CEPS (Centre for European Policy Studies) report on Achieving a Common Consolidated Corporate Tax Base in the EU.

### European Court of Justice

Over the last few years the European Court of Justice (ECJ) has played an increasingly significant role in the area of company taxation. Cases brought before the Court have led to member states being forced to amend their national laws. The Working Party operates a subgroup on ECJ issues. It studies both pending cases and ECJ decisions delivering opinions on identified issues of particular interest for the profession. In December, FEE published an analysis of the Cadbury Schweppes case, analysing whether Controlled Foreign Company (CFC) legislation is in line with the relevant article of the EU Treaty.

### Direct Tax Legislation

The Working Party monitored closely the legislative process regarding direct taxation aspects of measures such as: the Parent-Subsidiary Directive; the Mergers Directive; the Interests and Royalties Directive; the Transfer Pricing Forum; Harmful tax competition; Double Taxation Conventions

### Future Plans

The Working Party is preparing a position paper to be issued in 2006 on the implementation of the Interest and Royalties Directive. A position paper on the CCCTB will also be prepared.

FEE Secretariat  
Contact

**Chiara Pisano**  
Project Manager  
chiara.pisano@fee.be



# TAXATION

**“VAT fraud remains a hugely important issue. FEE is concerned that the European Commission’s proposed Directive to counter such fraud may not deliver the desired results.”**

**Stephen Dale**  
Indirect Taxation Working Party Chairman



## Indirect Taxation Working Party

**The Working Party concentrated on developing the profession’s reaction to the European Commission’s proposals for VAT simplification.**

### VAT Simplification

The Working Party welcomed the European Commission’s proposals regarding the place of supply of services to non-taxable persons as a step in the right direction, but pointed out that the benefit of the simplifications will be limited. As part of the simplification proposals the Commission is pursuing its work on the ‘One Stop Shop’ system, which will nonetheless require businesses to complete the different VAT returns in 20 languages, applying the different VAT rules of the Member State in which the relevant transactions are carried out.

### VAT Fraud

VAT fraud remains a really important issue as discussed by leading taxation experts in the FEE VAT Round Table in May 2004. The Working party reacted to the European Commission’s proposal to amend Directive 77/388/EC. The Commission’s intention is to simplify the procedure for charging VAT and to give member states an alternative to the rules of the existing Directive in order to counter tax evasion and VAT fraud. The accountancy profession agrees that additional measures should be taken to combat evasion. Even though the intent of the proposed Directive is sensible and correct, FEE does not agree with all the details of the proposal. Some problems might arise from a codification of the existing derogations as derogations could in certain cases be in contradiction with the principles of the 6th Directive. There appears to be a confusion between the actions that need to be taken to deal with VAT fraud and those actions required to deal with tax avoidance which could be undertaken by fully applying the existing legislation.

### Vouchers and Promotional Schemes

The Working Party prepared a discussion paper on the VAT treatment of vouchers and promotional schemes within the 25 EU Member States. The paper highlights that the current VAT regime creates a high degree of uncertainty for businesses with a possible exposure to significant costs, as, in the majority of transactions, final consumers are involved, i.e. any additional tax charges determined on tax audit cannot be passed on. The paper analyses different categories of vouchers and promotional schemes and identifies for each one the different types of transactions in use in EU Member States and the VAT treatment which should be applied. The paper will be published in 2006. The European Commission has indicated that it will publish a Communication on the issue in 2006.

### Future Plans

The Working Party will continue to monitor and comment on the development of the draft VAT Directives on travel agents, postal services, and the proposals on financial services and activities of central and local government bodies. Key stakeholders such as DG TAXUD of the European Commission will be fully briefed on the profession’s views.

FEE Secretariat  
Contact

**Chiara Pisano**  
Project Manager  
chiara.pisano@fee.be

# PUBLICATIONS 2005

## FEE Council approved the following publications in 2005

### Reference to the Financial Reporting Framework in the EU in Accounting Policies and in the Audit Report and Applicability of Endorsed IFRS

#### *Communication to FEE Member Bodies*

FEE has issued a communication to its Member Bodies on the reference to the Financial Reporting Framework in the EU in Accounting Policies and in the Audit Report and Applicability of Endorsed IFRS.

### Provision of Accountancy, Audit and Related Services in Europe - A Survey on Market Access Rules

#### *FEE Survey*

The FEE survey addresses the degree to which statutory market access rules are applied across European jurisdictions in relation to the provision of a wide range of audit, accountancy and related services. It focuses on the degree of consumer choice for such services. The survey found that only in the areas of statutory audit and to some extent other reports which are required by European company law Directives, do market access regulations apply.

### Observations on European Court of Justice Pending Case C –196/04

#### *FEE Observation Paper*

National tax legislations on CFCs imposes upon a company resident in a member state a tax charge for the profits of its subsidiaries which are resident in another member state and subject to a lower level of taxation. Ahead of the hearing of the European Court of Justice (ECJ) in the Cadbury-Schweppes case, due to take place on 13 December 2005, FEE has published a number of observations regarding Controlled Foreign Company (CFC) legislation in Europe. FEE questions whether such legislation is consistent with the principles of articles 43, 49 and 56 of the EC Treaty.

### Good Practice in Tackling External Fraud

#### *FEE Position Paper*

The publication concentrates on external fraud. It is divided into three main sections: understanding and managing the risks of external fraud; preventing and deterring external fraud; and detecting and investigating fraud and imposing sanctions. Case studies are also provided for illustrative purposes.

### How SMEs can reduce the risk of fraud

#### *FEE Guide*

This practical guide is designed to assist SME entrepreneurs limit the risk of fraud. The publication analyses fraud's impact, provides practical suggestions to identify, detect and prevent fraud and recommends implementing internal control systems tailored to SMEs' specific needs. Cases studies are provided to illustrate the range and nature of fraudulent activity.

### Analysis of Responses to FEE Discussion Paper on the Auditor's Involvement with the New EU Prospectus Directive

#### *FEE Position Paper*

The Prospectus Directive, which came into force on 1 July 2005, intends to simplify the raising of capital in Europe. The Directive requires the involvement of the auditor in historical, prospective and pro forma information. FEE's publication highlights issues which, if left unattended, could undermine the benefits for investors and other market participants of the 'single passport' for issuers. The publication analyses responses to FEE's November 2004 Discussion Paper on the Auditor's Involvement with the EU Prospectus Directive.

### Analysis of Responses to FEE Discussion Paper on Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report

#### *FEE Position Paper*

The FEE publication analyses the responses to FEE Discussion Paper on Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report which was published in April 2005. The key question which the Analysis addresses is how to refer to the financial reporting framework in the accounting policies in the notes to the accounts and in the audit report when applying 'endorsed IFRSs'.





## Assurance for a Sustainable Supply Chain

### *FEE Discussion Paper*

As a result of globalisation many European companies work with suppliers from all over the world. The supply chain now forms an important element in the management of business risk and opportunity and hence in the governance of many companies. The FEE publication provides background and guidance on management of supply chains with a emphasis on aspects, such as codes of conduct, where independent assurance and related services may be particularly valuable.

## Comfort Letters Issued in relation to Financial Information in a Prospectus

### *FEE Discussion Paper*

From 1 July 2005 the Prospectus Directive becomes effective, so market participants (underwriters, issuers and their auditors) need to prepare for the new rules and understanding of each participant's role and responsibility needs to be updated. The comfort letter is a crucial instrument in this process. Given the change from national rules to European-wide rules in respect of prospectuses, existing national variations in current practice should be eliminated where not linked to national legal issues.

## Proposal to Amend the Fourth and Seventh Directives

### *FEE Briefing Note*

FEE has published a briefing note detailing the profession's concerns regarding the current proposal to amend the Fourth and Seventh Directives. The publication notes that: the location of the corporate governance statement and related audit implications may inhibit development of disclosure; there is a need for clarification of the term "arrangements"; and disclosure requirements for related party transactions should not go beyond IAS 24.

## Reporting Issues in Relation to Endorsed IFRS and Possible Implications for the Audit Report

### *FEE Discussion Paper*

The IAS Regulation requires European listed companies to prepare consolidated financial statements from 2005 on the basis of international accounting standards, defined as those IFRS that have been endorsed by the European Commission. Both in the accounting policies and in the audit report, reference needs to be made to the applicable financial reporting framework; but selecting appropriate text for such a reference is not straightforward as endorsed IFRS may not necessarily be the same as (full) IFRS.

## Risk Management and Internal Control in the EU

### *FEE Discussion Paper*

The FEE publication provides a review of current best practice amongst companies in risk management and internal control, a review of recent regulatory developments in the US and EU in response to the recent financial scandals; and a survey of regulatory requirements on risk management and internal control in EU member states. The paper sets out various proposals as to how European regulators can build on what the best companies are already doing.

## Takeover of Losses in the EU

### *FEE Position Paper*

Following a comprehensive analysis of the rules on loss compensation in EU member states' tax systems, FEE has identified substantial differences in the treatment of domestic and foreign losses amongst member states. The ability to set off losses against profits ('takeover of losses') for assessing the tax liability of a domestic group of companies is a basic feature of any company tax system. However, the rules on loss compensation differ substantially at domestic and at international level. In many cases while offset of domestic losses is possible, the offset of foreign losses is restricted or impossible. As a consequence, foreign investment is treated less favourably than domestic investment.

## Alert on Emissions Trading

### *FEE Alert*

The European Union Greenhouse Gas Emissions Trading Scheme (EU ETS), which commenced operation on 1 January 2005, is a major part of Europe's strategy to comply with the United Nations' climate change strategy, the Kyoto Protocol. The publication considers the financial reporting and auditing issues arising from the new scheme.



# FEE MEMBER BODIES

## Austria

Kammer der Wirtschaftstreuhänder (KWT)  
[www.kwt.or.at](http://www.kwt.or.at)

Institut Österreichischer Wirtschaftsprüfer (IWP)  
[www.iwp.or.at](http://www.iwp.or.at)

## Belgium

Institut des Experts-Comptables et des Conseils Fiscaux (IEC),  
Instituut van de Accountants en de Belastingconsulenten (IAB)  
[www.iec-iab.be](http://www.iec-iab.be)

Institut des Réviseurs d'Entreprises (IRE),  
Instituut der Bedrijfsrevisoren (IBR)  
[www.ibr-ire.be](http://www.ibr-ire.be)

## Bulgaria

Institute of Certified Public Accountants in Bulgaria  
[www.ides.bg](http://www.ides.bg)

## Cyprus

Institute of Certified Public Accountants of Cyprus (ICPA)  
[www.icpac.org.cy](http://www.icpac.org.cy)

## Czech Republic

Komora Auditoru Ceske Republiky (KACR)  
[www.kacr.cz](http://www.kacr.cz)

## Denmark

Foreningen af Statsautoriserede Revisorer (FSR)  
[www.fsr.dk](http://www.fsr.dk)

## Estonia

Estonian Board of Auditors  
[www.auditorkogu.ee](http://www.auditorkogu.ee)

## Finland

KHT-Yhdistys  
[www.kht.fi](http://www.kht.fi)

## France

Compagnie Nationale des Commissaires aux Comptes (CNCC)  
[www.cncc.fr](http://www.cncc.fr)

Institut Français des Experts-Comptables (IFEC)  
[www.ifec.fr](http://www.ifec.fr)

Ordre des Experts-Comptables (OEC)  
[www.experts-comptables.fr](http://www.experts-comptables.fr)

## Germany

Institut der Wirtschaftsprüfer (IDW)  
[www.idw.de](http://www.idw.de)

## Greece

Silogos Egekrimenou Logiston-Elegton Ellados (SELE)

Soma Orkoton Elegton Logiston (SOEL),  
[www.soel.gr](http://www.soel.gr)

## Hungary

Magyar Könyvvizsgálói Kamara (MKVK)  
[www.mkvk.hu](http://www.mkvk.hu)

## Iceland

Félag Löggiltra Endurskodena (FLE)  
[www.fle.is](http://www.fle.is)

## Ireland

Institute of Chartered Accountants in Ireland (ICAI)  
[www.icaireland.ie](http://www.icaireland.ie)

Institute of Certified Public Accountants in Ireland (ICPAI)  
[www.cpaireland.ie](http://www.cpaireland.ie)

## Israel

Institute of Certified Public Accountants in Israel (ICPA)  
[www.icpas.org.il](http://www.icpas.org.il)

## Italy

Consiglio Nazionale dei Dottori Commercialisti (CNDC)  
[www.cndc.it](http://www.cndc.it)

Consiglio Nazionale dei Ragionieri e Periti Commerciali (CNRPC)  
[www.consrag.it](http://www.consrag.it)

**Latvia**

Latvian Association of Certified Auditors (LACA)  
[www.lzra.lv](http://www.lzra.lv)

**Lithuania**

Lithuanian Chamber of Auditors  
[www.lar.lt](http://www.lar.lt)

**Luxembourg**

Institut des Réviseurs d'Entreprises (IRE)  
[www.ire.lu](http://www.ire.lu)

Ordre des Experts-Comptables (OEC)  
[www.oec.lu](http://www.oec.lu)

**Malta**

The Malta Institute of Accountants (MIA)  
[www.miamalta.org](http://www.miamalta.org)

**Monaco**

Conseil de l'Ordre des Experts-Comptables de Monaco (COECM)

**Netherlands**

Koninklijk Nederlands Instituut van Registeraccountants (NIVRA)  
[www.nivra.nl](http://www.nivra.nl)

**Norway**

Den norske Revisorforening (DnR)  
[www.revisornett.no](http://www.revisornett.no)

**Poland**

Krajowa Izba Biegłych Rewidentów (KIBR)  
National Chamber of Statutory Auditors  
[www.kibr.org.pl](http://www.kibr.org.pl)

**Portugal**

Ordem dos Revisores Oficiais de Contas (OROC)  
[www.oroc.pt](http://www.oroc.pt)

**Romania**

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)  
[www.ceccar.ro](http://www.ceccar.ro)

**Slovak Republic**

Slovenská Komora Auditorov (SKAu)  
[www.skau.sk](http://www.skau.sk)

**Slovenia**

Slovenski Institut za Revizijo (SIZR)  
[www.si-revizija.si](http://www.si-revizija.si)

**Spain**

Instituto de Censores Jurados de Cuentas de España (ICJCE),  
[www.icjce.es](http://www.icjce.es)

**Sweden**

FAR  
[www.far.se](http://www.far.se)

**Switzerland**

Treuhand-Kammer, Chambre Fiduciaire  
[www.treuhand-kammer.ch](http://www.treuhand-kammer.ch)

**United Kingdom**

The Association of Chartered Certified Accountants (ACCA)  
[www.accaglobal.com](http://www.accaglobal.com)

Chartered Institute of Management Accountants (CIMA)  
[www.cimaglobal.com](http://www.cimaglobal.com)

Chartered Institute of Public Finance and Accountancy (CIPFA)  
[www.cipfa.org.uk](http://www.cipfa.org.uk)

Institute of Chartered Accountants in England and Wales (ICAEW)  
[www.icaew.co.uk](http://www.icaew.co.uk)

Institute of Chartered Accountants of Scotland (ICAS)  
[www.icas.org.uk](http://www.icas.org.uk)

# FEE CONTACTS

## FEE Secretariat Contact Details



**Henri Olivier**  
Secretary General  
+32 2 285 4085  
[henri.olivier@fee.be](mailto:henri.olivier@fee.be)



**Sabine Leurart**  
Secretarial Support  
+32 2 285 4073  
[sabine.leurart@fee.be](mailto:sabine.leurart@fee.be)



**Saskia Slomp**  
Technical Director  
+32 2 285 4085  
[saskia.slomp@fee.be](mailto:saskia.slomp@fee.be)



**Loraine Diamond**  
Secretarial Support  
+32 2 285 4070  
[loraine.diamond@fee.be](mailto:loraine.diamond@fee.be)



**Hilde Blomme**  
Director of Practice Regulation  
+32 2 285 4085  
[hilde.blomme@fee.be](mailto:hilde.blomme@fee.be)



**Sylvie Romancide**  
Secretarial Support  
+32 2 285 4078  
[sylvie.romancide@fee.be](mailto:sylvie.romancide@fee.be)



**Corinne Soubies**  
Senior Project Manager  
+32 2 285 4080  
[corinne.soubies@fee.be](mailto:corinne.soubies@fee.be)



**Elizabeth Fox**  
Secretarial Support  
+32 2 285 4084  
[elizabeth.fox@fee.be](mailto:elizabeth.fox@fee.be)



**Catherine Ameye**  
Project Manager  
+32 2 285 4076  
[catherine.ameye@fee.be](mailto:catherine.ameye@fee.be)



**Sophie Blave**  
Secretarial Support & Reception  
+32 2 285 4085  
[sophie.blave@fee.be](mailto:sophie.blave@fee.be)



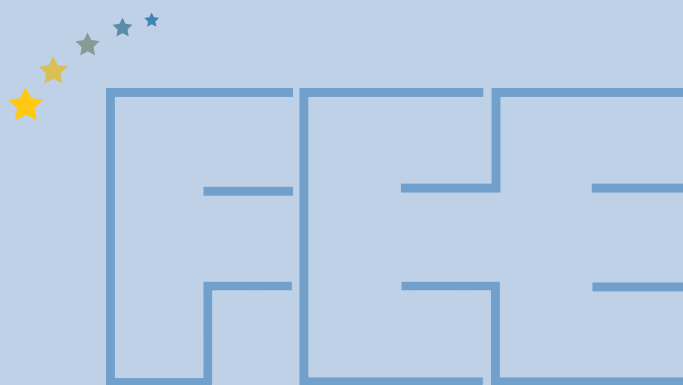
**Chiara Pisano**  
Project Manager  
+32 2 285 4075  
[chiara.pisano@fee.be](mailto:chiara.pisano@fee.be)



**Liese-Lotte Billiet**  
Secretarial Support  
+32 2 285 4083  
[liese-lotte.billiet@fee.be](mailto:liese-lotte.billiet@fee.be)



**Michael Sotiriou**  
Communications Manager  
+32 2 285 4072  
[michael.sotiriou@fee.be](mailto:michael.sotiriou@fee.be)



FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS  
EUROPEAN FEDERATION OF ACCOUNTANTS

[www.fee.be](http://www.fee.be)



Avenue d'Auderghem 22-28  
B - 1040 Bruxelles  
Belgium

Tel: +32 2 285 4085  
Fax: +32 2 231 1112

E-mail: [secretariat@fee.be](mailto:secretariat@fee.be)

Visit our website  
[www.fee.be](http://www.fee.be)

