



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

A Comment Paper

October 2005

FEE

The Fédération des Experts Comptables Européens (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 represent more than 500,000 accountants in Europe.

Purpose of this Comment Paper

Due to timing differences in endorsement or due to EC decisions not (yet) to endorse certain (parts of) IFRSs or IFRIC interpretations the situation may arrive whereby "endorsed IFRSs" deviate from full IFRSs.

In April 2005, FEE published a Discussion Paper on Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report with a view to addressing the various issues at stake, demonstrating their complexity and to stimulate debate on these issues at European and global level:

- How should the financial reporting framework be referred to in the accounting policies in the notes to the financial statements?
- When the company also complies with full IFRSs, should it refer to this fact?
- How should the framework be described in the audit report? Can there be a difference in description compared to the reference to the financial reporting framework in the accounting policies?
- Would the reference to the European financial reporting framework have a clear meaning outside the EU?

The complete April 2005 Discussion Paper is attached as an Appendix to this Analysis.

This Paper provides an analysis of the responses received to the questions in the Discussion Paper and, where possible, recommendations have been developed based on the comments received and on further reflections within FEE since the publication of the Discussion Paper. The summary of the responses is by nature condensed and should be read in connection with the individual responses quoted in the paper. The comments received are quoted directly, but sometimes not in full¹. In case there were no specific responses, the commentator has not been mentioned for a particular question.

¹ The full text of the comment letters is available from the FEE Secretariat.

In alphabetical order, comments were submitted by²:

Auditing Practices Board (APB) (UK)
 CESR-Fin³
 Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)
 Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre
 des Experts-Comptables (CSOEC) (France)
 Deloitte Touche Thomatsu
 Den norske Revisorforening (Norway)
 EFRAG
 Ernst & Young
 Estonian Board of Auditors (Estonia)
 Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)
 Institut der Wirtschaftsprüfer (IDW) (Germany)
 Institut des Réviseurs d’Entreprises (IRE) (Belgium)
 Institute of Chartered Accountants of Scotland (ICAS) (UK)
 Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)
 KPMG
 London Society of Chartered Accountants (LSCA) (UK)
 National Chamber of Statutory Auditors of Poland (KIBR) (Poland)
 PricewaterhouseCoopers
 Royal NIVRA (Netherlands)
 Slovenian Institute of Auditors (Slovenia)
 Swedish Financial Accounting Standards Council (SFASC) (Sweden)
 UNICE

Responses were received out of twelve of the 25 EU Member States as well as from Norway. The four largest audit firms have reacted to the FEE Discussion Paper as well as CESR-Fin, EFRAG and UNICE. No users responded, however.

² Only comment letters addressing the substance of the discussion paper have been included in the analysis.

³ CESR-Fin is a permanent operational group with the role of co-ordinating the work of CESR Members in the area of endorsement and enforcement of financial reporting standards in Europe.

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1. EXECUTIVE SUMMARY

The IAS Regulation (EC No. 1606/2002) requires European listed companies to prepare consolidated financial statements from 2005 (or 2007 in some situations) on the basis of international accounting standards, defined as those IFRSs 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. Europe has moved to global standards and this should be reflected in descriptions of the EU financial reporting framework.

The potential delay between the effective date of an IFRS or IFRIC interpretation and its endorsement in Europe means that “endorsed IFRSs” may deviate from “IFRS”. Moreover, the endorsement of IAS 39 in November 2004 with carve outs creates a situation where “endorsed IFRSs” are different from “IFRS” to the extent the carve outs are applied by a particular company⁴.

The FEE Discussion Paper of April 2005 on Reporting Issues in relation to Endorsed IFRS and Possible Implications for the Audit Report discussed the issues and raised a number of questions. FEE received 22 detailed responses to its Discussion Paper. In addition a series of expressions of interest from various stakeholders were received. This paper analyses the responses and makes recommendations. The most important recommendations can be summarised as follows.

- The financial reporting framework used in the preparation of financial statements should be referred to either as “in accordance with *International Financial Reporting Standards* as adopted for use in ~~by~~ the EU” or “in accordance with *IFRSs* as adopted for use in ~~by~~ the EU”.
- This wording is similar to that already used by the EC in its 2004 “Frequently Asked Questions and Answers”, with a certain improved precision (words underlined) and with IFRSs referred to either in full or in the plural. These changes resolve ambiguities some perceived in the original paper. The EC is called upon to consider issuing authoritative guidance to remove the perceived ambiguity as it is the only body that can do so effectively.
- Concerns remain that this form of words is only acceptable if differences between full IFRS and endorsed IFRSs are the rare exceptions from a stated policy of convergence. Should the gap between full IFRS and endorsed IFRSs widen, some commentators have indicated that they would seek to revisit this conclusion.
- Companies are strongly encouraged to provide an explanation in the notes to the accounts as to how their accounting policies depart from full IFRS to enable investors to compare the results of companies within and outside the EU. However, it should be left to the companies’ discretion to decide whether they want to provide such an explanation. Care should be taken though that the information provided does not become misleading.
- The applicable financial reporting framework in the EU should to be referred to as “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU” in all cases. In addition, companies can also state in the accounting policies – and should not be prevented from doing so – that they are in compliance with full IFRS, but not as the legal financial reporting framework.

⁴ The fair value option carve-out has now been resolved, and only the interest rate margin hedging carve out remains.

- Voluntary explanation of how companies are in compliance with “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU” and full IFRS as issued by the IASB in cases where the two frameworks are recognised to be different is strongly encouraged. However, there should be no requirement for companies to explain how they are in compliance with both frameworks.
- Companies are strongly encouraged to disclose full compliance with IFRS as issued by the IASB on a voluntary basis when publishing financial information, notably the annual financial statements and interim financial statements. However, there should be no obligation to do so.
- There should be a standard reference to the financial reporting framework in the audit report which should be the same as in the accounting policies “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU”. Subject to this, the auditors’ report should refer to the same financial reporting framework as that with which the company has stated compliance.

Note for translators

In order to facilitate translation of this phrase and the reference to the framework into all languages of the EU, we explain the intended meaning behind this construction as follows:

- “IFRSs” should be referred to either in full (“International Financial Reporting Standards”) or, if the abbreviation is used, in the plural as “IFRSs”. “IFRS” should only be used as an abbreviation for full IFRS;
- “as adopted” is intended to mean “in the manner in which IFRSs have been adopted” and not “IFRSs that have been adopted”.

These changes, together, resolve the ambiguity in “IFRS as adopted” which suggested to some readers, misleadingly, that full IFRS had been adopted.

2. GENERAL COMMENTS

Summary of General Comments

Several commentators underline that it is important both companies and auditors use a consistent description of the financial reporting framework. The need for a pan-European approach is recognised. There is a need for comparability within Europe and for investors to be able to compare European companies with those elsewhere.

The UK APB has published interim guidance for auditors in draft Bulletin 2005/3 “Guidance for Auditors on First-time Application of IFRSs in the United Kingdom and the Republic of Ireland”⁵.

Some commentators call for truly global standards and express their concerns about any (potential) deviations. Any timing differences between the effective dates of IFRS as issued by the IASB and IFRSs as endorsed by the EC should be avoided in order to give companies greater certainty over what changes need to be made to their accounting policies and the amount of time they have to prepare for these changes. Users of financial statements should not be misled by the technicalities of endorsement of IFRSs in the EU.

Some commentators call for an agreement with major trans-national audit firms and emphasise the need for proper communication with preparers, investors and auditors.

The LSCA calls at minimum for a transitional period of flexibility in describing the financial reporting framework.

The approaches to reporting taken in Europe will inevitably influence those taken in other jurisdictions.

Detailed General Comments

Auditing Practices Board (APB) (UK)

The APB is responsible for leading the establishment of standards of auditing, in the United Kingdom and Ireland, so as to enhance public confidence in the auditing process and the quality and relevance of auditing services in the public interest. Our comments arise directly from our Standard setting activity and we have not attempted to respond in a wider capacity.

Recent guidance issued by APB

The APB has recently published interim guidance for auditors on this subject in draft Bulletin 2005/3 “Guidance for Auditors on First-time Application of IFRSs in the United Kingdom and the Republic of Ireland”. In that draft Bulletin an example auditor’s report is provided in which the financial reporting framework is referred to in the following terms “*those IFRSs adopted for use in the European Union*”.

⁵ The draft bulletin can be downloaded from <http://www.frc.org.uk/apb/publications/pub0789.html>.

The example also provides that the auditors include an additional opinion when management has reported that the financial statements also comply with “IFRSs as issued by the IASB”. In such circumstances APB considers that management needs to explain, in the notes to the financial statements, how the financial statements are able to comply with both financial reporting frameworks.

Need for a Pan-European approach

The introduction to the draft Bulletin notes “...the specific wording to be used in audit reports when describing the financial reporting framework is still under discussion in Europe. This draft Bulletin is therefore being issued on an interim basis and may need to be updated once an agreed approach is reached in Europe”.

Although the APB has reached a preliminary view on the most appropriate description it is receptive to the benefits of having a consistent approach throughout the EU and is prepared to change its current guidance, provided that:

- (a) There is certainty that such other description will be adopted throughout Europe; and
- (b) The description is satisfactory to the APB.

The APB’s view on the acceptability of the four suggested alternatives in the discussion paper is set out in our answer to your question 1.

Need for speedy resolution

In the UK and Ireland the half yearly reporting season is almost upon us. It is critical, therefore, that the important question of the description of the financial reporting framework be resolved speedily so that companies and their auditors use a consistent description of the framework from the outset.

CESR-Fin

CESR-Fin, through its Audit Task Force, has considered with interest the various questions addressed by the FEE in its Discussion Paper “Reporting issues in relation to IFRS – Endorsed IFRS and possible implications for the Audit report”.

We expect that many of the issues addressed in this discussion paper will arise again on the agenda of standard setters, legislators or regulators in the areas of financial reporting. At this prospect, we considered it useful to convey to you our first reactions on several of the questions you raised in your discussion paper.

For ease of communication, we refer hereafter to the different questions raised in FEE’s discussion paper, even if as indicated above, our intention is not as such to respond to the FEE’s public consultation but to summarize our current views on the issues highlighted.

Deloitte Touche Thomatsu

We believe that these issues are important, given the need for comparability within Europe and for investors to be able to compare European companies with those elsewhere.

Den norske Revisorforening (Norway)

We believe that it is important that the description of and the reference to the relevant financial reporting framework used in preparation of the financial statements are made in a way that is clear and consistent. The reporting framework should be described and referred to in a way that is understandable also to investors outside the EU. It is important that users of financial statements are not misled by the technicalities of endorsement of IFRS in the EU.

It is therefore of the utmost importance to find a short and precise wording to describe the applied framework, agreed upon by preparers, investors and auditors all over the EU. The wording of the audit opinion should reflect the wording of the description in the financial statements.

Since FEE is not a standard setter, standard setting is not an available tool. We therefore suggest that it is necessary to consider whether it is possible to reach an agreement with the big auditing firms since they audit the majority of listed companies in EU. When FEE has considered the comments to the above mentioned discussion paper, it is important to find a solution on how to communicate the agreed upon wording to preparers, investors and auditors.

Institute of Chartered Accountants of Scotland (ICAS) (UK)***Convergence and the European Union***

We have long been a proponent of full transparency in financial reporting and have been openly supportive of the adoption into European Union (EU) law of international accounting standards. We do not believe that adoption of a partial set of standards is desirable. The failure by the European Commission to endorse the entire suite of international standards casts doubt on the credibility of the European financial reporting regime at a time when European business is seeking to re-establish corporate credibility and investor confidence.

Apart from the confusion created for preparers of accounts using international accounting standards we are also extremely concerned over the potential impact on investor confidence. At a time when the profession and the legislators are both working towards a common goal of restoring confidence in financial reporting and auditing we believe that full transparency in the preparation of accounts, and in the reporting which follows, is essential, and that these standards are vital in achieving this.

The difficulties now facing companies and the accountancy profession in describing the financial reporting framework in financial statements and audit reports clearly illustrates the undesirable consequences of the EU's approach to convergence.

The endorsement process

EU carve outs aside, the EU should ensure that international standards franked by the International Accounting Standards Board (IASB) are endorsed as soon as possible. This should eliminate any timing differences between the effective dates of international accounting standards issued by the IASB and international accounting standards adopted by the EU: this will give companies greater certainty over what changes need to be made to their accounting policies and the amount of time they have to prepare for these changes. Also, timing differences will further exacerbate the difficulties caused by the EU's approach to convergence, including the issues discussed within this Paper. The EU's late endorsement of IAS 32 'Financial Instruments: Disclosure and Presentation' on 31 December 2004 for implementation for accounting periods beginning on or after 1 January 2005 and the adoption of IFRS 2 'Share Based Payment' in February 2005 for implementation for accounting

periods beginning on or after 1 January 2005 is a worrying precedent which we would not like to see repeated.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

We welcome the publication of this document that deals with such a difficult issue. We believe that the transparency objective requires: firstly, consistency in the reference to the financial framework in the financial statements and in the audit report and, secondly, an understandable and unequivocal description of this financial framework. Our answers to the detailed questions have been prepared in accordance with these two premises.

London Society of Chartered Accountants (LSCA) (UK)

In our view, companies and their auditors will need some flexibility to describe the financial reporting framework in a manner that is appropriate to their circumstances. This will militate against a standard phraseology being imposed, although we appreciate the need for preparers and auditors to ensure that they meet legal requirements.

During the transition period where companies are required by IFRS 1 to anticipate the standards that will be applicable at their first year-end, flexibility in describing the financial reporting framework is desirable. While standard practice is likely to emerge, flexibility may also be needed on an ongoing basis. This is because we do not yet know how the endorsement mechanism will operate in practice and whether there will be long delays before standards are endorsed or whether the EU will operate in a way that permits standards to be applied in the IASB's timetable, even if the standards have not fully completed the endorsement mechanism.

We would encourage the EU to reduce or even eliminate differences between endorsed IFRS and full IFRS as much as possible. For example, we hope that the treatment of the revisions to IAS 19 set a precedent that will allow companies to plan to implement standards in accordance with the IASB's timetable where reasonable expectations have been raised that the standards will be endorsed. This will allow companies to clearly explain their financial reporting framework and also be able to state compliance with IFRS, which may be important to companies in some circumstances.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

The starting-point of FEE Discussion Paper provides – as it seems – a wrong assumption that there will be permanent and significant differences between full IFRS and IFRS adopted by the EU. However, - with exception of financial institutions due to IAS 39 – “full IFRS” and “IFRS adopted by the EU” are compliant, hence – in the future – there will be no need to emphasize that these differences occur (point I) or not (point III).

PricewaterhouseCoopers

The issues raised in the discussion paper are important, not only for the European Union, but for other countries around the world that are adopting IFRS. The approaches to reporting taken in Europe will inevitably influence those taken in other jurisdictions.

Royal NIVRA (Netherlands)

The issues raised in the discussion paper are important, not only for the European Union, but for other countries around the world that are adopting IFRS. The approaches to reporting taken in Europe will inevitably influence those taken in other jurisdictions.

Clear reporting to the market

The key issue is that the user of financial statements should have a clear understanding of the financial reporting framework on which the statements have been prepared and against which the auditors have reported. Therefore it is of critical importance to avoid confusion in the global marketplace between the IFRS standards issued by the IASB and the IFRS standards as endorsed, amended or added to in a particular country. If the distinction is not clear, there is a risk that investors and analysts will make inappropriate comparisons and, potentially, ill-informed economic decisions.

3. ACCOUNTING POLICIES

3.1 Reference to Financial Reporting Framework

Question 1

How should companies refer to the financial reporting framework used in preparation of their financial statements? Do you favour (a) “in accordance with IFRS as adopted by the EU”, (b) “in accordance with accounting standards as adopted by the EU” or (c) “in accordance with international accounting standards as adopted by the EU”? Alternatively would you favour the longer form of words (d) “in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company”?

FEE Discussion Paper

Financial statements need to refer to the applicable financial reporting framework. The IAS Regulation requires EU listed companies to use international accounting standards for their 2005 consolidated financial statements (for some companies only from 2007).

The European Commission issued ‘Frequently Asked Questions’ (also approved by the ARC) on 19 November 2004 and included the following material on accounting policies:

“Companies that apply the carved out version of IAS 39 should refer in their accounting policies to IFRS “as adopted by the EU”. They should accordingly explain their accounting policies in their financial statements.

Accordingly, the auditor should refer in its auditor’s report to the basis on which the accounts have been prepared and is hence in a position to give an unqualified opinion.”

Some believe that the reference to IFRS is inappropriate, given the text of IAS 1.14: “Financial statements shall not be described as complying with IFRS unless they comply with all requirements of IFRS”⁶.

- a. In accordance with IFRS as adopted by the EU (the European Commission’s suggestion).*
- b. In accordance with accounting standards as adopted by the EU.*
- c. In accordance with international accounting standards as adopted by the EU.*
- d. In accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company.*

⁶ For full quotation see Appendix 2.

Reference to Reporting Framework⁷

(a) in accordance with IFRSs as adopted by the EU	(b) in accordance with accounting standards as adopted by the EU	(c) in accordance with international accounting standards as adopted by the EU	(d) in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company
APB CESR-Fin KACR CNCC/CSOEC Deloitte EFRAG Ernst & Young Estonia IRE KIBR UNICE	IDW KPMG PwC Royal NIVRA	DnR ICAS ICJCE	LSCA (variant) Slovenia
<u>Total: 11</u>	<u>Total: 4</u>	<u>Total: 3</u>	<u>Total: 2</u>

Summary of the Responses⁸

A majority is in favour of using as reference to the financial reporting framework used in preparation of the financial statements, alternative (a) “in accordance with IFRS as adopted by the EU”. This is the text proposed by the European Commission in the Frequently Asked Questions of 2004. Commentators feel that this text is precise and consistent with the legal text applicable. Many feel that it is necessary to use the term “IFRSs” in the description, since this is the wording most familiar to preparers and users of financial statements. Not mentioning IFRSs would create confusion in the market place, as it might suggest that the financial reporting framework is completely different from IFRS. Europe has moved to global accounting standards and this should be reflected in the description of the EU financial reporting framework.

There are some suggestions (APB, Deloitte & Touche Thomatsu) to make the wording of option (a) more precise by referring to “in accordance with those IFRS adopted for use in the EU”. The LSCA suggests to add the words “and that apply”, indicating that this formula may help where standards that do not apply to the company have not been adopted.

The CNCC/CSOEC suggest that the wording should be revised and the term “by the EU” replaced by “within the EU” because it is more appropriate to use “within the EU” since the financial reporting framework is applicable within the EU and the European IAS regulations are adopted by the European Commission not by the EU. The proposed reference is “in accordance with IFRS as adopted within the EU”.

⁷ Not including FSR Denmark and SFASC

⁸ The responses have been summarised by the Financial Reporting Policy Group. Individual respondents may have emphasised other aspects.

Four respondents out of 22 (IDW, KPMG, PwC and Royal NIVRA) favoured alternative (b) “in accordance with accounting standards as adopted by the EU”. This is expected to be clarified as being adopted “further to the IAS Regulation (EC 1606/2002)” as part of a more expansive description of the financial reporting framework. This alternative is claimed to minimise the possibility of confusion with IFRS. Both audit firms could also support alternative (c) but would be opposed to alternative (a) (see detailed responses). These respondents would not favour the use of the term “IFRSs” since there is a risk of precedent setting for other jurisdictions that apply only part of IFRSs but still wish to call it IFRS. In further discussions it appeared that there are some possible conditions that would allow reference to the term “IFRSs” to be used. They would only find it acceptable if differences between full IFRS and endorsed IFRSs are the rare exceptions from a stated policy of convergence. Should the gap between full IFRS and endorsed IFRSs widen, they have indicated that they would seek to revisit this conclusion.

Alternative (c) “in accordance with international accounting standards as adopted by the EU” is favoured by DnR, ICAS and ICJCE since it highlights compared to option (b) the international nature of the standards being adopted and it uses the same terminology for reference to the financial framework as in the IAS Regulation.

With exception of the Slovenian Institute of Auditors and in a way LSCA, there was no support for the longer description suggested in option (d) “in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company”. The expression was perceived as being too long, unduly cumbersome and open to abuse and losing simplicity of the other alternatives.

The Swedish Financial Accounting Standards Council suggests to go a different route with as starting point IFRS with disclosure of departures: IFRSs, except for the following IFRSs that have not yet been endorsed by the EU and in conflict with an endorsed standard or with the Accounting Directives (where after these IFRSs would be listed) or IFRSs, except for the following sections of IFRSs that are not endorsed by the EU and are not allowed to be used (where after these sections would be listed). This route would not be supported by KPMG as they explicitly state in their detailed response.

Some underlined that it is of critical importance to avoid confusion in the global market place between the IFRS issued by the IASB and between IFRSs as endorsed, amended or added to in a particular jurisdiction. Without such a clear distinction there is a risk that investors and analysts will make inappropriate comparisons and economic decisions.

Several commentators expressed their concern about the risk of EC’s continued departures from IFRS: IFRS should be one single global set of high-quality principle-based standards. Concern was also expressed about the possible implications for other countries where there are more significant departures from IFRS that affect a far wider range of companies.

A majority favours alternative a) “in accordance with IFRS as adopted by the EU”. However, improvements to the test were suggested to make the wording more precise: “in accordance with International Financial Reporting Standards as adopted for use in ~~by~~ the EU” or IFRSs as adopted for use in ~~by~~ the EU” for the following reasons:

- Addition of “s”: to indicate that it is all IFRSs that are adopted and that it refers to standards as a plurality, a concept rather than to individual standards; Alternatively IFRSs should be referred to in full (“International Financial Reporting Standards”). “IFRS” should only be used as an abbreviation for full IFRS.
- Addition of “for use in”, deletion of “by”: to clearly indicate that the financial reporting framework is applicable within the EU and the IFRS Regulations are adopted by the EC rather than by the EU.

Recommendation

The financial reporting framework used in the preparation of financial statements should be referred to as “in accordance with International Financial Reporting Standards as adopted for use in the EU” or “in accordance with IFRSs as adopted for use in the EU”. This is an amended version of the text proposed by the EC in its “Frequently Asked Questions” of November 2004, in order to make the wording more precise.

Detailed Responses

Auditing Practices Board (APB) (UK)

In determining its views on the various proposed descriptions of the financial reporting framework the APB has used two criteria:

- Is the description of the financial reporting framework clear, and not open to wilful or innocent misinterpretation? (i.e. can a user readily ascertain what constitutes the text of the reporting framework); and
- Is the description in accordance with guidance already issued by the European Commission (EC) and the UK Department of Trade and Industry (DTI)?

We address each of the options in turn:

(a) “in accordance with IFRS as adopted by the EU”

The APB favours this approach and has used it as the basis for the description it has suggested in draft Bulletin 2005/3 because:

- “IFRSs adopted for use in the EU” is a precise and unambiguous description of the applicable financial reporting framework. By virtue of the IAS Regulation, the applicable financial reporting framework is those IFRSs that are adopted by the EC rather than IFRSs as issued by the IASB. Those IFRSs that have been adopted can be readily ascertained by preparers, users and auditors as, upon adoption, they are published within EC Regulations e.g. EC No. 2238/2004.
- It is consistent with EC guidance. (The EC in its advice of November 2003 at paragraph 2.1.4 states that the accounting policies should refer to the financial statements having been prepared “...in accordance with all International Financial Reporting Standards adopted for use in the European Union”.)
- It is consistent with DTI guidance. (The DTI has published guidance for British companies in which they describe the framework as “IAS as adopted for use in the EU”⁹.)

⁹ See for example paragraph 8.1 of the DTI guidance. The DTI has informally indicated to the APB that the term IFRS is equally acceptable to IAS in the description.

(b) “in accordance with accounting standards as adopted by the EU”**The APB considers this description to be flawed because:**

- This expression is ambiguous as to what precise financial reporting framework is being described and consequently has the potential to mislead. (The omission of the word “international” before “accounting standards”, in particular, contributes to the ambiguity). If this expression were used it is unclear where users of financial statements would look in order to find the text of the financial reporting framework.
- The EC’s stated ultimate objective is the adoption of all IFRSs. The APB supports this objective and hopes that the present situation with respect to IAS 39 is only temporary. With respect to IAS 39 EU Commissioner Frits Bolkestein has stated that “the two “carve outs” are purely temporary because the Commission expects the IASB to remedy the outstanding problems quickly”. In the APB’s view omitting IFRS from the description of the framework might provide the EC with more flexibility than is desirable regarding the endorsement of future pronouncements from IASB.
- It is inconsistent with the EC’s November 2003 advice.
- It is inconsistent with the guidance for British companies provided by the DTI.

(c) “in accordance with international accounting standards as adopted by the EU”**The APB considers this alternative to be preferable to (b) but inferior to (a).**

- As is pointed out in the consultation paper the expression “international accounting standards” is used in Article 4 of the IAS Regulation. However by virtue of the definitions in Article 2 it is clear that the expression means IFRSs and related interpretations. Consequently it is preferable to refer to IFRSs in the description of the framework¹⁰.
- This expression could easily be confused with the expression “internationally accepted standards” which is used in both the Prospectus Directive and Article 9 of the IAS Regulation, to describe GAAP used by issuers from outside the EU.
- It is inconsistent with the EC’s November 2003 advice.
- It is inconsistent with the guidance for British companies provided by the DTI.

(d) “in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company”

The APB favours one element of (d) which is to refer to “those IFRSs...”. APB’s draft Bulletin therefore describes the financial reporting framework through a combination of elements of (a) and (d). The wording used is “*those IFRS adopted for use in the European Union*”. The APB does not favour other elements of suggestion (d) because:

- The expression is too long and convoluted.
- The phrase “and that apply to the company” is open to abuse as it may imply that companies can cherry pick those IFRSs with which it wishes to comply.
- It is inconsistent with the EC’s November 2003 advice.
- It is inconsistent with the guidance for British companies provided by the DTI.

¹⁰ The definition of IFRSs in IAS 1 (revised) did not exist in 2002 and therefore it is understandable that the EC would use an expression such as “international accounting standards” as a term to encompass both IASs and IFRSs. The EC’s advice of November 2003 was able to take account of the IASB’s definition of IFRSs and hence recommend that IFRSs be used in the description of the framework.

CESR-Fin

We consider that option (a) is the more consistent with the legal text applicable (i.e. IAS Regulation). Options (b) and (c) are not precise enough as they allow confusion with the possible use of US GAAP which is still allowed in certain jurisdictions or with other accounting frameworks, such as the 4th / 7th directives which will still apply to non listed companies or to debt – only issuers until 2007. Option (d) gives a very precise description of the actual case but is too long and not in line with the references to framework usually applied internationally, which do not contain the words “all” and “that apply” (both assertions being implicit).

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

We favour a) “in accordance with IFRS as adopted by the EU”.

We believe that wording (b) and (c), regardless of their technical advantages (avoidance of reference to IFRS and thus exclusion of debate with regard to the requirements of IAS 1.14, wording is close to that suggested by the EC) are not appropriate. Terms “accounting standards as adopted by the EU” and “international accounting standards as adopted by the EU” are not fully understandable to all users of the financial statements and could be interpreted in many of ways (e.g. IAS Regulation, only selected IFRS standards, other European standards...).

IFRS/IAS issued by IASB are used as a basis for European financial reporting framework. Except for IAS 39 and possibly IFRIC 3 all standards IFRS/IAS issued by IASB were adopted by the EU without any modification, while endorsement of some is being delayed. Therefore, we believe that reference to IFRS is necessary in the description of the financial reporting framework used in the preparation of the financial statements. International acceptance of the standards used within the EU is other significant reason for the reference for IFRS.

We prefer the wording suggested by the European Commission (a). We believe that reference to “IFRS as adopted by the EU” is not “an explicit and unreserved statement of such compliance” and so is not prevented by IAS 1.14. We also believe that this wording is understandable to the most users of accounts and financial statements preparers.

The wording suggested by FEE includes explicit reference to all applicable standards rather than to the framework as a whole. We are aware of the fact that this is not in accordance with the current wording of the Fourth Directive, Article 51.a 1: “...*an introduction which shall at least identify the annual accounts that are subject of the statutory audit, together with the financial reporting framework that has been applied in their preparation.*” Further, the wording “in accordance with all those IFRS that have been adopted by the EU” does not apply to the situation of carve-outs (e.g. endorsement of modified IFRS).

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC are in favour of the proposal (a) “**in accordance with IFRS as adopted by the EU**” for the following rationale:

- This proposal corresponds to the preferred wording provided by the European Commission. In addition this wording is the most familiar to users of accounts and is expected to be used in the

accounts prepared under endorsed IFRS by the preparers and investors. Indeed there are many users of accounts who would not understand the omission of a reference to IFRS.

- This proposal includes an explicit reference to IFRS. Indeed Europe has moved to global accounting standards and this should be reflected in descriptions of the EU financial reporting framework. In its different pronouncements the European Commission stated that it supported global accounting standards and ideally the only differences between IFRS and endorsed IFRS should be timing differences in the endorsement of standards after the effective date of the standard.
- This proposal refers explicitly and directly to the European IAS regulation and to the process of adoption since the mandatory applicable financial reporting framework for European listed companies is the IFRS as adopted by the EU.

We also suggest that the wording should be revised and the term “by the EU” replaced by “within the EU” because we think that it is more appropriate to use “within the EU” since the financial reporting framework is applicable within the EU and the European IAS regulations are adopted by the European Commission not by the EU.

We reject the three other alternatives because:

- Proposal (b) does not refer explicitly to IFRS which constitute the basis of the accounting standards used in the EU;
- Proposal (c) does not make difference with other generally international accounting standards used throughout the world. Some may also understand “international accounting standards” to refer to international accounting standards other than IFRS, such as US GAAP or the European accounting directives;
- Proposal (d) is not really explicit. Indeed this wording is too long and loses the simplicity of the other alternatives so that users without a financial reporting background may not understand the significance of the terms used.

Deloitte Touche Thomatsu

Our preference is for a slight variant on option (a) “in accordance with those IFRS adopted for use in the EU”. We understand that the Accounting Regulatory Committee is likely to endorse the IASB’s recent amendments to IAS 39 on the fair value option, leaving only the relaxation of the hedging provisions of IAS 39 (likely to affect mostly banks and insurance companies) and IFRIC 3 (where EFRAG’s final recommendation is not to adopt which will affect a limited number of heavy industry companies) as potential differences. Given the widespread public understanding that companies are switching to “IFRS” and the fact that in the majority of cases there will be little or no difference in the financial statements, not to make reference to “IFRS” could cause confusion.

We acknowledge that this may cause a problem in applying IAPS 1014 (see our response to question 8 below). If the consensus is that option (a) is not acceptable, our preference would be for option (c) as this most closely follows the wording of the IAS Regulation. For the reasons set out above we believe that not to make reference to the word “international” (option (b)) would confuse users of the financial statements, and we believe option (d) adds nothing useful to option (a) as financial statements always apply only the standards relevant to a particular company.

We are, however, concerned by the European Commission's continued departures from IFRS as issued by the IASB as we believe that IFRS should be one single global set of high-quality principles based standards. We are also concerned at the possible implications for other countries where there are more significant departures that affect a far wider range of companies.

Den norske Revisorforening (Norway)

We have considered the different options discussed in the paper. In our opinion alternative c) conveys the message in an appropriate and relatively short way.

EFRAG

EFRAG believes that anyone using a set of financial statements needs to be able to understand quickly under which reporting framework those statements have been prepared. For entities preparing their financial statements under the IAS Regulation 1606/2002, that reporting framework is EU-adopted IFRS (described using appropriate wording, such as that set out in alternative a) or something similar). Therefore, even if an entity reporting under the IAS Regulation has also complied with 'full IFRS', it should state clearly the reporting framework (i.e. EU-adopted IFRS) that it is reporting under.

Ernst & Young

We favour the expression "in accordance with IFRS as adopted by the EU". We are concerned that no mention to IFRS in the reference to the financial reporting framework has the potential of creating confusion in the global marketplace. Users may not understand that the financial reporting framework is IFRS as adopted by the EU as a result of the endorsement process, and therefore may erroneously assume they are two very different financial reporting frameworks.

We found the longer form of words "in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company" unduly cumbersome. In addition, the reference to the standards "that apply to the company" is unnecessary as for any financial reporting framework, companies need to assess the application of standards to their own circumstances.

Estonian Board of Auditors (Estonia)

Considering options in the discussion paper, we would prefer them in the following order:

1. a (could be better if "**in accordance with IFRSs as adopted by the EU**")
2. d – too long (could be better if "**in accordance with those International Financial Reporting Standards that have been adopted by EU**")
3. b – too wide
4. c – too old

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

International Financial Reporting Standards (IFRS) are a comprehensive, integrated and globally well recognized set of accounting rules.

To prevent misunderstandings and dilutions of this well understood set of accounting standards, we find that references to "International Financial Reporting Standards" or "IFRS" should only be made if

the reporting entity has complied with the full set of standards and interpretations from IASB and IFRIC.

References to the European financial reporting framework or similar wording does not – in our opinion – have a clear meaning outside the EU. Users/investors, who are interested in comparing financial information from companies in different parts/regions of the world, are not likely to prefer references to European – or other regional – frameworks.

We find that for the far majority of companies who are covered by the European IAS/IFRS Regulation there would be no differences between full IAS/IFRS and EU adopted IAS/IFRS. In this respect, we would like you to be aware of the amendment to the fair value option in IAS 39 which has been approved by the IASB this week. Hopefully, this will contribute to the elimination of differences between IAS/IFRS and EU adopted IAS/IFRS. Therefore, it seems needless – and confusing – to make a reference to a special European framework.

Institut der Wirtschaftsprüfer (IDW) (Germany)

We favour companies referring to “accounting standards as adopted by the EU” (alternative (b)).

In IAS 1.14 it is clearly stated that financial statements shall not be described as complying with IFRS unless they comply with all the relevant requirements of IFRSs. If the enterprise has applied endorsed IFRS and therefore the financial statements deviate in material aspects from financial statements, which would have been prepared under full IFRS, the term “in accordance with IFRS as adopted by the EU” (alternative (a)) could be misleading, because users, which are not familiar with the European requirements, could get the wrong impression that the financial statements are prepared in accordance with full IFRS being the same as endorsed IFRS. For the same reason alternative (c) is not acceptable since “international accounting standards” is often used colloquially for “IFRS”. A further argument against alternatives (a) and (c) is that the term “as adopted by the EU” in conjunction with the terms “IFRS” or “international accounting standards” could be misinterpreted as an except-for-clause – and with regard to the audit opinion as a qualification - although the financial statements fulfil all legal requirements.

It might be argued against alternative (b) that users misinterpret “accounting standards as adopted by the EU” as the Accounting Directives. However, this is not very likely, because, if European companies do not apply endorsed IFRS, they have to apply national requirements which are based on a transformation of the Directives; they do not apply the Directives directly. Thus it should be sufficient for a company to refer to accounting standards as adopted by the EU further to the IAS Regulation, so that users who are not familiar with the relevant framework will be in a position to inform themselves.

If companies intend to use their financial statements outside the EU, they have the possibility to include further explanation about the differences between accounting standards as adopted by the EU and IFRS. Especially for users outside the EU, a reference to “IFRS as adopted by the EU” without further explaining the differences to full IFRS might even be more misleading than referring to accounting standards as adopted by the EU.

If the majority of stakeholders preferred a reference to IFRS, the reference should, if at all, only be an expanded version of option (a) or a wording close to option (d): “all those IFRS that have been adopted by the EU”. The extension “that apply to the company” seems dispensable.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

We are in favour of option (a), since this is the wording that is most familiar to users of financial statements.

Option (b) and (c) could be misleading in the sense that (international) accounting standards could be interpreted by users of financial statements as referring to another set of accounting standards than IFRS.

The additional wording "that apply to the company" in option (d) does not seem relevant. From the summary of accounting policies, which is an integral part of the notes to the financial statements, it is clear that an entity only elects accounting policies based on standards which apply to it.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

We favour option (c). This option highlights the international nature of the standards being adopted which option (b) does not do. The term 'international accounting standards' is broader than IFRS and therefore this wording recognises that not all of the standards are named IFRSs. The additional comment under option (d) 'apply to the company' is unnecessary as it is self-evident that a company will only adopt accounting standards which apply to it.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

The Spanish Securities Regulator CNMV, issued in April 2005 a standard (Circular 1/2005) on Financial Reporting models where the title of each of the documents prepared under the IAS Regulation indicated as subheading: "adopted international financial reporting standards". I.e. balance sheet (adopted international financial reporting standards. Normas internacionales de información financiera adoptadas). This reference is close to the wording suggested by the Commission.

Regarding option (a) Audit firms that are members of the Forum of Firms may prefer not including a reference to IFRSs in the accounting policies given that ISA 1 does not allow a reference to IFRSs if their application is partial.

Moreover, we have to take into account that the IAS Regulation allows the European Commission to reject a standard issued by IASB and in exceptional circumstances (i.e IAS 39) leaving out some parts of a standard. Depending upon the differences, this reference to the IFRSs can be misleading and confused. Therefore we think that European Companies should refer to international accounting standards as adopted or endorsed by the EU or to an European accounting framework.

Option (b) "*in accordance with accounting standards as adopted by the EU*" is, in this sense, clearer than option (a) but gives the impression of a great divergence between the European framework and the IFRSs, which is not the aim of the European Commission.

We favour option (c) "*in accordance with international accounting standards as adopted by EU*" because it refers to the financial framework in the same way that in the IAS Regulation (EC1606/2002).

Finally we do not support option (d) *In accordance with all those International Financial Reporting Standards that have been adopted by the EU*. The words "and apply to the company" are not necessary as in any accounting framework there are some standards that do not apply to specific companies. This

reference does not add any useful or explanatory information to the user. Moreover the expression "that have been adopted" does not take into account other possible ARC decisions that could divert to rejections or exceptions of new or revised IFRSs. As for the use of the words *International Financial Reporting Standards* we think that a reference to international accounting standards is clearer than to IFRSs as explained before.

KPMG

We consider that the key objective is the consistent use of terminology that is clear and unambiguous. In a short space of time, such consistency will lead to understandability, as awareness of the EU requirements grows amongst preparers and users of the financial statements of EU companies.

Accordingly, a clear and unambiguous descriptor of the EU accounting framework must be developed and used consistently.

There is a growing awareness of the fact that the EU adopted (endorsed) standards differ from IFRSs and that those differences, whether temporary (i.e., timing differences in endorsement) or more permanent, will change over time. As the first reporting dates draw closer, we expect this awareness to increase further. However, awareness that there may be differences is only the first step in understanding what those differences are for any given financial reporting period.

On this basis, we believe that it is critical to adopt a form of wording that allows the EU regime to be differentiated appropriately from IFRSs. This requires a generally accepted, consistently applied form of reference that is clear and unambiguous to be developed and used.

Our strong preference is for the reference to the framework to be, "in accordance with accounting standards as adopted by the EU" (i.e., option (b)). We expect this to be clarified as being adopted "... further to the IAS Regulation (EC 1606/2002)", as part of a more expansive description of the framework in the basis of preparation of financial statements prepared in accordance with that EU legislation.

In our view, this describes clearly and unambiguously the EU accounting framework. It is true that the EU framework is a collection of accounting standards. It is true also that the framework comprises only those accounting standards that have been adopted by the EU (in accordance with the IAS Regulation). As the Accounting Directives are not standards, are not directly applicable to companies and are not 'adopted' by the EU, we do not consider that there is any scope for confusion, contrary to the arguments cited in the FEE paper concerning options (b) and (c).

We do not support a reference to "IFRSs as adopted in the EU" (i.e., option (a)) as we do not consider this terminology to be clear and unambiguous. Indeed, we believe that this reference:

- May be potentially misleading, depending upon the (temporary and more permanent) differences between the frameworks that may exist from time to time. The framework does not comprise, as a matter of fact, either individually or collectively "IFRSs". Collectively, at any given point in time, the EU accounting framework may not include all IFRSs (a term defined by the IASB to include all standards issued by that entity). Neither is it necessarily the case for each IFRS individually, for example the carved-out version of IAS 39.
- Would make any separate, voluntary statement of compliance with IFRSs more difficult to distinguish clearly from the statement of compliance with the EU framework; and

- Would set an unfortunate precedent that it is acceptable to describe one accounting framework by reference to a second, different framework. This approach is difficult to distinguish from the now inappropriate practice of referring to “IFRSs, except for ...”.

Reference to “in accordance with accounting standards as adopted by the EU” has two further key advantages:

- First, in the case of a company that also wishes to (voluntarily) claim compliance with IFRSs (see answer to question 4 below), the two frameworks and the relevant statements of compliance can be distinguished clearly, without ambiguity.
- Second, it maintains the principle that a caveated reference to a generally accepted framework (for example, “IFRSs, except for ...”) generally is inappropriate. We are uncomfortable with the precedent that would be set by any softening of this principle.

Although not our preferred approach, we would accept as an alternative, “international accounting standards as adopted by the EU” (option (c)) as a clear quote from the relevant legislation (IAS Regulation, EC 1606/2002). Similar to option (b), we expect this to be clarified as being adopted “... further to the IAS Regulation (EC 1606/2002)”, as part of a more expansive description of the framework in the basis of preparation of financial statements prepared in accordance with that EU legislation.

We disagree strongly with the long form of words set out in option (d). Generally, IFRSs are transaction, not entity, specific. Therefore, all IFRSs apply to all entities. Some IFRSs (or parts of those IFRSs) may cover transactions or arrangements in which a particular entity has not engaged. In order to determine that this is the case, the entity must apply the scope and definitions included in that standard (e.g., an entity must apply IAS 29 to determine if hyperinflation exists). Accordingly, the entity has applied the standard but having done so may conclude that there are no recognition, measurement, presentation or disclosure requirements that arise as a result of its application. It is incorrect to suggest that the standard is not applicable or has not been applied.

This point is still clearer if the situation is considered of an entity that is applying the hierarchy in IAS 8, because no standard has specific guidance on a particular transaction. In this case the entity is required to consider all IFRSs, not just those that it otherwise is required to apply. For example, an entity that has business combinations only between parties under common control, still is required to consider IFRS 3 in determining the appropriate accounting treatment of those transactions, despite that standard not being “applicable” to those transactions.

Arguably, even those standards that are entity specific (e.g., IAS 26 *Accounting and Reporting by Retirement Benefit Plans*), are applied – their scope simply means that they have no impact upon an entity that is not within their scope.

London Society of Chartered Accountants (LSCA) (UK)

In our view, the most suitable reference is “in accordance with all IFRS that have been adopted by the EU and that apply”. This formula may help where standards that do not apply to the company have not adopted. For interim reporting in the year of transition and possibly on an ongoing basis if this is compatible with law and practice, it would be helpful to extend the reference to “in accordance with all IFRS that have been adopted by the EU (or where adoption is reasonably expected) and that apply”

to cater for situations where endorsement reasonably certain to occur and to permit a standard to be used in advance of the actual date of endorsement.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

We favour the option (a).

Options (b) and (c) do not refer to IFRS which may be misleading.

The information included in the option (d), that a company used these IFRS which apply to it, is obvious and therefore useless.

PricewaterhouseCoopers

Clear reporting to the market

The key issue is that the user of financial statements should have a clear understanding of the financial reporting framework on which the statements have been prepared and against which the auditors have reported. Therefore it is of critical importance to avoid confusion in the global marketplace between the IFRS standards issued by the IASB and the IFRS standards as endorsed, amended or added to in a particular country. If the distinction is not clear, there is a risk that investors and analysts will make inappropriate comparisons and, potentially, ill-informed economic decisions.

We therefore believe that it would be unfortunate if the practice were to evolve of reporting in accordance with 'IFRS as adopted in the EU' or 'IFRS as adopted in country X'. In order to minimise the possibility of confusion with IFRS, we advocate in Europe referring to 'accounting standards as adopted for use in the EU.' This would also provide a more accurate description of the framework of standards that EU listed companies are required to apply.

We believe that the financial reporting framework used in preparation of the financial statements should be described as 'in accordance with accounting standards as adopted by the EU' (option b).

Although option (c) is acceptable, describing the financial reporting framework as 'international accounting standards' may lead to confusion since as noted in page 7 this was the term formally used to describe the accounting framework under IAS. Additionally, option (c) presents some difficulties for companies that wish to present financial statements in compliance with both full IFRS and EU endorsed standards. Use of the term 'international' in relation to both frameworks may be confusing.

In our view, options (a) and (d) are not appropriate. The use of the reference to IFRS when it is not the IASB's IFRS framework of standards that is being applied is potentially misleading and confusing to readers. There are differences already between the frameworks and the number of differences may increase in the future. We strongly discourage option (d) or similar variations such as 'those IFRS adopted in the EU' since the current accounting framework for listed companies in the EU includes also other standards that are not IFRS standards as issued by IASB, for example the EU-endorsed version of IAS 39. Additionally, option (d) seems to imply (although it is not intended) that there is some element of company choice in what standards are adopted.

Royal NIVRA (Netherlands)

We believe that the financial reporting framework used in preparation of the financial statements should be described as 'in accordance with accounting standards as adopted by the EU' (option b). It would be unfortunate if the practice were to evolve of reporting in accordance with 'IFRS as adopted in the EU' or 'IFRS as adopted in country X'. In order to minimise the possibility of confusion with

IFRS, we advocate in Europe referring to ‘accounting standards as adopted by the EU.’ This would also, provide a more accurate description of the framework of standards that EU listed companies are required to apply.

Although option (c) is acceptable, describing the financial reporting framework as ‘international accounting standards’ may lead to confusion since as noted in page 7 this was the term formally used to describe the accounting framework under IAS. Additionally, option (c) presents some difficulties for companies that wish to present financial statements in compliance with both full IFRS and EU endorsed standards. Use of the term ‘international’ in relation to both frameworks may be confusing.

In our view, options (a) and (d) are not appropriate. The use of the reference to IFRS when it is not the IASB's IFRS framework of standards that is being applied is potentially misleading and confusing to readers. There are differences already between the frameworks and the number of differences may increase in the future. We strongly discourage option (d) or similar variations such as ‘those IFRS adopted in the EU’ since the current accounting framework for listed companies in the EU includes also other standards that are not IFRS standards as issued by IASB, for example the EU-endorsed version of IAS 39. Additionally, option (d) seems to imply (although it is not intended) that there is some element of company choice in what standards are adopted.

Slovenian Institute of Auditors (Slovenia)

We estimate the best reference is: In accordance with all those International Financial reporting Standards that have been adopted by the EU and that apply to the company.

Swedish Financial Accounting Standards Council (SFASC) (Sweden)

Being a national standard-setter the SFASC has refrained from addressing issues related to the audit report.

We welcome FEE's efforts to address the issue of reference to the applicable financial reporting framework in the accounting policies and in the audit report and support that FEE issues a discussion paper on the issue. Although "IFRS as endorsed by the EU" is the legal framework which listed companies in Europe have to operate within, the SFASC holds the view that the starting point for any reference to the applicable financial reporting framework should be IFRS with a disclosure of departures (if any). Such reference would give more meaningful information for users, including users outside of the EU. Three cases can be outlined:

- The IFRS as endorsed and IFRS are identical. In this case the reference should be: "... IFRS".
- All applicable IFRS are not yet endorsed by the EU. In this case the reference should be: "... IFRS, except for the following IFRS that are not yet endorsed by the EU and in conflict with an endorsed standard or with the Accounting Directives (whereafter these IFRS would be listed)
- An IFRS is not endorsed by the EU in its completeness. In this case the reference should be: "IFRS except for the following sections of IFRS that are not endorsed by the EU and are not allowed to be used (whereafter these sections would be listed)".

SFASC realises that this would add another disclosure requirement for the companies. However, this approach would have a clear meaning even outside the EU and supply a reference to the financial reporting framework in a way that is transparent, technically sound and clear to European as well as non-European users of the financial statements. This would promote the use of a single set of high quality, understandable and enforceable global accounting standards.

UNICE

In our view, IFRS need to be explicitly included in the reference to the financial reporting framework. “IFRS as adopted by the EU” meets the requirements for the reference to the financial reporting framework to remain both simple and explicit. Users in the EU are necessarily aware of the European endorsement mechanism. Users outside the EU will progressively and rapidly become aware of the existence of endorsement mechanisms, in the regions and countries which adopt IFRS. We therefore believe that “IFRS as adopted by the EU” is a clear and straightforward statement.

Any reference to a financial reporting framework that does not explicitly include IFRS would on the contrary be very misleading, as it might suggest that the financial reporting framework is completely different from IFRS. It would in our view be most confusing.

As a conclusion we favour alternative a). We could support alternative c), provided that “International Accounting Standards” are replaced by “International Financial Reporting Standards (IFRS)”.

3.2 *Appropriate body to issue guidance*

Questions 2

Which would be the appropriate body in Europe or internationally to issue guidance on how the financial reporting framework should be referred to in the accounting policies in the notes to the accounts?

FEE Discussion Paper

In order to meet the objective of transparency for users of financial statements, further guidance is needed for both the accounting policies and the audit report. The European Commission has provided guidance in its 2003 paper concerning certain articles of the IAS Regulation and Fourth and Seventh Directives and the ‘Frequently Asked Questions’ of November 2004. The IAASB is the appropriate body to issue global audit guidance. It is less clear which body should issue guidance for preparers as far as the accounting policies are concerned.

In addressing the various issues at stake and demonstrating their complexity, FEE seeks primarily to stimulate debate and questions in relation to these issues at European and global level. Whilst the Discussion Paper may provide some form of interim guidance, by collecting views of respondents FEE seeks to assess whether a consensus can be achieved. Some form of European guidance may therefore follow the analysis of the comments and responses to the Discussion Paper. The analysis will also be passed to the IAASB for the Board to consider whether international guidance for auditors is appropriate.

Summary of the Responses

A clear majority is of the opinion that an appropriate body would be an authoritative European body, notably the European Commission. The European Commission is responsible for endorsing IFRSs and the requirement to apply the relevant accounting framework is part of European law. Very few responses mention that CESR, IASB or EFRAG could play a role. The LSCA would not consider any guidance needed.

Recommendation

The European Commission issued already guidance in its 2003 paper concerning certain articles of the IAS Regulation and the Fourth and Seventh Directives as well as the “Frequently Asked Questions” of 2004. This analysis supports the guidance the European Commission has provided. A number of commentators identified difficulties and ambiguities with the European Commission wording. It is therefore recommended that the European Commission introduces greater precision in its recommended wording “in accordance with International Financial Reporting Standards as adopted for use in by the EU” or “in accordance with IFRS_s as adopted for use in by the EU”.

Detailed Responses**Auditing Practices Board (APB) (UK)**

The APB is of the view that an appropriate body would be an authoritative European body. To be authoritative such a body would need to be either part of or acting with the clear authority of the European Commission.

CESR-Fin

The European Commission seems the most appropriate body, as it is a matter of interpreting European legislation.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

The European Commission

The Commission of European Communities (EC) is responsible for the endorsement of a particular IFRS, therefore, we believe that it is an appropriate body in Europe to issue such guidance.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC believe that the appropriate body should be a body which has a legal authority to issue accounting standards and guidance at European level. Consequently we think that the most appropriate body should be a European organisation such as the European Commission or the Contact Committee.

Deloitte Touche Thomatsu

We believe that it is for the IASB or the European Commission to issue such guidance. However, we recognize that auditors have a part to play as they have a responsibility to consider whether financial statements are misleading. It may be helpful for the IAASB to issue guidance in this area, perhaps in the form of a questions and answers style document as they have previously done for other IFRS issues.

Den norske Revisorforening (Norway)

On the international level, IFRIC would be the appropriate body to provide guidance on this issue. There is no single European standard setter that can address the particular issues raised by the EU endorsement mechanism. Another possibility is to ask the European Commission to develop the necessary guidance.

We believe, however, that FEE is an appropriate arena for discussing the issue. However, as FEE is no standard setter, standard setting will not be an available tool. FEE should, however, make the results of the hearing available on its website and in addition publish it as widely as possible. When FEE forms its view, it should make sure that the result is in conformity with the big auditing firms.

The results should be presented as the European audit profession's view on how the reference to accounting standards should be made. The users and standard setters in each country may refer to FEE's views as a benchmark, and issue appropriate national guidance based on this.

Ernst & Young

The European Commission is the appropriate body in Europe to issue guidance on how the financial reporting framework should be referred to in the accounting policies in the notes to the financial statements and has addressed this issue on two separate occasions.

Estonian Board of Auditors (Estonia)

It seems that this is EU level issue.

Institut der Wirtschaftsprüfer (IDW) (Germany)

While IASB issues international requirements with regard to the description of accounting policies in the notes to the financial statements, it is the responsibility of the EU to issue requirements or of the EU Commission to issue guidelines with respect to the application of endorsed IFRS and the corresponding notes to financial statements.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

The IASB (and the European Commission) is (are) the body (bodies) qualified for issuing guidance on how the financial reporting framework should be referred to in the accounting policies included in the notes to the accounts.

EFRAG could have an important role in this process.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

The difficulties which have arisen relate to decisions taken by the European Union therefore it seems appropriate to look to a European institution to provide guidance on this matter. We believe that it is appropriate for the European Commission to provide guidance for all companies adopting international accounting standards, including those companies, particularly private limited companies, adopting these standards on a voluntary basis. In our view, it would also be appropriate for the Committee of European Securities Regulators (CESR) to make recommendations to the European Commission on the content of the guidance to be issued given that compliance with international

accounting standards (endorsed by the EU) is compulsory for the consolidated accounts of listed companies.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

Whereas the financial reporting framework departs from IFRSs the appropriate body to issue guidance on how this framework should be referred to in the accounting policies and in the notes should be the European Commission.

KPMG

We believe that an official body with the competence to interpret European legislation should clarify the appropriate reference, after proper consultation (including with the audit profession). The appropriate body is presumably the European Commission.

The requirement to apply the relevant accounting framework (and its content) is part of EU law. EU law also contains the requirement for an audit opinion based upon the “relevant framework” (Fourth Directive, Article 51a).

When there is a lack of clarity over the application of EU law or questions about the terminology that meets the requirements of that law, then we believe that consistency across the EU can be achieved most effectively by a body with the authority to interpret the applicable legislation and communicate the appropriate terminology to those applying the IAS Regulation (EC 1606/2004). Ultimately, the European Court of Justice interprets EU law. However, we prefer that the European Commission clarify proactively the appropriate reference.

In this respect, we welcome the issue of the FEE paper as a contribution to the discussion on this point. However, the findings and conclusions of the paper should be passed to the appropriate EU body.

London Society of Chartered Accountants (LSCA) (UK)

We do not consider that any guidance is needed and certainly that it is inappropriate for any mandatory requirements to be issued by any body. Practice will emerge and converge over time as experienced is gained with the endorsement mechanism in practice. Each company will need to determine a formula most suited to its circumstances. While, the FEE paper is useful in raising awareness of the issue and providing some thought leadership we would prefer that it is not issued as guidance.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

Considering that the accounting policies in the EU are regulated by the European Commission, so that the EC could require or – which is more proper – recommend to apply an appropriate wording. In case if a financial statement is presented outside the EU, a decision on whether to apply the same text as in the EU or another, shall be given to interested parties.

PricewaterhouseCoopers

The only organisation that can issue authoritative guidance on how EU companies should refer to the accounting framework is the European Commission itself. IASB as an international accounting

standards setter should not issue guidance directing EU companies (or those of any other particular jurisdiction) on how the reporting framework should be described.

Royal NIVRA (Netherlands)

The only organisation that can issue authoritative guidance on how EU companies should refer to the accounting framework is the European Commission itself. IASB as an international accounting standards setter should not issue guidance directing EU companies (or those of any other particular jurisdiction) on how the reporting framework should be described.

3.3 Disclosure of departure from full IFRS

Question 3

Should a requirement for preparers to provide an explanation as to how their policies depart from full IFRS be introduced? If so, by whom?

FEE Discussion Paper

For new standards and interpretations issued but not yet effective and not yet applied, IAS 8.30 requires the possible impact to be disclosed. Companies might also be expected to disclose the difference between endorsed IFRS and full IFRS. There is however no requirement in this respect. Many see it as a key issue of transparency that a preparer that has applied endorsed IFRS explains how, if applicable, its accounting policies differ from full IFRS. Such an explanation could be in narrative form if the relevant data was not available to permit an explanation in numerical form. Some also believe this disclosure to be particularly significant when a preparer has chosen not to apply full IFRS as a matter of preference. They believe the reasons for this choice should be clearly disclosed.

Explanation of the difference might be particularly relevant if the financial statements of EU companies are to be used outside the EU. A number of European securities regulators have emphasised the importance of users understanding departures from full IFRS.

Summary of the Responses

All respondents with the exception of ICAS are of the opinion that there is no need for a requirement in law for preparers to provide an explanation as to how their policies depart from full IFRS even though such a disclosure would be seen as good practice. Different reasons are provided including undermining the EFRAG endorsement advice; no legal EU requirement; should be left to the preparers' discretion whether they want to provide such explanation and; no new disclosure requirements should be introduced.

CNCC/CSOEC and others indicated that such information might be particularly relevant if the financial statements of EU companies are to be used outside the EU, particularly to meet market expectations or requirements of the SEC. Such a requirement could be introduced by regulators outside the EU.

ICAS believes that there should be a requirement: explanation should be in narrative form. LSCA indicates also that it is a matter for market regulators and stock exchanges.

Several commentators indicated that where companies have departed from full IFRS it is essential to provide such an explanation in their accounting policies as good practice in order to give informal readers the possibility to understand the departures from full IFRS. Without such an explanation investors will not be able to compare the results of companies listed in Europe with those listed elsewhere.

It was also observed that several European regulators have already made such recommendations to companies. Quantification of the effects of such departures can also be encouraged.

Recommendation

An explanation in the notes to the accounts as to how their accounting policies depart from full IFRS is strongly encouraged. However, there should be no requirement for preparers to provide an explanation as to how their policies depart from full IFRS. It should be left to the preparers' discretion to decide whether they want to provide such an explanation. But without such an explanation investors will not be able to compare the results of companies listed in Europe with those listed elsewhere. Market forces may effectively oblige such a disclosure. Care should be taken though that the information provided does not become misleading.

Detailed Responses

Auditing Practices Board (APB) (UK)

The APB would be cautious about introducing such a requirement as it may undermine the endorsement advice given to the EC by the European Financial Reporting Advisory Council (EFRAG).

CESR-Fin

Disclosing departures from “full IFRS” should be regarded as a good practice, but there are no legal grounds to make it mandatory as long as endorsed IFRS are complied with. However, full transparency on the accounting methods used by an issuer is generally necessary, and this is all the more true when a specific method, departing from those prescribed by IASB, is used. Informed readers should then be in a position to understand when such method departs from the one prescribed by IFRS.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

No.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC do not agree that a requirement for preparers to provide an explanation as to how their policies depart from full IFRS should be introduced. The EU legislative financial reporting framework does not require European listed companies to explain how their policies depart from full IFRS.

Indeed there is no requirement for a preparer that has applied endorsed IFRS to explain how, if at all, its accounting policies differ from full IFRS. We do not see any reason to require more information than what is required by the European legislation.

On the other hand we believe that this information might be particularly relevant if the financial statements of EU companies are to be used outside the EU, particularly to meet market expectations or requirements of the SEC. In this case this requirement can be introduced by other outside EU users or regulators.

Deloitte Touche Thomatsu

We believe that, where companies have departed from full IFRS as issued by the IASB it is essential that they provide such an explanation in their accounting policies note. Without such an explanation investors will not be able to compare the results of companies listed in Europe with those listed elsewhere. Several European securities regulators have already made such a recommendation to companies.

Whilst we would encourage companies also to quantify the effect of such departures, as required by SEC final rule release 33-8567 *First-Time Application of International Financial Reporting*, we do not believe it is appropriate to mandate such disclosures. Instead we believe that companies will choose to do so voluntarily where investors demand such disclosures, for example where a company's non-European peer group are adopting full IFRS.

Den norske Revisorforening (Norway)

As certain deviations from IFRS are already possible as a result of the endorsement process, we believe it is important that an explanation as to how a company's accounting policies depart from full IFRS is given. The right place to explain the financial reporting framework is, in our opinion, the financial statements. Usually the explanation should be given in the notes according to the existing IFRS. An explanation is of particular relevance to users inside of the EU, but also of interest to users outside the EU.

Ernst & Young

IFRS as adopted by the EU will represent a comprehensive basis of accounting and become the applicable financial reporting framework used by companies in the European Union. We believe that it should be left to the preparers' discretion to decide whether they want to provide an explanation as to how their accounting policies depart from full IFRS in the notes to their financial statements. Only a regulator, such as the Committee of European Securities Regulators (CESR), would be in a position to require of preparers the presentation of such information in their financial statements.

Estonian Board of Auditors (Estonia)

Disclosure of departure from the full IFRS would be, considering international convergence and transparency, in our opinion very favorable.

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

It is important for users of financial statements that the financial statements include an exhaustive and complete explanation of the accounting policies applied.

Especially for listed companies and maybe for some other major companies we find it relevant to include an explanation in the financial statements on departures from full IFRS, if any departures have been made.

However, it is our preliminary view that it would not be necessary or desirable to introduce such a requirement by law.

Institut der Wirtschaftsprüfer (IDW) (Germany)

IFRS require a description of the accounting policies in the notes. With respect to endorsed IFRS, it would be useful to the user of financial statements if an explanation as to how the entity's policies, which are in line with the endorsed IFRS, depart from full IFRS were provided. However, we do not consider a requirement appropriate. As explained with respect to Question 1, companies may still include further explanations for use outside the EU when this is in their own interest.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

In accordance with the IASB position, preparers should refrain from making any reference to IFRS unless full IFRS is used. A preparer is compliant with IFRS or not (an exception is being compliant with endorsed IFRS).

No explanation at all is required since Europe did not want European firms to be submitted to the carve out rules. In addition, it may not be a good policy to reintroduce requirements and a burden via disclosures.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

We believe that there should be a requirement for companies preparing accounts in accordance with international accounting standards adopted by the EU to explain how their accounting policies depart from full compliance. Explanations should be in narrative form as we do not believe the amount of work which would be required to explain the full financial effects is justifiable on the basis that compliance with international accounting standards adopted by the EU is considered to be an appropriate financial reporting framework. Again we believe that the European Commission, with recommendations, from CESR, is the most appropriate body to introduce requirements or guidance on this matter.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

No. The requirement is to prepare the consolidated annual accounts in accordance with the international accounting standards as adopted by the EU. The securities regulators may ask for their specific requirements. The company can include an explanation but should not be obliged to do so.

KPMG

No. The only requirement of EU law is to apply "accounting standards as adopted by the EU". The EU has determined that this is the appropriate framework for the EU. There is and need not be any requirement to reconcile with either quantitative or qualitative discussion this legally required framework to any other framework, whether that be IFRSs, an EU national GAAP or US GAAP.

London Society of Chartered Accountants (LSCA) (UK)

This is a matter for market regulators and stock exchanges. No requirement should be introduced other than in the circumstances of a particular regulator or stock exchange simply because there is no other enforcement mechanism available.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

Such information – as a rule – seems to be useless; if a company wishes to disclose it – obviously it may do so.

It would be reasonable if a company renounced applying provisions of certain IFRS adopted by the EU but such a case is not considered in this document.

We shall assume that the reader of the financial statements is an expert who knows what IFRS are and how IFRS adopted by the EU differ from full IFRS; there is no need to explain what IFRS are and how they differ from US GAAP.

PricewaterhouseCoopers

We do not believe that new disclosure requirements should be created. The IFRS standards already provide a requirement for companies to describe the accounting framework and policies applied.

Royal NIVRA (Netherlands)

For convenience of users we favour an explanation in the notes to the financial statements as to how the accounting standards depart from full IFRS. Departures from full IFRS are mostly caused by the time lag between endorsed IFRSs and full IFRS and therefore will have a temporary impact on the financial statements.

UNICE

We do not believe that an explanation of the differences between IFRS and endorsed IFRS is needed. IAS 8 requirements are in our view plainly satisfactory. Any choice of accounting policy is required to be described and explained; any change thereto also. We therefore believe that no extra requirement is needed.

3.4 Companies in compliance with full IFRS and endorsed IFRSs**Question 4**

If companies are in full compliance with IFRS should companies be able to refer to the financial reporting framework:

- **I. In accordance with endorsed IFRS**
- **II. In accordance with IFRS**
- **III. In accordance with IFRS and (or “including”) endorsed IFRS?**

FEE Discussion Paper

When companies are in a situation where they comply with full IFRS¹¹ as well as with those standards as adopted in the EU, to what extent are they allowed to make clear that they are in full compliance with all IFRS? In this situation, the financial reporting framework could be referred to as follows:

- *In accordance with endorsed IFRS (whatever would be preferred solution of options a), b), c), or d)).*
- *In accordance with IFRS*
- *In accordance with IFRS and (or “including”) endorsed IFRS.*

The question is whether it is possible to refer only to “in accordance with IFRS” without mentioning adoption in the EU, in the case of full compliance with all IFRS.

Reference to IFRS only may not provide a clear enough statement that the obligation of compliance with the legislative financial reporting framework has been fulfilled. If a simple reference to IFRS is not possible and companies have to refer to “in accordance with endorsed IFRSs”, they may wish in addition to state that their financial statements are “in accordance with IFRS”.

Summary of the Responses

The majority of respondents believes that, in situations where companies are in full compliance with IFRS, it would not be appropriate to refer only to “IFRS” as the reporting framework since the applicable framework is “IFRSs as adopted for use in the EU”. They believe however that companies may also report on compliance with “IFRS” (as issued by the IASB) and certainly should not be prevented from doing so. Many indicated that the mandatory framework is “IFRSs as adopted for use in the EU” and should be referred to as such in the notes to the accounts. However, preparers may elect to state in the notes that they also are in full compliance with IFRS. Others such as KPMG, PwC and the Slovenian Institute of Auditors refer to the need to distinguish required and voluntary compliance and would therefore recommend that any additional compliance statement must be clearly separate from that required by the EU law or make a separate set of IFRS financial statements with a separate audit report.

ICAS and UNICE prefer the possibility to refer to IFRS only when compliance with full IFRS is met.

IRE, ICJCE and the Slovenian Institute prefer only to refer to “IFRSs as adopted for use in the EU”, since this is the legal framework

Recommendation

The applicable financial reporting framework in the EU needs to be referred to “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU”. In all cases, in addition, companies can also state and financial markets may require in the accounting policies – and should not be prevented from doing so - that they are in compliance with full IFRS, but not as the legal financial reporting framework.

¹¹ As described under IAS 1.14 to mean compliance with all the requirements of IFRS.

Detailed Responses

Auditing Practices Board (APB) (UK)

The APB's view is that the applicable financial reporting framework is "those IFRSs adopted for use in the European Union" and that the primary responsibility of both preparers and auditors is to report compliance, or otherwise, with that framework. In the auditor's report the primary opinion should always be with respect to "those IFRSs adopted for use in the European Union".

The APB believes that companies at their option may also report compliance with "IFRSs as issued by the IASB". If they exercise this option:

- (a) The company should explain in the notes to the financial statements how it is that the financial statements are able to be in compliance with both financial reporting frameworks; and
- (b) The auditors should be required to express a separate opinion on compliance with "IFRSs as issued by the IASB"

The APB notes the reference in the Discussion Paper to a section of the Commission's 2003 paper which states:

"However, if the application of adopted IFRSs results in financial statements that also comply with all IFRSs, because no standards have been rejected and all standards of the IASB have been endorsed, then it would not be necessary to state "adopted for use in the European Union", but simply "...in accordance with all International Financial Reporting Standards".

The APB supports this aspiration but the conditions for its application do not, at present, exist.

CESR-Fin

A majority of members believe that options II and III should be supported, while option I does not serve the communication needs of those who are in full compliance. Further, option III (or similar type of wording) seems a superior solution as option II can leave a doubt in the reader's mind on the compliance with EU law (i.e. endorsed IFRS) especially when certain IFRS (or options thereof) have not been endorsed for use in the EU.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

III. In accordance with IFRS including endorsed IFRS.

We believe that it is appropriate to allow companies to refer to the both endorsed and full IFRS in case they comply with both. Reference only to IFRS would be unclear to European users of the financial statements. Reference only to endorsed IFRS would not be appropriate from the international point of view and it is questionable whether these financial statements could be used globally.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC believe that the first proposal I "in accordance with IFRS as adopted within the EU" (refer to question 1) is the preferred wording for the accounting policies in order to ensure consistency with the reporting financial framework referred to in the audit report. In addition,

we think that it would be a better information for the financial market if entities, which are also compliant with full IFRS, include in their accounting policies that their accounts are also compliant with full IFRS issued by IASB. We think that the two references are relevant and useful to the users of accounts.

However, we think that reference to the financial reporting framework applicable within Europe is necessary in any case because:

- The wording “in accordance with IFRS as adopted within the EU” can be applied each year because this is the legal European financial reporting framework. Indeed it will enable the use of the same legal financial reporting framework each year whatever the situation of the entity is (also compliance with full IFRS or in the case where the European legislation is equivalent to full IFRS or only partially).
- Full compliance with IFRS may occur in one year but not in subsequent years due to new types of transaction or the timing of adoption of new IFRS. That is why we believe that it would be appropriate to add information to explain that compliance with full IFRS arises in one specific year because of the entity’s particular circumstances in one year.

Deloitte Touche Thomatsu

The majority of companies will be in this position (e.g. where they have chosen not to take advantage of the hedging carve-out in IAS 39 and are unaffected by emissions trading (IFRIC 3)).

We believe that they should make clear they comply with both frameworks, meeting the investor’s need to understand the extent of compliance with full IFRS to allow comparability with non-European issuers and to demonstrate compliance with the legal requirement to adopt endorsed IFRS.

Den norske Revisorforening (Norway)

If companies are in full compliance with endorsed IFRS and IFRS at the same time, the companies should, in our opinion, have the option to state that they are in compliance with both frameworks.

This information is necessary if the users of the financial statements come from both inside and outside of the EU. For users inside the EU it is of importance to know whether the financial statements are in accordance with IFRS as adopted by the EU. Users outside of the EU will be more interested whether IFRS in its entirety is used rather than trying to understand subtle carve-outs. We therefore prefer alternative III.

EFRAG

Having said that, entities reporting under the IAS Regulation and also complying with ‘full IFRS’ should not be prevented from explaining if they wish that their financial statements have also been prepared in accordance with ‘full IFRS’.

Ernst & Young

The applicable financial reporting framework will be “IFRS as adopted by the EU” and should be referred to as such in the notes to the financial statements. However, preparers may elect to state in the

notes to their financial statements that they are also in full compliance with IFRS where that is the case.

Estonian Board of Auditors (Estonia)

Yes, and preferred reference could be “**in accordance with IFRS and IFRSs as adopted by the EU**”.

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

Companies should refer to the fact that they comply with full IFRS, since the information would have great value for users of financial statements.

Institut der Wirtschaftsprüfer (IDW) (Germany)

Since it is the first priority to fulfil the legal accounting requirements, companies must clearly demonstrate that they have applied the requirements of the IFRS Regulation and - if applicable - specific national requirements. If companies are also in compliance with full IFRS, they should be allowed to state this additionally in their notes.

Consequences for the audit:

If companies comply fully with IFRS, but not with the European financial reporting framework, this will have consequences for the auditor’s opinion in a statutory audit. However, in a voluntary audit in which the auditor is assigned to assess compliance with full IFRS, non-compliance with the European financial reporting framework will not effect the auditor’s opinion.

Institut des Réviseurs d’Entreprises (IRE) (Belgium)

At this moment, we are in favour of Option I.

Option III would be the ideal situation (possible in practice?) when there are no conflicts between IFRS and endorsed IFRS.

Option III would certainly be useful for companies the financial statements of which are used outside the European Union, such as for SEC purposes.

The U.S. Securities and Exchange Commission (SEC) states in its rule providing for a one-time accommodation relating to financial statements prepared under IFRSs for foreign private issuers registered with the SEC, published on 14 April 2005

“As adopted, except as described in Section II.G for EU issuers, an issuer is eligible to rely on the accommodation only if it can state unreservedly and explicitly that its financial statements comply with IFRS as published by the IASB, and if its audited financial statements are not subject to any qualification, including qualification relating to the application of IFRS. In addition, the issuer’s independent auditor would be required to opine without qualification on compliance with IFRS. A foreign private issuer that had not complied with all IFRS in effect as published by the IASB would not be able to make the required unreserved statement of compliance with IFRS and would not be eligible to rely on the accommodation the Commission has adopted.”

Some countries may adopt IFRS by incorporating them into their home country standards. Australia, for example, has taken this approach. For purposes of eligibility to rely on the accommodation, an Australian issuer would need to assert its compliance with both IFRS and Australian GAAP.”

Option III would also be in line with International Auditing Practice Statement 1014 “Reporting by Auditors on Compliance with IFRS” addressing financial statements prepared in accordance with IFRS and a national financial reporting framework, which requires the auditor to consider compliance with each framework individually and to refer in his report to both frameworks.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

We believe that the wording in II is the most appropriate of the options: as long as there are no timing differences between the effective dates of standards franked by the IASB and the effective date of the same standards as adopted by the EU.

The phrase ‘international accounting standards’ may be more appropriate, as the majority of standards are named ‘International Accounting Standards’.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

The EU user must be sure that the financial statements are prepared under the EU Regulation but reference to the compliance with full IFRS can be particularly relevant if the financial statements of EU companies are to be used outside the EU.

We consider that a reference to full IFRSs can confuse European users, therefore the Company should be only obliged to include the statement "international accounting standards as adopted by the EU".

KPMG

We consider that a statement of compliance with the EU framework will always be required. Companies that wish (and are able) to state compliance additionally with “IFRSs”, may do so separately (and voluntarily).

There is no prohibition in EU law from an entity claiming voluntarily that its financial statements are in compliance with IFRSs (or any other financial reporting framework), when also claiming compliance with the legal requirement.

We consider that the financial statements that are required by EU law must include a statement of their compliance with those requirements. This requires that a statement of compliance with “accounting standards as adopted by the EU” always must be included.

We consider that it is important that the required and voluntary compliance must be capable of being clearly distinguished by users. Therefore, we consider that any additional voluntary compliance statement must be clearly separate from that required by EU law.

This is particularly important as concurrent compliance with the additional framework may, from time to time, cease to be possible. For example, because of the existence of unendorsed standards (or parts thereof), that are effective for IFRS preparers or even the delay in endorsing standards that amend endorsed standards.

The effective date of EU legislation that we understand may not except in exceptional circumstances be retrospective, may be a further source of divergence (even if only temporary).

London Society of Chartered Accountants (LSCA) (UK)

Companies may need to confirm compliance with all IFRS for reasons other than meeting EU requirements, for example, to meet IFRS requirements or reduce reconciliation requirements imposed by the SEC. Therefore, companies should not be in any way prevented from referring to IFRS without qualification. This would be in addition to confirming compliance with endorsed IFRS.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

Texts of this point are not appropriate because they differ from the text of Point 1 (“endorsed” – instead of “adopted”).

Therefore we favour the option (a) from the Question no. 1. If there would be a need to emphasize that “there is convergence between full IFRS and IFRS adopted by the EU” – which should be a rule rather than an exception, the content of Point 4.III should be redrafted. It is not tactical because it emphasizes superiority of full IFRS over IFRS adopted by the EU. It would mean that the EU unjustly refused to accept particular parts of IFRS.

The content of Point 1 (a) might be supplemented with the following wording: “they are in compliance with full IFRS in a company.”

PricewaterhouseCoopers

EU listed companies are required to prepare their accounts in accordance with the accounting standards adopted for use in the EU, therefore the opinion wording for all EU listed companies should reflect this basic requirement. Companies that can also assert full compliance with IFRS should be able to do so (although, as discussed in 7 below, it would not be appropriate for companies to state in their financial statements compliance with IFRS one year and then to not do so in the next one).

The reference to ‘endorsed IFRS’ is unhelpful as it introduces a further variation in addition to those mentioned in Question 1. Consequently, we do not favour any of the wording options suggested here. In accordance with our response to question 1, we believe that companies presenting financial statements in full compliance with IFRS should refer to the financial reporting framework as ‘in accordance with accounting standards adopted by the EU and with IFRS’.

Market preferences and reporting conventions and requirements may vary between Member States. Therefore in some circumstances where companies can also assert compliance with IFRS, it may be preferable for the sake of clarity or required to prepare a separate set of IFRS financial statements with a separate audit report.

Royal NIVRA (Netherlands)

EU listed companies are required to prepare their accounts in accordance with the accounting standards adopted in the EU, therefore the opinion wording for all EU listed companies should reflect this basic requirement. Companies that can also assert full compliance with IFRS should be able to do so (although, as discussed in 7 below, it would not be appropriate for companies to state in their financial statements compliance with IFRS one year and then to not do so in the next one).

We find the reference to ‘endorsed IFRS’ unhelpful as it introduces a further variation in addition to those mentioned in Question 1. Consequently, we do not favour any of the wording options suggested here. In accordance with our response to question 1, we believe that companies presenting financial statements in full compliance with IFRS should refer to the financial reporting framework as ‘in accordance with accounting standards adopted by the EU and in accordance with IFRS’.

Slovenian Institute of Auditors (Slovenia)

We estimate that in the circumstances when all full IFRS apply to the company and when endorsed IFRS are different from the full IFRS it is impossible to comply with both frameworks. When IFRS apply to the company only partly and this part comply with endorsed IFRS, the expressed compliance under the first question is sufficient. The reference to the full IFRS would in this case be misleading because if the company performed transactions for which accounting treatment under IFRS and endorsed IFRS would be different the full compliance would not be granted anymore.

If a company wanted to have financial statements complied with two different accounting frameworks it should prepare two different sets of accounts with two appropriate auditors’ opinions.

UNICE

Although financial reporting is designed to serve reasonably knowledgeable users and although the EU is large enough an area for “IFRS as adopted by the EU” to refer to a well-known financial reporting framework, entities will, in our view, get best acceptance on capital markets when being able to comply with full IFRS. We therefore believe that in every circumstance where compliance with full IFRS is met, entities ought to be allowed to simply refer to IFRS, without the least reservation, if they wish to do so.

Question 5

If III is opted for, should companies provide an explanation as to why they are in compliance with both?

Summary of the Responses

A majority would not be in favour of providing an explanation. If companies have to explain anything they should not explain why they are in compliance but how they are in compliance with both. There was no support to introduce new reporting requirements. If option III was opted for, APB, KACR, CNCC/CSOEC, PwC, CESR-Fin and DnR would support a requirement to explain in the note to the financial statements the reasons for this simultaneous compliance with both IFRS and “IFRSs as adopted for use in the EU”. IDW expects that an explanation as to how they are in compliance with IFRS as well would automatically be apparent from the description of accounting policies.

CESR-Fin is of the opinion that, as the entity’s framework is going beyond EU law, the assertion needs to be supported with a sufficiently comprehensive description.

Recommendation

Voluntary explanation of how companies are in compliance with both frameworks is strongly encouraged in cases where the two frameworks are recognised to be different. However, there should be no requirement for preparers to explain how they are in compliance with both financial reporting frameworks, although financial markets effectively may oblige listed companies to do so.

Detailed Responses**Auditing Practices Board (APB) (UK)**

As discussed in our response to question 4 the APB does not believe that it is necessary for companies to explain “why” they are in compliance with both but rather to explain “how” they are in compliance with both. In other words companies would be required to explain, for example, that the carve out options in IAS 39 do not apply to them.

CESR-Fin

Yes, as their framework is going beyond EU law and the assertion needs to be supported with a sufficiently comprehensive description.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

Yes.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

If the alternative III is opted for, we believe that entities should provide explanation in the notes to their financial statements as how they are in compliance with both financial reporting frameworks despite the differences that could exist between the two financial reporting frameworks (refer to question 4).

Deloitte Touche Thomatsu

In most cases we believe that there will be no need to do so. Where companies choose to do so such a description would only need to be very brief e.g. “*The company has chosen not to take advantage of the relaxation in the hedging provisions of IAS 39 in endorsed IFRS, and accordingly complies with both full IFRS as issued by the IASB and IFRS as adopted by the EU.*”

Den norske Revisorforening (Norway)

We believe it is important that the financial reporting framework used is appropriately explained in the financial statements. The deviations arising from the endorsement process could be complicated to understand even for an experienced user. We therefore believe that the explanation of how the financial reporting framework is used should include explanations of how and why the financial statements comply with both the endorsed and the full set of IFRS at the same time.

Estonian Board of Auditors (Estonia)

We do not see particular need for that.

Institut der Wirtschaftsprüfer (IDW) (Germany)

We would assume that an explanation as to how they are in compliance with IFRS as well would automatically be apparent from the description of accounting policies.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

No. We do not believe that option III is appropriate and that any explanations of this nature could in themselves cause confusion to the users of accounts.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

No. The purpose of the financial statements is not to disclose the differences between the full IFRSs and the endorsed IFRSs.

KPMG

We are not aware of any requirement for an entity to provide an explanation as to why they are in compliance with two frameworks. Any such requirement would require an analysis of the differences between the frameworks and why those differences did not affect the entity's statements of compliance with each framework individually. We would not support such a requirement.

When dual compliance is claimed, the statement of compliance with IFRSs should be assessed on the basis of the guidance in IAPS 1014, in particular paragraphs 5-11. In our view, IAPS 1014 does not require the auditor to provide an opinion on the basis of each GAAP that a set of financial statements claims to be in compliance with. Instead, IAPS 1014 is applicable only in respect of each opinion which the auditor is required to provide (or has agreed to provide). In the case of a statement of compliance (or the extent of compliance) with a framework with which the auditor is not providing an opinion, it is required only that the auditor considers whether any such statements are 'accurate and not misleading' in the context of the opinion given on the basis of the required framework (i.e., "accounting standards as adopted by the EU").

London Society of Chartered Accountants (LSCA) (UK)

There seems no reason to provide an explanation of why the endorsed IFRS happen to coincide with the full body of IFRS.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

If it is a rule and not an exception that full IFRS are in compliance with IFRS adopted by the EU, there is no need to explain as to why there are no differences.

PricewaterhouseCoopers

Yes, companies need to explain in notes to the financial statements the reasons for this simultaneous compliance with both IFRS and the accounting standards adopted for use in the EU. For example in

relation to IAS 39, companies need to explain whether they have elected to follow the fair value option, and whether they are affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39.

Royal NIVRA (Netherlands)

No, we see no reason why companies should need to explain why their financial statements comply with both financial reporting standards. Users will be sufficiently informed when reference to both accounting standards have been made. We refer to our answer to question 3.

Question 6

If a company is in full compliance with IFRS, should it be obliged to say so when referring to the applicable framework?

Summary of the Responses

Most respondents do not believe that there should be an obligation to disclose full compliance with IFRS, since this is not the legal framework. However, companies that want to report full compliance with IFRS should be able to do so. Some like CNCC/CSOEC would in that case (on a voluntary basis) recommend that the company provides an explanation in the notes to the accounts. ICAS, DnR and FSR Denmark, would prefer an obligation for companies to say that they are complying with IFRS within their financial statements. LSCA refers to IAS 1.14 which requires that “an entity whose financial statements comply with IFRS shall make an explicit and unreserved statement of such compliance in the notes”. CESR-Fin is of the opinion that companies who will be in the situation of full compliance with IFRS will usually consider the interest of making a compliance statement: complete information of markets is paramount.

Recommendation

Companies are strongly encouraged to disclose full compliance with IFRS on a voluntary basis. However, there should be no obligation for companies to do so, although in practice they may be required to do so because of market expectations.

Detailed Responses

Auditing Practices Board (APB) (UK)

The APB does not support making it an obligation for companies to state full compliance with IFRS as issued by the IASB. The financial reporting framework that applies to EU companies is “those IFRSs adopted for use in the European Union” and it is against this framework that companies should be obliged to report. Requiring companies to also report in accordance with “IFRS as issued by the IASB” would give the appearance of undermining the endorsement advice given to the EC by the European Financial Reporting Advisory Council (EFRAG).

However, as a practical matter some companies may wish to report compliance with both financial reporting frameworks. The APB supports companies being able to report in accordance with both frameworks but does not support making this an obligation on all companies.

However, where a company does additionally report under “IFRSs as issued by the IASB”, the auditors should be required to report their opinion as to whether the financial statements comply with “IFRSs as issued by the IASB”.

CESR-Fin

Although it is not certain that statement of full compliance with IFRS would be required by the European reporting framework, we foresee that companies who will be in that situation will usually consider the interest of making such a statement. As regulator, we believe that complete information of markets is paramount and would therefore support inclusion of full compliance statement when that fairly reflects the reality.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

The company should be obliged to disclose full compliance with IFRS only if its financial statements were prepared with the aim to comply fully (reporting to the country outside EU etc.). In other cases, companies should be given possibility to disclose the fact of the full compliance; however, they should not be obliged to disclose this fact. Obtaining all relevant facts for such a disclosure could be very time consuming with little benefit to both providers and users of the financial statements.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC believe that it should not be an obligation for entities to say that they also comply with full IFRS. We think that such a requirement should only be derived from a legal obligation. In addition we do not see any reason to require that the European financial reporting framework applied be compared with another one.

However we agree that if an entity wants to say so, it could be done but in this case we recommend that the entity provides explanation in the notes to the financial statements (refer to questions 4 and 5).

Deloitte Touche Thomatsu

See the answer to question 4 above.

Den norske Revisorforening (Norway)

Yes. We refer to the grounds given under 3 and 5.

Ernst & Young

A company should not be obliged to say so.

Estonian Board of Auditors (Estonia)

It would be good, if it is referred clearly.

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

Yes. The information would have great value for users of financial statements.

Institut der Wirtschaftsprüfer (IDW) (Germany)

The legal requirement is to apply endorsed IFRS and specific national requirements. A company's reference to (full) IFRS should be optional.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

Since we are in favour of option I, we indeed are of the opinion that when an entity is in compliance with endorsed IFRS, this should be mentioned in the notes to the financial statements. This would certainly be useful for the users of the financial statements, particularly if the financial statements are also used outside the European Union (see above nr. 4).

Institute of Chartered Accountants of Scotland (ICAS) (UK)

Where the applicable financial reporting framework is full compliance with international accounting standards, companies should be obliged to say they are complying with international accounting standards within their financial statements. This description of the framework should suffice on other occasions where a company wishes to or is obliged to describe the appropriate financial reporting framework.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

No. The accounting framework is endorsed international accounting standards not full IFRS.

KPMG

No. The only requirement on an entity should be to state compliance with the legally required framework. Any additional statement of compliance is wholly voluntary.

London Society of Chartered Accountants (LSCA) (UK)

IAS 1 paragraph 14 requires that "an entity whose financial statements comply with IFRS shall make an explicit and unreserved statement of such compliance in the notes".

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

If it is a rule and not an exception that full IFRS are in compliance with IFRS adopted by the EU, there is no need to explain as to why there are no differences.

PricewaterhouseCoopers

No, EU listed companies are obliged to comply with the accounting standards adopted for use in the EU, therefore as a minimum requirement they should refer to this framework in the notes to their financial statements. They should not be obliged to state compliance with IFRS (as such compliance may be incidental and not the intention of the company). However, nothing should prevent companies from stating additionally compliance with IFRS, if they are in a position to do so.

Royal NIVRA (Netherlands)

No, EU listed companies are obliged to comply with the EU endorsed accounting standards, therefore as a minimum requirement they are obliged to refer in the notes to their financial statements to such accounting framework. They should not be obliged to state compliance with IFRS (as such compliance may be incidental and not the intention of the company). However, as explained before we are in favour of stating additionally compliance with IFRS.

UNICE

For the reasons explained above we do not believe that a double statement of compliance is needed.

Question 7

What is the preferred form of words in the accounting policies if compliance with full IFRS cannot necessarily be maintained in later years?

FEE Discussion Paper

Companies should consider that, even if they are currently in compliance with endorsed IFRS and IFRS, it is possible that concurrent compliance may not be possible in the future (although early adoption of new standards and interpretations will often be possible). Companies should consider the impact of reporting compliance with full IFRS in one year and the risk of then being obliged to drop that reference in a later year. It may be better either to refer only to endorsed IFRS or to be explicit that compliance with full IFRS only arises because of the company's particular circumstances in that year.

Summary of the Responses

This is not being perceived by the respondents as a real issue. On basis of IAS 8.30, the conclusion is drawn but, in the year when the charge comes into force, the company will no longer be able to make the assertion of being in full compliance with IFRS. Several commentators suggest, if compliance with IFRS is incidental, no reference to IFRS should be made. Due to the complexity of the issue and the possible variations from one case to another, it is not sure that a standard form of words is appropriate. Wording should be clear enough to enable users of financial statements to understand the position of the company and to make appropriate comparisons from year to year.

Recommendation

There is no need to address the issue, IAS 8 gives sufficient guidance. Companies are encouraged to explain when differences are only temporary, where differences arise because the EC has not adopted a standard before its effective date.

Detailed Responses**Auditing Practices Board (APB) (UK)**

This question seems rather hypothetical. The description of accounting policies in the financial statements is intended to describe the policies applicable to the financial statements being presented. Paragraph 30 of IAS 8 requires the following:

“When an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose:

- (a) This fact; and*
- (b) Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity’s financial statements in the period of initial application”.*

This requirement should be followed when such circumstances arise. Following this requirement would not change the wording of the accounting policies. In the year when the change comes into force the entity could voluntarily refrain from reporting under “IFRS as issued by the IASB”.

CESR-Fin

Due to the complexity of the issue and the possible variations from one case to another, it is not sure that a pre-determined form of words is appropriate for this kind of situation. We are of the opinion that the wording should in all cases be clear enough so as to enable users of financial statements to genuinely understand the position of the company and make appropriate comparisons from year to year.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

We believe that this fact should not be described in the notes to the financial statements.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC agree that the preferred wording is the IFRS as adopted within the EU and to include additional information to say that the accounts are also compliant with full IFRS.

In addition we think that it should be required to disclose in the accounting policies in the notes to the financial statements that full compliance with IFRS occurs this year but will not necessarily occur in subsequent years.

Deloitte Touche Thomatsu

There may be situations where companies who have complied in the past with both full IFRS as issued by the IASB and endorsed IFRS as adopted by the EU are no longer able to do so, for example where there is a delay in endorsing a new standard that conflicts with an existing endorsed standard, or where the EU chooses to introduce another difference. We believe that, as with our answer to question 3 above, companies should be required to disclose such differences in the normal way. It may also be helpful to:

- Cross-refer to the difference as part of any note disclosure dealing with a change of accounting policy, where the difference arises from adopting a new endorsed standard that differs from that issued by the IASB; and
- Explain that the difference may only be temporary, where the difference arises because the EU has not adopted a standard before its effective date.

The issue of delays in endorsement of new standards will have a greater impact when the Transparency Directive comes into force, requiring companies to adopt IAS 34 in drawing up their half-yearly interim reports, as this will mean that standards with a December effective date need to be endorsed by the previous June. We welcome the continued efforts by the Accounting Regulatory Committee and EFRAG to speed up the endorsement process, and encourage them to continue to work with the IASB to reduce the potential for differences between full and endorsed IFRS.

Ernst & Young

A company wanting to assert in the notes to their financial statements that they are also in full compliance with IFRS will need to assess at each reporting period whether this is the case. If a company ceases to be in full compliance with IFRS, it will no longer be able to make that assertion.

Estonian Board of Auditors (Estonia)

If compliance with full IFRS cannot be maintained in later years, it should be referred very clearly to this what compliance is maintained, without any confusing information on this, what cannot be maintained.

Institut der Wirtschaftsprüfer (IDW) (Germany)

No specific indication would be needed. In case of any subsequent non-compliance with full IFRS the company would, in any case, only refer to the European financial reporting framework and specific national requirements.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

In our opinion, the statement of compliance should in that case be worded in a sense that it is clear to the user of the financial statements that the comparative figures presented are in compliance with full IFRS, whereas the financial statements for the current period have been prepared in accordance with another reporting framework, e.g. endorsed IFRS.

In the event that the IFRS should not be fully complied with, no reference can be made to IFRS or only to the endorsed IFRS. As a conclusion: or reference to full IFRS or endorsed IFRS if there is a difference; not make a reference as to being in accordance with IFRS excepted for nr...

Institute of Chartered Accountants of Scotland (ICAS) (UK)

We are not clear as to why this is an issue. Any changes in accounting policy as a consequence of moving to EU endorsed international accounting standards to full compliance or vice versa, if this is an option, would need to be dealt with as a change in accounting policy in the year in question.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

Due to the process of endorsement of the IFRSs by the European Commission the degree of coincidence between the two sets of financial standards may vary in the future, therefore we think that the wording of such a statement should be assessed at each reporting period.

KPMG

The statement of compliance with the legally required framework will be constant in each year (assuming that the entity complies with those legal requirements).

The potential inability to provide a separate voluntary statement of compliance with IFRSs in some years is something that companies should consider when determining whether to provide such a statement.

London Society of Chartered Accountants (LSCA) (UK)

The EU should actively seek to avoid such circumstances. If standards cannot be endorsed in time, at least clear expectations of endorsement should generally be provided so that companies can comply with full IFRS. If this is not possible, companies will want to explain the circumstances and impact. Since the circumstances will vary, no standard form of words is likely to be possible.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

We favour the option (a).

Options (b) and (c) do not refer to IFRS which may be misleading.

The information included in the option (d), that a company used these IFRS which apply to it, is obvious and therefore useless.

PricewaterhouseCoopers

We believe that if the compliance with IFRS is incidental (for example the company is not affected by the not endorsed or partially endorsed standards but it will be in the future, or it has the clear intention to follow the accounting standards endorsed for use in the EU rather than IFRS) the accounting framework should be described as 'accounting standards adopted for use in the EU' and no reference to IFRS should be made.

Royal NIVRA (Netherlands)

We believe that if the compliance with IFRS is incidental (for example the company is not affected by the not endorsed or partially endorsed standards but it will be in the future, or it has the clear intention to follow the accounting standards endorsed for use in the EU rather than IFRS) the accounting framework should be described as 'accounting standards adopted by the EU' and no reference to IFRS should be made.

UNICE

On this account also we believe that IAS 8 requirements are fully satisfactory. When a change in accounting policies can be foreseen, an entity is required to describe and explain why and how the change takes place and to give indication, whenever possible, of the financial impact that can be

anticipated to be generated by the change. When compliance with full IFRS is no longer anticipated and at the time the change takes place, IAS 8 should be complied with.

4. AUDIT REPORTS AND OPINIONS

Question 8

Should audit reports be required to use a standard, generally accepted phrase to refer to the framework applied in the EU?

FEE Discussion Paper

Both Article 51.a.¹² of the Fourth Directive and ISA 700 (Revised) require references in the audit report to the applicable financial reporting framework. In addition, where the financial reporting framework (e.g. IFRS) is supplemented - but not contradicted - by further regulatory requirements, ISA 700 (Revised) requires reference to both the framework and the requirements. Endorsed IFRS are the reporting framework legally applicable in the EU as discussed above.

International Auditing Practice Statement 1014 “Reporting by Auditors on Compliance with IFRS” addresses financial statements prepared in accordance with IFRS and a national financial reporting framework. It requires the auditor to consider compliance with each framework individually and, in the report, to refer to both frameworks. If the company refers to two frameworks but has complied with only one (with for example a reconciliation to the second framework), the audit report would need to be qualified over non-compliance with the second framework.

Applying these requirements to the subject of this discussion, it is clear that the audit report should refer to the same frameworks as the company’s accounting policies, assuming of course that this reference is not misleading. Where the only framework applied is endorsed IFRS, this is the required reference. Where the financial statements comply both with IFRS and with endorsed IFRS, the report should refer to both frameworks. However, if the company uses an ambiguous form of words that suggests compliance with both frameworks when this is not the case, the auditor will need to include a qualification relating to the non-compliance.

Summary of the Responses

Although a majority of the respondents would prefer a standard generally accepted phrase to refer the financial reporting framework (same basic terminology), many underline that audit reports should refer to the financial reporting framework that is used by management in the preparation of their financial statements. A standard approach to the preparation of the audit reports will foster consistent application of IFRS in the EU. Where two reporting frameworks are referred to “IFRSs as adopted for use in the EU” and “IFRS”, there would be two opinions implicit in the auditors’ report according to IAPS 1014. Although they would be included in the same audit report, the audit work must support both opinions.

In expressing an opinion on the entity's financial statements, the auditor is also required to consider the appropriateness of the description of the applicable financial reporting framework in the financial statements. There may be a point in the extent of adoption of full IFRS where reference in the description of the financial reporting framework applied in preparing financial statements to the term “IFRSs” becomes unacceptable. Commentators have warned that the solution proposed in this paper would need to be reconsidered if that point were to be reached.

¹² As introduced by the Modernisation Directive (2003/51/EC).

Recommendation

There should be a standard reference to the financial reporting framework, which should be the same in the accounting policies “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU”. Subject to this, the auditors’ report should refer to the same financial reporting framework as that with which the company has stated compliance.

Detailed Responses**Auditing Practices Board (APB) (UK)**

The APB believes that it would be desirable to achieve a common approach to the description of the financial reporting framework throughout the EU. It is imperative that the descriptions used by management and the auditors be identical with each other.

CESR-Fin

Yes, it is preferable (in fact, required by article 51, A, para a) of the 4th Directive and also by ISA’s) that audit reports be required to clearly identify the accounting framework applied by the entity whose financial statements have been audited. A standard approach to the preparation of the audit reports will foster consistent application of IFRS in the EU.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

Yes.

Based on the requirement of the EU and the recommendation provided by IFAC, International Standards on Auditing (ISAs) should be used for all audits in the EU for the financial statements covering periods beginning 1 January 2005. Therefore, auditor should prepare the report in accordance with ISA 700 (Revised) that states:

“An unqualified opinion should be expressed when the audit concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. ...When the applicable financial reporting framework is not IFRSs or IPSASs, the auditor’s opinion also identifies the jurisdiction or country of origin of the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as: ...in accordance with IFRSs or ...in accordance with accounting principles generally accepted in Country X.”

While accounting principles generally accepted in EU countries are endorsed IFRS, we believe that the reference should be made to endorsed IFRS with the use of one of the wording described under the Question1 of this questionnaire. Taking into account significance of the debate over the correct wording used in the notes to the financial statements, it is obvious that it would be very useful to use one uniform description of the financial reporting framework also in the auditor’s report. Suggested wording could be included in the Amended Fourth Directive and must not be contradictory to ISA 700 (Revised) wording.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC believe that a standard generally accepted phrase should be required in the audit report to refer to the financial reporting framework applied within the EU to promote homogeneous practices in a same country and within the entire EU. The corresponding wording is the one proposed in Question 1, i.e. “in accordance with IFRS as adopted within the EU”.

Deloitte Touche Thomatsu

In our answer to question 1 above we believe that directors should use a standard, generally accepted phrase to refer to the framework applied in the EU. We believe that audit reports should use this same phrase unless prohibited by individual member state legislation.

Den norske Revisorforening (Norway)

For ease of reference and understanding by users, audit reports should be required to use a standard, generally agreed phrase to refer to the framework applied in the EU. We believe this could be done in two separate statements in the same audit report using the logic from the recently exposed ISA 706. In this ISA, paragraphs 17 – 21, there is an opening for reporting “other matters” after the opinion paragraph in the audit report. We believe it should be considered by FEE whether a separate additional audit opinion in relation to IFRS could be regarded as an “other matter”. The proposals from the UK Auditing Practices Board in its Draft Bulletin 2005/4: “Auditor’s Reports on Financial Statements” also follow approximately the same logic. The second opinion paragraph could, as suggested in the Draft Bulletin, be marked with a clear and precise subtitle, for example: Separate opinion in relation to (full) IFRS.

Ernst & Young

In order to meet the objective of transparency for users of financial statements, we believe that consistency is needed on how companies will refer to the financial reporting framework in the accounting policies in the notes to the financial statements and how auditors will make reference to such a framework in the audit report.

Audit reports should be required to refer to the financial reporting framework that is used by management in the preparation of their financial statements and referred to in the notes to the financial statements.

Estonian Board of Auditors (Estonia)

Yes.

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

A difference in wording would not be desirable. However, it would not be necessary or desirable to repeat all the detailed explanations on the accounting framework already provided in the financial statements in the audit report.

Institut der Wirtschaftsprüfer (IDW) (Germany)

We favour a generally accepted phrase to refer to the framework applied in the EU. This may help to avoid confusion among the users of financial statements.

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

We are of the opinion that audit reports should indeed use a standard generally accepted phrase to refer to the framework applied in the EU, to avoid confusion for the users of the financial statements.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

It is desirable for standard phrases to describe the applicable financial reporting framework to be applied in the EU. However, the overriding factor must be that the description of the financial reporting framework is accurate. The audit report must be consistent with the financial reporting framework described in the accounting policies. Auditors should be ensuring that they are clear from the outset of any engagement that the financial reporting framework being used by their client is robust therefore the description of the applicable financial reporting framework should be agreed at an early stage.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

We think that a general accepted phrase to refer to the framework applied is preferable to avoid misunderstandings.

KPMG

National law (transposed from EU Directives), sets out the legal requirements for audit reports. However, assuming transposition of the current text of the audit report requirements in Article 37 of the 7th Council Directive (and Article 51a of the 4th Council Directive), the report of the statutory auditors is required to include:

“ ... an audit opinion which shall state clearly the opinion of the statutory auditors as to whether the consolidated accounts give a true and fair view in accordance with the relevant financial reporting framework.”

As reference is required to the ‘relevant financial reporting framework’, it is appropriate that there is a standard wording for this. It would be unfortunate if EU auditors were unable to achieve agreement on the framework applied. Assuming that the form of that reference is generally accepted, there is no need for it to be “required”.

Our strong preference is that the reference in the basis of preparation is the same as that in the audit report. The audit report would use only the short reference, i.e., “... true and fair in accordance with accounting standards as adopted in the EU”. It may be appropriate for the reference to be expanded in the basis of preparation (see question 1).

For this reason we consider that the key is to determine a generally accepted reference to the framework that is used in the basis of preparation.

London Society of Chartered Accountants (LSCA) (UK)

Unless a standard phrase is mandated by law or auditing standards, it would not be possible to require a particular phrase to be used. It would be preferable for the audit report to reflect the phrasing used in the financial statements. If the phrasing used in the financial statements is not standardised because it reflects the circumstances of the company and the state of the endorsement process, then the audit report phrasing should follow.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

The wording of Point 1 (a) or the supplemented one as in Point 4.III should be used in audit reports.

PricewaterhouseCoopers

Yes. From the perspective of the markets, investors and stakeholders in general, it will be beneficial if similar reporting situations are described in the audit report in a consistent way. Therefore, while accepting that it is not possible to use a single standard wording for all the various reporting situations that may be encountered, it would be preferable if all audit reports use the same basic terminology to refer to the standards required by the Regulation ‘accounting standards adopted for use in the EU’.

We note that strong support for consistency in the wording of the audit opinion is given by International Standards on Auditing (ISAs). ISA 700 (revised) requires that, unless required by law or regulation to use different wording, the auditor’s opinion states whether the financial statements ‘give a true and fair view’ or ‘are presented fairly’ in accordance with the applicable financial reporting framework. Additionally, ISAs state that the applicable financial reporting framework is in most cases established by a standard setting organization that is authorized to promulgate standards in the jurisdiction in which the entity operates. Standards adopted for use in the EU would be regarded as an appropriate framework. It is difficult to conclude that inconsistent opinion wordings to describe the framework applicable to EU listed companies would be acceptable under ISAs.

Royal NIVRA (Netherlands)

From the perspective of the markets, investors and stakeholders in general, it will be beneficial if similar reporting situations are described in the audit report in a consistent way. Therefore, while accepting that it is not possible to use a single standard wording for all the variety of reporting situations that may be encountered, it would be preferable if all audit reports use the same basic terminology to refer to the standards required by the Regulation ‘accounting standards as adopted by the EU’.

We note that strong support for consistency in the wording of the audit opinion is given by International Standards on Auditing (ISAs). ISA 700 (revised) requires that, unless required by law or regulation to use different wording, the auditor’s opinion states whether the financial statements ‘give a true and fair view’ or ‘are presented fairly’ in accordance with the applicable financial reporting framework. Additionally, ISAs state that the applicable financial reporting framework is in most cases established by a standard setting organization that is authorized to promulgate standards in the jurisdiction in which the entity operates. Standards adopted for use in the EU would be regarded as an appropriate framework. It is difficult to conclude that inconsistent opinion wordings to describe the framework applicable to EU listed companies would be acceptable under ISAs.

Slovenian Institute of Auditors (Slovenia)

The framework should be described in the same way in the audit report and in the accounting policies.

UNICE

In our view the auditors' report should solely refer to the financial reporting framework with which the entity has stated compliance. Auditors are responsible for certifying that what is reported by entities is in conformity with regulations and the applicable set of standards. They are not responsible for adding anything to the financial communication prepared by entities.

Question 9

Should the reference to the financial reporting framework be the same in the notes to the accounts as in the audit opinion or are differences acceptable?

FEE Discussion Paper

Some maintain that, if a company uses a certain reference to the applicable financial reporting framework in its accounting policies, the audit report also needs to refer to the applicable financial reporting framework in the same way. Otherwise it would be very confusing for the reader of the financial statements.

Others believe that there is no need for the accounting policies describing the applicable financial reporting framework in the notes to the accounts and in the auditor's report to be the same. Under this approach, the notes to the accounts can include a longer-form discussion explaining the framework adopted, whereas the audit report is not the appropriate location for more than a brief identification of the framework. The audit report could, for example, include a cross reference to the note to the accounts where further detail is given. In these circumstances, the question arises as to whether audit reports should use a standard, generally accepted reference to the framework, regardless of the wording and further description in the accounting policies, or whether the audit report text can be tailored, at least in the introductory paragraph, so that it is consistent with the text used by the company.

Summary of the Responses

Most, if not all respondents, believe that the description needs to be the same. CESR-Fin underlines that this is true even where the financial statements affirm they comply with standards which exceed the legal requirements. However, CNCC/CSOEC believe that there should be no obligation. In practice, the auditor will not be able to impose on the companies the wording they use themselves in the audit report. Therefore, differences between the two references can be acceptable in certain circumstances. In such a case, the auditor should ensure that the differences relate only to the formulation used and that the references actually mean the same thing. The accounting policies can contain more details than the audit report.

Recommendation

There should be a standard reference, which should be the same in the accounting policies “International Financial Reporting Standards as adopted for use in the EU” or “IFRSs as adopted for use in the EU”. Subject to this, the auditors’ report should refer to the same financial reporting framework as that with which the company has stated compliance.

Detailed Responses**Auditing Practices Board (APB) (UK)**

Differences between the reference in the notes to the accounts and the auditor’s report would be unacceptable.

CESR-Fin

Yes – the framework referred to in the opinion should be the same as the one described in the notes to the financial statements; otherwise, great confusion is likely to be created to the users of the reports and financial statements. This is true even where the financial statements affirm they comply with standards (e.g. “full” IFRS) which exceed the legal requirements (“endorsed IFRS”).

Only breaches of compliance with the framework described by the issuer should result in differences, to be highlighted by way of an audit qualification and not by expressing a clean opinion referring to different standards. For instance, if an issuer states compliance with a standard that is applicable only by voluntary anticipation, and in fact does not properly apply it, this should – assuming the effects are material – result in a qualification by the auditor even if the financial statements comply with the endorsed IFRS applicable in a mandatory way.

Chamber of Auditors of the Czech Republic (KACR) (Czech Republic)

Yes, while the reference in the notes to the financial statements could be more detailed.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) (France)

The CNCC and the CSOEC believe that the same reference to the financial reporting framework both in the notes to the accounts and in the audit report should be a good thing. Nevertheless, we have to take into account the complexity of the reality and conclude that it is not reasonable to impose such an obligation. In practice the auditors will not be able to impose on the companies the wording they use themselves in the audit report. It is also unlikely the auditors will change the reference to the financial reporting framework to be mentioned in their audit report according to the wording used by the company because, as explained in the prior answer, we believe the reference to the financial reporting framework used by the auditors should be standardized (to avoid having to change the reference each year).

This is the reason why we think that differences between the two references can be acceptable in certain circumstances (e.g. in case of compliance with full IFRS). In such a case, the auditor should ensure that the differences relate only to the formulation used and that the references actually mean the same thing (refer to question 4).

The auditor should verify if the wording used by the company is appropriate, not misleading and refers explicitly to the endorsed IFRS, particularly if the notes mention a conformity with IFRS (e.g. description of the differences with the IFRS issued by IASB).

Deloitte Touche Thomatsu

See answer to question 8 above.

Den norske Revisorforening (Norway)

To minimise misunderstandings, differences should be avoided. The reference should therefore be the same in the notes as in the audit opinion. However, we believe it is necessary to use additional wording and describe the use of accounting policies more precisely in the notes. Descriptions are particularly important in cases where the EU carve-outs are applied.

Ernst & Young

As noted above, we believe that the reference to the financial reporting framework should be the same. A different reference to the financial reporting framework in the audit opinion than that in the notes to the financial statements will lead to confusion. In addition, the problem will be exacerbated if the auditor has to qualify his or her opinion for a departure from the financial reporting framework (which financial reporting framework does the qualification refer to?).

Estonian Board of Auditors (Estonia)

The reference should be the same.

Foreningen af Statsautoriserede Revisorer (FSR) (Denmark)

A difference in wording would not be desirable. However, it would not be necessary or desirable to repeat all the detailed explanations on the accounting framework already provided in the financial statements in the audit report.

Institut der Wirtschaftsprüfer (IDW) (Germany)

On principal it should be the same. This means that if a company refers to compliance with IFRS in addition to endorsed IFRS and specific national requirements, the auditor's report also needs to cover compliance with IFRS in addition.

However, as we have mentioned with regard to Question 1, the description of accounting policies under the alternatives (a) and (c) could be misleading. If therefore the EU Commission would give official guidance and reject these alternatives, the reference in the audit opinion should be different and follow the wording being included in the official guidance. Thus, if the financial statements are based on endorsed IFRS and differ from financial statements being in line with full IFRS the auditor should use the phrase "accounting standards as adopted by the EU".

Institut des Réviseurs d'Entreprises (IRE) (Belgium)

Again to avoid confusion for the users of the financial statements, we are of the opinion that the reference to the financial reporting framework in the notes to the accounts and in the audit opinion should be identical, except if the auditor disagrees.

Institute of Chartered Accountants of Scotland (ICAS) (UK)

The financial reporting framework should be consistently described.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

Yes, as noted in question 8 above, a general accepted phrase is preferable to avoid confusion.

KPMG

Yes, as per responses to questions 7 and 8 above.

London Society of Chartered Accountants (LSCA) (UK)

In general it would be preferable if the references were the same, although there seems no mechanism to ensure that this is the case. We note that a standardised phrase in audit reports is likely to result in the same standardised phrase in financial statements.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

It is preferable that the reference to the financial reporting framework be the same in the notes to the accounts as in the audit opinion.

If a company did not use a generally accepted phrase, an explanation of differences depends on whether it is justified in essence – then there will be a difference in formulating audit reports with indication from which IFRS and why the company departed, or whether it results from the company's individualism – then a generally accepted phrase should be used in audit reports and a reason for differences should be indicated in an explanation to audit reports.

PricewaterhouseCoopers

The basic reference to the accounting framework used in both the financial statements and the audit report should be the same. Of course, the basis of preparation note in the financial statements can and should provide more explanation of the framework and the standards applied than one would expect to find in the audit report.

Royal NIVRA (Netherlands)

The basic reference to the accounting framework used in both the financial statements and the audit report should be the same. Of course, the basis of preparation note in the financial statements can and should provide more explanation of the framework and the standards applied than one would expect to find in the audit report.

UNICE

For the reasons indicated above, we believe that any difference in the statements of compliance in the notes and in the auditors' report is unacceptable.

Question 10

If your answers to 8 and 9 lead to a conflict (e.g. a standard phrase that has not been applied in the notes to the accounts), which of the two is more important?

Summary of the Responses

Most, if not all of the respondents did regard this question as not applicable or relevant. CNCC/CSOEC believe it is necessary that the wording used in the audit report to refer to the financial reporting framework applied in the accounts will be the same any year. If differences exist between the reference used in the audit report and the one mentioned in the notes, the auditor should analyse if the differences are actually just a question of vocabulary without repercussions, or are related to the reference made also to another financial reporting framework which the company is also compliant with (in case of compliance with full IFRS) or if the wording used by the company in its notes is misleading for the users. In the latter case the auditor should consider whether he has to modify his report.

Recommendation

Issue not considered as relevant, no further reference needed.

Detailed Responses**Auditing Practices Board (APB) (UK)**

See response to question 9.

CESR-Fin

Not applicable since responses to 8 and 9 do not create conflicts.

Compagnie Nationale des Commissaires aux Comptes (CNCC) – Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) (France)

As mentioned above (question 9) the CNCC and the CSOEC believe it is necessary that the wording used in the audit report to refer to the financial reporting framework applied in the accounts will be the same any year. If differences exist between the reference used in the audit report and the one mentioned in the notes, the auditor should analyse if the differences are actually just a question of vocabulary without repercussions, or are related to the reference made also to another financial reporting framework which the company is also compliant with (in case of compliance with full IFRS) or if the wording used by the company in its notes is misleading for the users. In the latter case the auditor should consider whether he has to modify his report.

Deloitte Touche Thomatsu

There is no conflict in our answers to questions 8 and 9.

Den norske Revisorforening (Norway)

We believe it is more important to have a precise description and explanation in the notes than in the audit report. The wording in the audit report must only be precise enough for the reader to understand whether the financial statements are in accordance with the relevant financial reporting framework. How the relevant financial reporting framework is applied in detail should be explained in the notes.

Estonian Board of Auditors (Estonia)

We wouldn't say it should definitely lead to a conflict. Good generally accepted standard phrases should be developed, which thereafter should be communicated to clients to be used as a reference to financial reporting frameworks.

Institut der Wirtschaftsprüfer (IDW) (Germany)

A generally accepted phrase seems more important to us.

Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)

N/A

KPMG

If the appropriate description of the relevant framework has not been applied in the notes to the financial statements then:

- The reference to the relevant accounting framework in the audit report must be based on the generally accepted wording.
- The auditor should consider the implications for its audit opinion. An entity is required by EU-adopted IAS 1.103(a) to present information about the basis of preparation of the financial statements. Failure to adequately provide such a description may require qualification of the audit opinion.

London Society of Chartered Accountants (LSCA) (UK)

Appropriate tailoring to the circumstances and discussions between auditors and their clients should ensure there is no conflict.

National Chamber of Statutory Auditors of Poland (KIBR) (Poland)

It should not lead to conflicts.

PricewaterhouseCoopers

There should not be any contradiction or conflict between the reference to the accounting framework in the auditor's report and the description included in the basis of preparation note. The auditor should ordinarily be expected to refer in his or her report to the same accounting framework that management describes in notes to the financial statements.

Royal NIVRA (Netherlands)

There should not be any contradiction or conflict between the reference to the accounting framework in the auditor's report and the description included in the basis of preparation note. The auditor should ordinarily be expected to refer in his or her report to the same accounting framework that management describes in notes to the financial statements.

APPENDIX 1: FEE DISCUSSION PAPER ON REPORTING ISSUES RELATED TO ENDORSED IFRS AND POSSIBLE IMPLICATIONS FOR THE AUDIT REPORT

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1. INTRODUCTION

The IAS Regulation (EC No. 1606/2002) requires European listed companies to prepare consolidated financial statements from 2005 (or 2007 in some situations) 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 as straightforward as might be assumed. Europe has moved to global standards and this should be reflected in descriptions of the EU financial reporting framework.

The European Commission supports global accounting standards and ideally the only differences between IFRS and “endorsed IFRS” should be timing differences in the endorsement of standards after the effective date of the standard. The IAS Regulation states in Recital 7: “*IFRS should wherever possible and provided that they ensure a high degree of transparency and comparability for financial reporting in the Community, be made obligatory for use by all publicly traded Community companies*”. FEE published in June 2004 a position paper “Call for Global Standards: IFRS”. FEE is strongly committed to high quality, global financial reporting standards that are neutral and principles-based.

The potential delay between the effective date of an IFRS or IFRIC interpretation and its endorsement in Europe means that “endorsed IFRS” may deviate from “IFRS” (see also Chapter 4.1 below). Moreover, the endorsement of IAS 39 in November 2004 with two carve outs creates a situation where “endorsed IFRS” are different from “IFRS” to the extent the carve outs are applied by a particular company (see Appendix 1 for a more detailed analysis). The reporting implications in relation to both the accounting policies and the audit report need to be considered, in particular how the financial reporting framework should be referred to in a way that is transparent, technically sound and clear to users of the financial statements.

Endorsed IFRS are part of EU regulations. By being part of the law, endorsed IFRS have a different status and authority from IFRS, being the standards of a private body. This difference also plays an important role in the enforcement of the standards.

Companies will in most cases be able to apply full IFRS if they do not choose to use the carve out and adopt new standards in accordance with the transitional arrangements specified in the IFRS, rather than waiting for endorsement. It may be difficult for preparers whose accounts comply with EU requirements but not with all IFRS to make a clear and unambiguous reference to IFRS. Some regard this as a minor issue. If a company has prepared its accounts under endorsed IFRS then both the management and investors will expect it to be able to refer to IFRS. However, there is a risk that investors will be misled, particularly when the accounts of EU companies are used outside the EU where the technicalities of endorsement may not be well understood. It is this risk that is addressed in this paper.

The following questions need to be considered:

- How should the financial reporting framework be referred to in the accounting policies in the notes to the financial statements?
- When the company also complies with full IFRS, should it refer to this fact?
- How should the framework be described in the audit report? Can there be a difference in description compared to the reference to the financial reporting framework in the accounting policies?
- Would the reference to the European financial reporting framework have a clear meaning outside the EU?

In order to meet the objective of transparency for users of financial statements, further guidance is needed for both the accounting policies and the audit report. The European Commission has provided guidance in its 2003 paper concerning certain articles of the IAS Regulation and Fourth and Seventh Directives and the 'Frequently Asked Questions' of November 2004. The IAASB is the appropriate body to issue global audit guidance. It is less clear which body should issue guidance for preparers as far as the accounting policies are concerned.

There is no requirement for a preparer that has applied endorsed IFRS to explain how, if at all, its accounting policies differ from full IFRS (although the accounting policies applied need to be specified). This is a key issue of transparency which will be particularly relevant if the financial statements of European companies are to be used outside the EU.

A further issue is the application of IFRS 1: the relevant Regulation (EC No. 2086/2004) indicates in Article 1.2 that using the carved-out version of IAS 39 does not prevent companies in Europe from using IFRS 1. Other issues addressed in this Discussion Paper include the use of other IFRS not yet adopted for use in Europe; whether there are particular problems in relation to the individual accounts; SEC filing requirements; and interim reporting.

In addressing the various issues at stake and demonstrating their complexity, FEE seeks primarily to stimulate debate and questions in relation to these issues at European and global level. Whilst the Discussion Paper may provide some form of interim guidance, by collecting views of respondents FEE seeks to assess whether a consensus can be achieved. Some form of European guidance may therefore follow the analysis of the comments and responses to the Discussion Paper. The analysis will also be passed to the IAASB for the Board to consider whether international guidance for auditors is appropriate.

Comments on the Discussion Paper and responses to the questions raised are sought by **31 May 2005** and should be submitted by email to Saskia Slomp of the FEE Secretariat: saskia.slomp@fee.be.

2. ACCOUNTING POLICIES

Financial statements need to refer to the applicable financial reporting framework. The IAS Regulation requires EU listed companies to use international accounting standards for their 2005 consolidated financial statements (for some companies only from 2007). Article 4 states:

*“For each financial year starting on or after 1 January 2005, companies governed by the law of a Member State shall prepare their consolidated accounts **in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2)** if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State ...” [Emphasis added]*

“Article 6(2) sets out the legislative mechanism (and criteria) under which an international accounting standard is adopted.”

“International accounting standards” are defined in Article 2 of the IAS Regulation as *“International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB).”*

It is interesting that the term “international accounting standards” is given lower case letters and not used as a proper noun. Some suggest it is drafted in this way in the IAS Regulation in order not to provide a direct reference to IFRS but to use a term that is qualified by the need for EU endorsement.

IFRS require disclosures regarding accounting policies. IAS 1.8* requires the notes to include a summary of significant accounting policies. IAS 1.14* requires a statement of compliance with IFRS, and IAS 8.30* requires disclosures about new standards and interpretations issued but not yet effective that have not yet been applied, including reasonable information on the possible impact of the new standard or interpretation.

The European Commission has addressed the issue of how the financial reporting framework should be referred to in the accounting policies on two occasions.

The Commission paper of November 2003, ‘Comments concerning certain articles of the IAS Regulation and Fourth and Seventh Directive’, states:

“The legal requirement in the IAS Regulation is for the accounts to be prepared in accordance with adopted IASs i.e. IASs endorsed by the EU. It is therefore appropriate that this should be made clear in the accounting policies. Following the change of name from International Accounting Standards to International Financial Reporting Standards and consistent with the guidance contained in the ‘Preface to Statements of International Accounting Standards’, such a statement should refer to the financial statements having been prepared ‘... in accordance with all International Financial Reporting Standards adopted for use in the European Union’. However, if the application of adopted IFRSs results in financial statements that also comply with all IFRSs, because no standards have been rejected and all standards issued by the IASB have been endorsed, then it would not be necessary to state “adopted for use in the European Union”, but simply ‘... in accordance with all International Financial Reporting Standards’.”

The November 2003 paper, prepared by the EC services and approved by the ARC, did not foresee the situation of carve outs. Following the announcement of the IAS 39 carve out, the European Commission issued ‘Frequently Asked Questions’ (also approved by the ARC) on 19 November 2004 and included the following material on accounting policies:

* For full quotation see Appendix 2.

“What should a company state in its accounting policies, when it applies the carved-out version of IAS 39? Does the company have to refer to IFRS or to IFRS as adopted by the European Commission?”

Companies that apply the carved out version of IAS 39 should refer in their accounting policies to IFRS “as adopted by the EU”. They should accordingly explain their accounting policies in their financial statements. This principle was already explained in the Commission’s “Comments concerning certain Articles of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and the Fourth Council Directive 78/660/EEC of 25 July 1978 and the Seventh Council Directive 83/349/EEC of 13 June 1983 on accounting” as released in November 2003.

Accordingly, the auditor should refer in its auditor’s report to the basis on which the accounts have been prepared and is hence in a position to give an unqualified opinion.”

The preferred European Commission wording has changed from “in accordance with all IFRS adopted for use in the EU” to IFRS “as adopted by the EU”.

Some believe that the reference to IFRS is inappropriate, given the text of IAS 1.14: “Financial statements shall not be described as complying with IFRS unless they comply with all requirements of IFRS”¹. However, others argue that IFRS “as adopted by the EU” is not “an explicit and unreserved statement of such compliance” and so is not prevented by IAS 1.14, since the reference to IFRS is qualified.

Further evidence of the first interpretation of the text of IAS 1.14 can be found in IFRS 1² on first time adoption, where it is stated that “financial statements under IFRS are an entity’s first IFRS financial statements if, for example, the entity presented its most recent financial statements containing an explicit statement of compliance with some, but not all, IFRSs”.

IAS 1 was developed before the EC endorsement mechanism was in place and IFRS 1 was developed at a time when the EC endorsement mechanism had not yet resulted in carve outs. The IASB has so far not commented on whether IAS 1.14 could be interpreted as covering IFRS endorsed by the EC.

The preferred wording for the accounting policies to describe compliance with IFRS as adopted by the EU therefore needs to be discussed. Three possibilities have been suggested for the reference to the EU legislative framework:

- a. In accordance with IFRS as adopted by the EU (the European Commission’s suggestion).
- b. In accordance with accounting standards as adopted by the EU.
- c. In accordance with international accounting standards as adopted by the EU.

FEE has noted that much of this debate has arisen from the need to find a short form of words to describe the framework. As an alternative, we suggest a fuller wording as option (d) based on a reference to the standards rather than to the framework, as follows:

- d. In accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company.

We discuss each of these possibilities below.

¹ For full quotation see Appendix 2.

² For full quotation see Appendix 2.

a) In accordance with IFRS as adopted by the EU

This is the wording provided by the European Commission. Some regard the recommendation of the Commission as the only possible wording for the accounting policies, given that it provides the Commission's own interpretation. It is also the wording that is most familiar to users of accounts having been under discussion, and in limited use, for longer than the alternatives. Those who take a high level view of this issue, which is likely to include many preparers and users of accounts, would expect a form of words that refers to IFRS.

However, even if one accepts the argument set out above that a qualified reference to IFRS is not prohibited by IAS 1.14, the construction has two further shortcomings:

- Some may be misled by the ambiguity of the phrase “IFRS as adopted by the EU”. It can be read either as “those IFRSs which have been adopted by the EU”, which would be correct, or as “IFRS, which has been adopted by the EU”, which would not. If this is not clear in English, we also foresee translation problems in other languages.
- Internationally, the term “IFRS as adopted by” a particular authority could mean anything from a small number of standards or statements to the whole body of IFRS. A country that chose to adopt only a part of IFRS may cite the EU approach as a precedent for use of the term when it would be very misleading. How different from IFRS could “IFRS as adopted by” in a country be before it became misleading?

b) In accordance with accounting standards as adopted by the EU

This reference would have the technical advantage that it avoids referring to IFRS, and thereby does not enter into the debate as to whether “IFRS” can be used given the requirements of IAS 1.14 and IFRS 1, as discussed above. However, as also discussed above, there are many users of accounts who would not understand the omission of a reference to “IFRS”. Moreover, the reference is close to the wording suggested by the Commission of “as adopted by the EU”. However, the wording could potentially be interpreted as referring to the Accounting Directives rather than to IFRS, and might be misleading from this point of view.

Many believe that the phrase “accounting standards as adopted by the EU” would only be well understood by a specialist readership and that a more detailed explanation needs to be given in the notes to the accounts. This highlights the importance of a detailed description of the accounting policies and framework as a means of providing clarity to the users of the financial statements. One other disadvantage is that the reference does not use the term “international”.

c) In accordance with international accounting standards as adopted by the EU

This reference would be even closer to the text of the IAS Regulation and has in addition all the advantages referred to under (b) “accounting standards as adopted by the EU”. The question of a breach of IAS 1.14 does not arise since it is not using the term “IFRS”. However, some might simply think it uses an out of date term for IFRS, albeit with lower case letters, and those who believe “international accounting standards” and IFRS are the same will suffer the ambiguity described in relation to (a). Some may also understand “international accounting standards” to refer to international accounting standards other than IFRS, such as US GAAP.

d) In accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company

An alternative to the earlier options would be to use a longer form of wording, by making explicit reference to all applicable standards rather than to the framework as a whole. In this construction the word “*all*” is added to give greater weight to the expression and to provide assurance to the reader that all adopted standards have been considered. The restriction to applicable standards is necessary because some adopted standards may not apply to a company’s business. This form of wording does not suffer the shortcomings of the options above. It can be translated into many languages with minimal risk of misunderstanding. The main shortcoming is that it is a longer form of words which loses the simplicity of the other alternatives so that users without a financial reporting background may not understand the significance of the terms used.

If a longer form of words is considered to be the best solution in principle, it should be noted that there are further alternatives to consider. For example, the applicable accounting framework could be referred to by a precise reference to the IAS Regulation and related regulations. However, the more technically correct the phrase, the more difficult it becomes to communicate to the non-specialist reader.

Issues to consider

- 1. How should companies refer to the financial reporting framework used in preparation of their financial statements? Do you favour (a) “in accordance with IFRS as adopted by the EU”, (b) “in accordance with accounting standards as adopted by the EU” or (c) “in accordance with international accounting standards as adopted by the EU”? Alternatively would you favour the longer form of words (d) “in accordance with all those International Financial Reporting Standards that have been adopted by the EU and that apply to the company”?**
- 2. Which would be the appropriate body in Europe or internationally to issue guidance on how the financial reporting framework should be referred to in the accounting policies in the notes to the accounts?**

For the remaining part of this Discussion Paper, we use the term “in accordance with endorsed IFRS”, as a convenient term which does not imply any preference for options a), b), c), or d).

Disclosure of departure from full IFRS

For new standards and interpretations issued but not yet effective and not yet applied, IAS 8.30 requires the possible impact to be disclosed. Companies might also be expected to disclose the difference between endorsed IFRS and full IFRS. There is however no requirement in this respect. Many see it as a key issue of transparency that a preparer that has applied endorsed IFRS explains how, if applicable, its accounting policies differ from full IFRS. Such an explanation could be in narrative form if the relevant data was not available to permit an explanation in numerical form. Some also believe this disclosure to be particularly significant when a preparer has chosen not to apply full IFRS as a matter of preference. They believe the reasons for this choice should be clearly disclosed.

Explanation of the difference might be particularly relevant if the financial statements of EU companies are to be used outside the EU. A number of European securities regulators have emphasised the importance of users understanding departures from full IFRS.

Issue to consider

3. Should a requirement for preparers to provide an explanation as to how their policies depart from full IFRS be introduced? If so, by whom?

Companies in compliance with full IFRS and endorsed IFRS

When companies are in a situation where they comply with full IFRS³ as well as with those standards as adopted in the EU, to what extent are they allowed to make clear that they are in full compliance with all IFRS? In this situation, the financial reporting framework could be referred to as follows:

- In accordance with endorsed IFRS (whatever would be preferred solution of options a), b), c), or d)).
- In accordance with IFRS
- In accordance with IFRS and (or “including”) endorsed IFRS.

EU listed companies are required to prepare their financial statements in accordance with endorsed IFRS and should therefore at a minimum be expected to confirm compliance with the EU legislative framework. The question is whether it is possible to refer only to “in accordance with IFRS” without mentioning adoption in the EU, in the case of full compliance with all IFRS. The Commission’s November 2003 paper seems to suggest that this is possible, but states “and all standards issued by the IASB have been endorsed”, which could be interpreted as a condition. In the ‘Frequently Asked Questions’ document of November 2004, this possibility is no longer mentioned. Companies are likely to prefer to refer to “in accordance with IFRS” when their financial statements are used outside the EU, particularly to meet market expectations or requirements of the SEC.

However, full compliance may occur in one year but not in subsequent years due to new types of transaction or the timing of adoption of new IFRS. On the latter point, the IASB could help by allowing sufficient time for endorsement processes when setting the effective dates of new standards and interpretations. Often companies will be able to apply full IFRS⁴ by early adoption of IFRS that are not yet endorsed, as long as there is no conflict with the Accounting Directives or existing endorsed IFRS (see Chapter 4.1).

Reference to IFRS only may not provide a clear enough statement that the obligation of compliance with the legislative financial reporting framework has been fulfilled. If a simple reference to IFRS is not possible and companies have to refer to “in accordance with endorsed IFRS”, they may wish in addition to state that their financial statements are “in accordance with IFRS”. Some argue that reference to two sets of standards would be very confusing to the reader: they are of the opinion it is sufficient that the notes to the financial statements explain the accounting policies used. An alternative approach might be to use a longer form of wording referring to the individual standards and making clear that these include those standards that have been adopted by the EU.

³ As described under IAS 1.14 to mean compliance with all the requirements of IFRS.

⁴ Full IFRS usually includes endorsed IFRS, unless there are such differences between a new (not yet endorsed) standard and an existing endorsed standard that one cannot apply both. This situation is not further examined in this paper.

Companies should consider that, even if they are currently in compliance with endorsed IFRS and IFRS, it is possible that concurrent compliance may not be possible in the future (although early adoption of new standards and interpretations will often be possible). Companies should consider the impact of reporting compliance with full IFRS in one year and the risk of then being obliged to drop that reference in a later year. It may be better either to refer only to endorsed IFRS or to be explicit that compliance with full IFRS only arises because of the company's particular circumstances in that year.

Issues to consider

- 4. If companies are in full compliance with IFRS should companies be able to refer to the financial reporting framework:**
 - **I. In accordance with endorsed IFRS**
 - **II. In accordance with IFRS**
 - **III. In accordance with IFRS and (or “including”) endorsed IFRS?**
- 5. If III is opted for, should companies provide an explanation as to why they are in compliance with both?**
- 6. If a company is in full compliance with IFRS, should it be obliged to say so when referring to the applicable framework?**
- 7. What is the preferred form of words in the accounting policies if compliance with full IFRS cannot necessarily be maintained in later years?**

The discussion above relates to situations where differences between full and endorsed IFRS are not relevant to the company, or where the company is able to adopt early, unendorsed standards, parts of standards or IFRIC interpretations⁵ that are not in conflict with endorsed IFRS or the Accounting Directives. Situations where companies intend to adopt parts of IFRS or IFRIC interpretations that are not endorsed, and where adoption conflicts with the Accounting Directives, will generally arise in specialist areas and need to be considered on a case-by-case basis. The first such example is the use of the IAS 39 fair value option, which would be in conflict with the Accounting Directives. In order that this paper should focus on the general case rather than on such a specialised issue, we have treated such situations as outside its scope.

⁵ See Appendix 1.

3. AUDIT REPORTS AND OPINIONS

Both Article 51.a.1⁶ of the Fourth Directive and ISA 700 (Revised)⁷ require references in the audit report to the applicable financial reporting framework. In addition, where the financial reporting framework (e.g. IFRS) is supplemented - but not contradicted - by further regulatory requirements, ISA 700 (Revised) requires reference to both the framework and the requirements. Endorsed IFRS are the reporting framework legally applicable in the EU as discussed above.

International Auditing Practice Statement 1014 “Reporting by Auditors on Compliance with IFRS”⁸ addresses financial statements prepared in accordance with IFRS and a national financial reporting framework. It requires the auditor to consider compliance with each framework individually and, in the report, to refer to both frameworks. If the company refers to two frameworks but has complied with only one (with for example a reconciliation to the second framework), the audit report would need to be qualified over non-compliance with the second framework.

Applying these requirements to the subject of this discussion, it is clear that the audit report should refer to the same frameworks as the company’s accounting policies, assuming of course that this reference is not misleading. Where the only framework applied is endorsed IFRS, this is the required reference. Where the financial statements comply both with IFRS and with endorsed IFRS, the report should refer to both frameworks. However, if the company uses an ambiguous form of words that suggests compliance with both frameworks when this is not the case, the auditor will need to include a qualification relating to the non-compliance.

The wording used in the accounting policies may supplement the reference to the framework with more detail, for instance in describing the use of the carve outs and as yet unendorsed standards. The audit report may use simplified, shorter wording for the reference to the financial reporting framework and, although this does not need to be identical, it must be clear to the reader that the accounts have been prepared and audited under the same financial reporting framework.

It should also be noted that national law in some Member States may also impose additional accounting requirements. For example, in some countries the auditors also report on the parent company accounts, which may be prepared under national laws and accounting standards. In these circumstances, the auditor will be faced with the need to consider compliance with up to three frameworks and to report on each.

Companies and their auditors may instead consider it more straightforward to have separate audit reports on each of the financial reporting frameworks under which they report - for instance endorsed IFRS or IFRS and US GAAP for consolidated accounts and local GAAP for the individual accounts.

Some maintain that, if a company uses a certain reference to the applicable financial reporting framework in its accounting policies, the audit report also needs to refer to the applicable financial reporting framework in the same way. Otherwise it would be very confusing for the reader of the financial statements.

Others believe that there is no need for the accounting policies describing the applicable financial reporting framework in the notes to the accounts and in the auditor’s report to be the same. Under this approach, the notes to the accounts can include a longer-form discussion explaining the framework

⁶ As introduced by the Modernisation Directive (2003/51/EC).

⁷ For full quotation see Appendix 2.

⁸ For full quotation see Appendix 2.

adopted, whereas the audit report is not the appropriate location for more than a brief identification of the framework. The audit report could, for example, include a cross reference to the note to the accounts where further detail is given. In these circumstances, the question arises as to whether audit reports should use a standard, generally accepted reference to the framework, regardless of the wording and further description in the accounting policies, or whether the audit report text can be tailored, at least in the introductory paragraph, so that it is consistent with the text used by the company.

Issues to consider

- 8. Should audit reports be required to use a standard, generally accepted phrase to refer to the framework applied in the EU?**
- 9. Should the reference to the financial reporting framework be the same in the notes to the accounts as in the audit opinion or are differences acceptable?**
- 10. If your answers to 8 and 9 lead to a conflict (e.g. a standard phrase that has not been applied in the notes to the accounts), which of the two is more important?**

4. OTHER ISSUES

4.1. *Other IFRS not (yet) adopted for use in Europe*

There may be a delay between the effective date of an IFRS and the adoption of the IFRS in Europe (approximately 9 months). In addition, there may be future cases where an IFRS or an IFRIC interpretation is not endorsed. In those cases where there is a conflict with an endorsed standard or with the Accounting Directives, it is impossible to use a standard in advance of its adoption for use in Europe or to use a non-endorsed standard or a non-endorsed interpretation.

The November 2003 EC paper states in this respect (2.1.3, 'IASs not yet endorsed and IASs rejected by the EU'):

“Where it applies, the IAS Regulation requires that accounts be prepared in accordance with endorsed IASs i.e. IASs adopted by the EU further to the IAS Regulation. Accordingly, if a standard is not endorsed it is not required or in certain instances not permitted to be applied by a company preparing its accounts further to the IAS Regulation.

To the extent that a standard which has not yet been endorsed by the EU is not inconsistent with endorsed standards and is consistent with the conditions set out in IAS 1 paragraph 22 it may be used as guidance.”

The specific situations that can occur in relation to the reference in the accounting policies are described above in Chapter 2.

4.2. *IFRS 1*

Regulation No. 2086/2004 states in Article 1.2:

“Companies shall be regarded as “first time adopters” in accordance with paragraph 1. Reference in IFRS 1 to IAS/IFRS shall be construed as references to IAS/IFRS as adopted by the Commission on the basis of Regulation (EC) No 1606/2002.”

In the 'Frequently Asked Questions' of November 2004 the issue is also addressed, as follows:

“Can first time adopters who apply IAS 39 as endorsed in the European Union take advantage of the exemptions laid down in IFRS 1?”

Yes, companies that prepare for the first time their financial statements in accordance with international financial reporting standards (IFRS) and apply IAS 39 in the version annexed to this Regulation should be considered as “first time adopters” in accordance with IFRS 1. The purpose of IFRS 1 is that costs for the transition towards full IAS/IFRS should not outweigh the benefits for the users of financial statements. This reasoning continues to apply in the case of moving towards full application of IAS/IFRS as endorsed under the IAS Regulation.”

“Accordingly, references in IFRS 1 to IAS/IFRS, which was adopted by Commission Regulation (EC) No 707/2004, have to be understood as references to IAS/IFRS as adopted on the basis of Regulation (EC) No 1606/2002. This has been explicitly laid down in Article 1 (2) of the Regulation on IAS 39 – rather than only in the preamble to the Regulation – in order to give legal clarity to the financial market.”

IFRS 1 applies when an entity adopts IFRS for the first time by an explicit and unreserved statement of compliance with IFRS. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first financial statements.

So within Europe, due to the above-mentioned Regulation, IFRS 1 shall be used for first time appliers using the carved-out IAS 39.

The question remains as to whether or not IFRS 1 can also be used according to the requirements of stock exchanges and stock exchange supervisors outside Europe. Under the terms of IFRS 1, it can be used only if all IFRS are complied with. If a company uses the carve out of certain hedge accounting provisions, it is not applying IAS 39 in full and it cannot claim that all IFRS have been complied with. Hence IFRS 1 could not be used in the absence of the Regulation. This issue should be covered in discussions between the EC and the IASB/SEC.

Some also argue that IFRS 1 can be applied twice, once within the EU legal financial framework under the above-mentioned Regulation and once outside the EU framework when there is subsequently full compliance with all IFRS. However, this will cause problems with the transitional provisions, notably the retroactive application of certain standards such as IAS 39 will be difficult - if not impossible - to restore. In addition it may be very confusing for the reader. Others regard this issue as a purely theoretical one.

The UK accounting standard setter, the ASB, refers in its press release of 11 October 2004 to another potential problem when the carve-out IAS 39 may eventually be brought in line with a revised version of IAS 39: What should be done with the hedging requirements not applied so far in relation to comparative figures?

4.3. Individual and Consolidated Accounts

The IAS Regulation only requires the use of endorsed IFRS for certain consolidated accounts. There is a Member State option to extend the scope of the requirement to other companies or to allow the use of endorsed IFRS for other companies for both consolidated and individual accounts. No different situation exists here, and again the situations identified in Chapter 2 apply. A clear identification of the financial reporting framework is necessary. If the use of IFRS is allowed for the individual accounts, there is no need to refer to the Directives or national GAAP because the IAS Regulation “overrules” the Directives.

In many countries, separate audit opinions/reports are provided on the individual and consolidated accounts. The introduction to IFRS will in this respect not give rise to new reporting issues.

4.4. SEC Filing Requirements

Since companies are allowed to use IAS 39 unamended (but without the fair value option), the EC considers that convergence with US GAAP and SEC requirements is not relevant: compliance with full IFRS is a choice of the company. As application of full IFRS is possible, there are no SEC implications because companies that apply IAS 39 without reference to the carve outs may state that they are in compliance with full IFRS (and do not have to refer only to accounts prepared “in accordance with endorsed IFRS”).

For companies that choose to use the carved out version of IAS 39 and that wish to qualify for the proposed SEC exemption allowing two years' comparatives instead of the usual three, there is a possibility that these companies will have to prepare separate full IFRS accounts.

In the November 2004 'Frequently Asked Questions', a specific question is included addressing the issue:

“How does the Commission respond to concerns that the US SEC would not accept IAS financial statements as a basis for reconciliation to US GAAP in cases where a company applies IAS 39 as adopted by the European Commission?”

For the time being, European companies applying IFRS have to reconcile to US-GAAP whether they use full IFRS or IFRS as adopted by the European Commission. Since there is no full fair value option in US GAAP, there can be no grounds for asking for additional reconciliation on this issue from listed companies that must apply IFRS from 1 January 2005.

On hedge accounting, a company listed in the US may elect to apply the carved out provisions since there are no contradicting rules in the Accounting Directives. In any event, since the hedging provisions under IAS 39 are substantially different from those under US GAAP, companies would normally have to reconcile the effects of hedge accounting – whichever course is followed.

For this reason, the Commission considers that first time adopters applying IFRS as adopted by the European Commission should be eligible to benefit from the new SEC proposal that would permit foreign private users for their first year of reporting under IFRS to file two years rather than three years of statements of income, changes in shareholders' equity and cash flows prepared in accordance with IFRS, with appropriate related disclosure.”

The EC would need to negotiate with the SEC the formal recognition of this position.

4.5. Interim Reporting

In December 2003, CESR recommended in its publication on the application of IFRS in 2005, “Recommendation for Additional Guidance Regarding the Transition to IFRS”, that from 1 January 2005 any published interim financial statements should be prepared on the basis of endorsed IAS/IFRS. CESR states:

“Where the issuer is required to, or chooses to, present half-yearly and quarterly financial information, it is preferred that such information is prepared on the basis of the accounting framework to be applied at year end, i.e. the IAS/IFRS framework. In this approach, the issuer will then have the possibility to adopt one of the following alternative methods for the presentation of the interim information:

- *Either to fully comply with IAS 34 requirements⁹*
- *Or to present interim financial data as required by the national reporting rules and prepared on the basis of IAS/IFRS recognition and measurement principles which will be applicable at year end.”*

The Transparency Directive (2004/109/EC) will need to be implemented by Member States by 20 January 2007. The Directive addresses the requirements for half-yearly financial reports and an interim (quarterly) management statement. Once implemented, listed companies preparing consolidated accounts will need to prepare their half-yearly financial reports on the basis of IAS 34.

⁹ It is understood that IAS 34 “Interim Financial Reporting” is an optional standard. If it is applied, the company has to publish either a full set of financial statements (as complete as annual financial statements) or condensed financial statements under the conditions of the paras 9 and 10 of IAS 34.

The same issues as far as the accounting policies and review report arise as for the annual financial statements. As an alternative, reference might be made to IAS 34 instead of to “in accordance with endorsed IFRS”. This may even be more appropriate since IAS 34 sets out how IFRS are to be applied in the context of interim financial statements. In many countries the review report is not mandatory and only the issue of referring to the financial reporting framework arises.

APPENDIX 1 – ENDORSEMENT OF IAS 39 WITH TWO CARVE-OUTS

On 19 November 2004 the European Commission adopted a regulation endorsing IAS 39 “Financial Instruments: Recognition and Measurement” with the exception of certain provisions on the use of the full fair value option and or hedge accounting (the so called “carve outs”). The Commission also adopted a political declaration stating that it expects the IASB to bring forward the necessary amendments to the current full fair value option by December 2004 and to the provisions on hedge accounting by September 2005. Use of IAS 39, apart from the ‘carved out’ sections, will be legally binding for all listed companies in the EU from 1 January 2005.

The European Commission press release of 19 November 2004 describes the two carve outs:

- The carve out of the full fair value option is based on observations from the European Central Bank and prudential supervisors represented in the Basel Committee of banking supervisors. Article 42.a of the Fourth Company Law Directive (Directive 78/660/EEC) does not allow full fair valuation of all liabilities; the main category of liabilities excluded from fair valuation is companies fair valuing their own debt. Companies are therefore not allowed to use the full fair value option. Neither can Member States require mandatory use of the carved out fair value provisions.
- The carve out of certain hedge accounting provisions reflects criticism by the majority of European banks, which argued that IAS 39 in its current form would force them into disproportionate and costly changes both to their asset/liability management and to their accounting systems, and would produce unwarranted volatility. However, because there is no existing EU law on this issue, individual companies may apply the ‘carved out’ hedge accounting provisions. A Member State may also make these provisions mandatory under its national rules.

This means that as far as the carve out of certain hedge accounting provisions is concerned, a company is always allowed to use the unamended paragraphs of IAS 39, since IAS 39 is not rejected by reference to the European public good or true and fair view. Member States could go as far as mandating the use of these unamended paragraphs of IAS 39. However companies are not allowed to use the full fair value option since there is a conflict with Article. 42.a of the Fourth Directive (which should have been implemented by Member States by 1 January 2004).

Since the full fair value option is only an option in IAS 39 (and still subject to amendment, since the IASB has not yet decided on the exact text), companies have the option of complying fully with IAS 39 and thus with IFRS. The compromise solution as discussed at the IASB Round Table on the fair value option of 16 March 2005 has been well received. Therefore this carve out is expected to have only a very limited life.

Three situations can be distinguished:

- a) Companies that comply with IAS 39 (not using the carve out of certain hedge accounting provisions and not using full fair value option provisions, or for which these provisions are not applicable) and thus with IFRS: most companies will continue to prepare IFRS financial statements unaffected by the carve-out paragraphs.
- b) Companies that decide to use the carve out of certain hedge accounting provisions, i.e. “in accordance with endorsed IFRS”: they *cannot* claim to be in full compliance with IFRS.

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- c) Companies that comply with IAS 39 *and* use the full fair value option provisions: these companies are in compliance with IFRS but their accounts are not “in accordance with endorsed IFRS” (for market information purposes only – since the situation is not allowed within the EU for statutory accounts).

This topic is addressed in the main part of this Discussion Paper.

A further instance of no-endorsement may occur in the case of IFRIC 3 ‘Emission Rights’. EFRAG published draft negative endorsement advice for public consultation on 22 February 2005. The same issue arises here as to what extent companies that wish to can apply IFRIC 3, as well as the related issues of compliance with full IFRS.

APPENDIX 2 – FULL QUOTATIONS OF RELEVANT ACCOUNTING AND AUDITING STANDARDS AND REQUIREMENTS

IAS 1.8: “A complete set of financial statements comprises:

- (a) a balance sheet;
- (b) an income statement;
- (c) a statement of changes in equity showing either:
 - (i) all changes in equity, or
 - (ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- (d) a cash flow statement; and
- (e) notes, comprising a summary of significant accounting policies and other explanatory notes.”

IAS 1.14: “An entity whose financial statements comply with IFRSs shall make explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.”

IAS 1.103 (a) “The notes shall:

- a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 108-115;”

IAS 8.30: “When an entity has not applied a new Standard or Interpretation that has been issued but not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity’s financial statements in the period of initial application.”

IFRS 1: “IN2 The IFRS applies when an entity adopts IFRSs for the first time by an explicit and unreserved statement of compliance with IFRSs.

[...]

3. An entity’s first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. Financial statements under IFRSs are an entity’s first IFRS financial statements if, for example, the entity:

- (a) presented its most recent previous financial statements:
 - (i) under national requirements that are not consistent with IFRSs in all respects;
 - (ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;
 - (iii) containing an explicit statement of compliance with some, but not all, IFRSs;
 - (iv) under national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or
 - (v) under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs;
- (b) prepared financial statements under IFRSs for internal use only, without making them available to the entity’s owners or any other external users;
- (c) prepared a reporting package under IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IAS 1 Presentation of Financial Statements; or
- (d) did not present financial statements for previous periods.”

The Fourth Directive, Article 51.a.1 states:

“The report of the statutory auditors shall include:

- a) *an introduction which shall at least identify the annual accounts that are the subject of the statutory audit, **together with the financial reporting framework that has been applied in their preparation;***
- b) *a description of the scope of the statutory audit which shall at least identify the auditing standards in accordance with which the statutory audit was conducted;*
- c) *an audit opinion which shall state clearly the opinion of the statutory auditors as to **whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework** and, where appropriate, whether the annual accounts comply with statutory requirements; the audit opinion shall be either unqualified, qualified, an adverse opinion or, if the statutory auditors are unable to express an audit opinion, a disclaimer of opinion;*
- d) *a reference to any matters to which the statutory auditors draw attention by way of emphasis without qualifying the audit opinion;*
- e) *an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.”*

ISA 700 (Revised) states:

- “39. *An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, **in accordance with the applicable financial reporting framework.***
40. *When expressing an unqualified opinion, the opinion paragraph of the auditor’s report should state the auditor’s opinion that the financial statements give a true and fair view or present fairly, in all material respects **in accordance with the applicable financial reporting framework** (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used).*
41. *When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.*
43. *To advise the reader of the context in which the auditor’s opinion is expressed, the auditor’s opinion identifies the applicable financial reporting framework on which the financial statements are based. When the applicable financial reporting framework is not IFRSs or International Public Sector Accounting Standards (IPSASs), the auditor’s opinion also identifies the jurisdiction or country of origin of the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as:*
 - *“... in accordance with International Financial Reporting Standards” or*
 - *“... in accordance with accounting principles generally accepted in Country X...”*
44. *When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in such terms as:*

“...in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act.”

The independent auditor's report in ISA 700 (Revised) refers in the management responsibilities to IFRS. The opinion reads as follows:

Opinion

"In our opinion, the financial statements give a true and fair view of (or "present fairly, in all material respects") the financial position of ABC Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards."

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

IAPS 1014 states:

"5. A note describing the accounting policies used may state that the financial statements have been prepared in accordance with both IFRSs and a national financial reporting framework. For financial statements to have been prepared in accordance with more than one financial reporting framework, they must comply with each of the indicated frameworks individually. A set of financial statements that has been prepared in accordance with one financial reporting framework and that contains a note or supplementary statement reconciling the results to those that would be shown under another financial reporting framework has not been prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework. The financial statements must comply with both financial reporting frameworks simultaneously and without any need for reconciling statements if they are to be regarded as having been prepared in accordance with both. In practice, simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework or has eliminated all barriers for compliance with IFRSs.

7. If management insists on indicating that the financial statements have been prepared in accordance with both IFRSs and a national financial reporting framework, the auditor's report refers to both frameworks. However, the auditor considers each financial reporting framework separately. If a matter results in failure to comply with one of the frameworks, but does not cause a failure to comply with the other framework, then the auditor expresses an unqualified opinion on compliance with that framework and a qualified opinion or an adverse opinion on compliance with the one framework. If the auditor is of the opinion that the failure to comply with one of the financial reporting frameworks causes the financial statements to fail to comply with the other financial reporting framework, the auditor issues a qualified opinion or adverse opinion on compliance with both frameworks."

It also addresses financial statements prepared in accordance with a national financial reporting framework with disclosure of the extent of compliance with IFRS. A relevant paragraph in this respect:

"11. A note to the financial statements containing disclosure about compliance with IFRSs may not contain misleading information such that the financial statements fail to comply with the national financial reporting framework. If the auditor is of the opinion that a reference to compliance with IFRSs is not misleading, the auditor may express an unqualified opinion on compliance with the national financial reporting framework. In certain circumstances, the auditor may decide to modify the auditor's report by adding an emphasis of matter paragraph to highlight the note that references compliance with IFRSs. The use of an emphasis of matter paragraph is not a substitute for issuing a qualified opinion or adverse opinion on compliance with the national financial reporting framework when disclosures as to compliance with IFRSs are misleading such that the financial statements fail to comply with the national financial reporting framework."