

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

December 2005

The profession is strongly urged to use the standard reference on the financial framework in the EU, concerning endorsed IFRS in order to give a clear message to the market and to users of financial statements in and outside the EU.

STANDARD REFERENCE

After considering FEE's Analysis of Responses to the FEE Discussion Paper on Reporting Issues in Relation to Endorsed IFRS and Possible Implications for the Audit Report, the European Commission in consultation with the Member States in the Accounting Regulatory Committee has decided on the following standard references^{1 2}:

“in accordance with International Financial Reporting Standards as adopted by the EU” or the abbreviated version: *“in accordance with IFRSs as adopted by the EU”*

It is important to note that:

- IFRS should be referred to in full (“International Financial Reporting Standards”) or in the explicit plural when an abbreviation is used of “IFRSs” to highlight that standards are endorsed one by one rather than as a package;
- The use of the term “as” (“as adopted”) is significant to make clear that an IFRS can be adopted with carve-outs.

¹ As published in the news headlines and draft summary record of the ARC meeting of 30 November 2005 on the EC website, http://europa.eu.int/comm/internal_market/accounting/news/index_en.htm.

² This standard reference differs from the wording proposed by FEE. FEE proposed as adopted “for use in the EU” to indicate that the financial reporting framework is applicable within the EU and the IFRS Regulations are adopted by the European Commission (EC) rather than by the EU. However, the ARC felt that “for use in the EU” was too restrictive, EU issuers may use endorsed IFRSs on certain third country markets outside the EU.

The standard reference to the financial reporting framework in the audit report should be the same as in the accounting policies “*International Financial Reporting Standards as adopted by the EU*” or “*IFRSs as adopted by 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. The translations into other languages of the European Union are attached as Appendix I.

DISCLOSURES

- It should be strongly encouraged to provide an explanation in the notes to the accounts as to how companies’ accounting policies depart from full IFRS to enable investors to compare the results of companies within and outside the EU.
- It should be encouraged that companies also state that they are in compliance with full IFRS (additional disclosure, not as the legal financial reporting framework).
- It should be strongly encouraged to provide an explanation of how companies are in compliance with “*International Financial Reporting Standards as adopted by the EU*” or “*IFRSs as adopted by the EU*” and full IFRS as issued by the IASB in cases where the two frameworks are recognised to be different.

Although all disclosures are on a voluntary basis, it would help if the profession would stimulate best practice in this respect. Disclosures of the financial situation under full IFRS would most likely facilitate use of these accounts in third country stock exchanges.

APPLICABILITY OF ENDORSED IFRS

Some standards and amendments to standards which received favourable votes in the November ARC meetings might not be published in the Official Journal (necessary condition for their applicability in the EU) by 31 December 2005. The Commission has now confirmed (as indicated in the extract of the draft summary record of 30 November and news headline, as published on the DG Internal Market website³) that standards and amendments to standards published in the Official Journal before the date of signature of the 2005 financial statements could be applied for the 2005 financial statements: “*Therefore, the Commission informed Member States that Regulations endorsing IFRS published in the Official Journal and entering into force after the balance sheet date but before the date the financial statements are signed can be used by companies (but they are not obliged to) where early application is permitted in the Regulation and the related IFRS*”.

³ (http://europa.eu.int/comm/internal_market/accounting/news/index_en.htm)

It concerns the following standards and amendments to standards:

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting for Forecast Intragroup Transactions, endorsed on 8 November, publication still expected in December;
- IFRS 7 Financial Instruments: Disclosures, endorsed on 30 November;
- Amendment to IFRS 6 Exploration for and Evaluation of Mineral Resources and IFRS 1 First Time Adoption of IFRSs, endorsed on 30 November;
- Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures, endorsed on 30 November;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts, endorsed on 30 November;
- International Financial Reporting Interpretations Committee’s (IFRIC) Interpretation 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment, endorsed on 30 November;
- Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation, not yet endorsed.

Enclosed in Appendix II is the EFRAG overview of all endorsed IFRS as per 22 December 2005.

APPENDIX I⁴

Translations of standard reference to financial reporting framework:

- “in accordance with International Financial Reporting Standards as adopted by the EU”
- “in accordance with IFRSs as adopted by the EU”

Language	Translation
Czech	<ul style="list-style-type: none"> • v souladu s Mezinárodními standardy účetního výkaznictví ve znení přijatém EU • v souladu s IFRS ve znení přijatém EU
Danish	<ul style="list-style-type: none"> • i overensstemmelse med International Financial Reporting Standards som godkendt af EU • (abbreviated version is not recommended by the Danish Institute)
Dutch	<ul style="list-style-type: none"> • in overeenstemming met International Financial Reporting Standards zoals aanvaard binnen de Europese Unie • in overeenstemming met IFRSs zoals aanvaard binnen de Europese Unie
Estonian	<ul style="list-style-type: none"> • kooskõlas rahvusvaheliste finantsaruandluse standarditega, nagu need on vastu võetud Euroopa Liidu poolt • kooskõlas IFRSidega, nagu need on vastu võetud ELi poolt
Finnish	<ul style="list-style-type: none"> • EU:ssa käyttöön hyväksytyjen kansainvälisten tilinpäätösstandardien (IFRS) mukaan • (the alternative version is not recommended by the Finnish Institute)
French	<ul style="list-style-type: none"> • conformément au référentiel de Normes internationales d'informations financières tel qu'adopté dans l'Union européenne • conformément au référentiel IFRS tel qu'adopté dans l'Union européenne
German ⁵	<ul style="list-style-type: none"> • International Financial Reporting Standards, wie sie in der EU anzuwenden sind • IFRS, wie sie in der EU anzuwenden sind (recommended version)
Greek	<ul style="list-style-type: none"> • σύμφωνα με τα Διεθνή Πρότυπα Χρηματοοικονομικής Πληροφόρησης όπως αυτά υιοθετήθηκαν από την ΕΕ • σύμφωνα με τα ΔΠΧΠ όπως αυτά υιοθετήθηκαν από την ΕΕ
Hungarian	<ul style="list-style-type: none"> • összehangban a Nemzetközi Pénzügyi Beszámolási Standardokkal, ahogyan azokat az EU befogadta • összehangban az IFRS-szekkel, ahogyan azokat az EU befogadta
Italian	<ul style="list-style-type: none"> • In conformità agli International Financial Reporting Standards adottati dall'Unione Europea • In conformità agli IFRS adottati dall'Unione Europea
Latvian	<ul style="list-style-type: none"> • Saskaņā ar ES apstiprinātajiem Starptautiskajiem Finanšu Pārskatu Standartiem • Saskaņā ar ES apstiprinātajiem SFPS
Lithuanian	<ul style="list-style-type: none"> • pagal Tarptautinius finansinės atskaitomybės standartus, kuriuos priėmė ES

⁴ Under clearance with EC.

⁵ Awaiting confirmation of Austria.

	<ul style="list-style-type: none"> • pagal TFAS kaip priėmė ES
Maltese	<ul style="list-style-type: none"> • skond I-International Financial Reporting Standards kif adottati mill-Unjoni Ewropea • (abbreviated version is not recommended by the Maltese Institute)
Polish	<ul style="list-style-type: none"> • zgodnie z Międzynarodowymi Standardami Sprawozdawczości Finansowej, które zostały zatwierdzone przez UE • zgodnie z MSSF, które zostały zatwierdzone przez UE
Portuguese	<ul style="list-style-type: none"> • Em conformidade com as Normas Internacionais de Relato Financeiro adoptadas na União Europeia • Em conformidade com as IFRSs adoptadas na União Europeia
Slovak	<ul style="list-style-type: none"> • v súlade s Medzinárodnými štandardami finančného výkazníctva v znení prijatom EÚ • v súlade s IFRS v znení prijatom EÚ
Slovenian	<ul style="list-style-type: none"> • v skladu z mednarodnimi standardi računovodskega poročanja, kot jih je sprejela EU • v skladu z MSRP, kot jih je sprejela EU
Spanish	<ul style="list-style-type: none"> • De conformidad con las normas internacionales de información financiera adoptadas por la Unión Europea • (the alternative version is not recommended by the Spanish Institute)
Swedish	<ul style="list-style-type: none"> • i enlighet med internationella redovisningsstandarder IFRS sådana de antagits av EU • (the alternative version is not recommended by the Swedish Institute)

Other Languages:

Norwegian	<ul style="list-style-type: none"> • International Financial Reporting Standards som fastsatt for bruk i EU • IFRSs som fastsatt for bruk i EU
Romanian	<ul style="list-style-type: none"> • în conformitate cu Standardele Internationale de Raportare Financiară așa cum au fost acestea adoptate în UE • în conformitate cu IFRS-urile așa cum au fost acestea adoptate în UE

APPENDIX II



The EU endorsement process: Position as at 22 December 2005⁶

IASB documents not yet endorsed

	Has EFRAG issued endorsement advice? If not, when is it <u>expected</u> to be issued?	Has the ARC voted on it?	When is endorsement <u>expected</u> ?* (See notes below table)
STANDARDS			
IFRS 7 Financial Instruments: Disclosures	✓ (on 10 Oct)	✓ (on 30 Nov)	*. January 2006†
INTERPRETATIONS			
IFRIC 6 'Waste Electrical and Electronic Equipment'	✓ (on 10 Oct)	✓ (on 30 Nov)	*. January 2006†
IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies' (Issued 24 November)	*. January 2006.	*. Plan is to ask ARC to vote in Feb 2006	*.
AMENDMENTS			
Amendments to IFRS 1 and IFRS 6	✓ (on 16 Sept)	✓ (on 30 Nov)	*. January 2006†
Amendments to IAS 39 and IFRS 4 'Financial Guarantee Contracts'	✓ (on 24 Oct)	✓ (on 30 Nov)	*. January 2006†
Amendment to IAS 1: Capital Disclosures	✓ (on 10 Oct)	✓ (on 30 Nov)	*. January 2006†
Amendment to IAS 21 'The Effects of Changes in Foreign Exchange Rates'	*. January 2006.	*.	*.

⁶ This table is regularly updated and can be found at the EFRAG website: www.efrag.org.

- * The information shown in the 'When is endorsement expected?' column is our current best estimate of the latest date for endorsement. This information is provided to be helpful, but it is only an estimate: although endorsement is not likely to be much later than the dates shown, it could be sooner.
- † The Commission has announced that, if an IASB document is endorsed after the balance sheet date but before the date the financial statements are issued, it can be treated as endorsed for the purposes of those financial statements if application prior to the date of endorsement is permitted by both the Regulation endorsing the document and the related IASB document, as is the case with all five of the IASB documents that are expected to be endorsed in January 2006.

IASB documents that have been endorsed

All IASB documents not shown in the above table have been endorsed. Those documents, and the date of their endorsement, are as follows:

	Date of endorsement
Extant standards and interpretations as at 1 March 2002, other than IAS 32 and 39 and related interpretations. (In other words, IASs 1, 2, 7, 8, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29, 30, 31, 33, 34, 35, 36, 37, 38, 40 and 41; and SIC 1, 2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 27, 28, 29, 30, 31, 32 and 33.)	29 September 2003
IFRS 1 First-time Adoption of International Financial Reporting Standards	6 April 2004
IAS 39 Financial Instruments: Recognition and Measurement	19 November 2004
IFRS 3 Business Combinations	29 December 2004
Amendments to IASs 36 and 38	29 December 2004
IFRS 4 Insurance Contracts	29 December 2004
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	29 December 2004
IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	29 December 2004
IAS 32 Financial Instruments: Disclosure and Presentation	29 December 2004
Amendments to IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, and 40.	29 December 2004
IFRS 2 Share-based Payments	4 February 2005
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	7 July 2005
Amendment to SIC 12	25 October 2005
Amendment to IAS 39 Transition and Initial Recognition of Financial Assets and Financial Liabilities	25 October 2005
IFRS 6 'Mineral Resources'	8 November 2005
Amendments to IAS 19 'Employee Benefits': Actuarial Gains and Losses, Group Plans and Disclosures	8 November 2005
IFRIC 4 'Determining whether an arrangement contains a lease'	8 November 2005

IFRIC 5 'Interests in Decommissioning Funds'	8 November 2005
Amendment to IAS 39: The Fair Value Option	15 November 2005
Amendment to IAS 39 'Cash Flow Hedge Accounting'	21 December 2005

In December 2005 the IASB issued revised Guidance on Implementing IFRS 4 *Insurance Contracts*. The EU endorsement process applies only to material that forms part of the standard, interpretation or amendment thereto, and is not therefore applied to implementation guidance. The process will therefore not be applied to the revised Guidance.