

EXPERT LEVEL OF THE ENDORSEMENT MECHANISM – THE ESTABLISHMENT OF THE
“EUROPEAN FINANCIAL REPORTING ADVISORY GROUP” (EFRAG)

Final Text

31 March 2001

Introduction and Background

On 31 July FEE accepted the Commission invitation to contribute to the development of the technical level of the endorsement mechanism in exploring ways and means to bring about the coordination of the accounting profession, users and preparers in the EU as well as accounting standard setters. In the Annex to the invitation the Commission provided a tentative outline of the organisation of the EU endorsement mechanism, covering both political and technical level. FEE agreed to organise the dialogue with the aim to produce joint proposals which have the support of all key interested parties.

The main objective is to organise a coordination of views in Europe across borders to obtain true harmonisation and to enable companies to prepare one single set of financial statements (at least for their consolidated accounts).

All organisations involved in these proposals understand and support the need to accelerate the completion of the Internal Market for Financial Services as identified by the Lisbon European Council. Among the priority objectives mentioned is the need to enhance the comparability of companies' financial statements to benefit companies and investors. They equally support the policy to ensure that securities can be traded on EU and international financial markets on the basis of a single set of financial reporting standards.

These proposals are not intended to create an extra level of standard setting: the proposed structure is not a European standard setter but is needed to establish proper European influence within IASC.

The European organisations involved have reviewed the proposal for a Regulation on the application of international accounting standards implementing the Communication of 13 June and establishing the political level (regulatory level), the Accounting Regulatory Committee and welcome the text of the proposal. The technical (expert) level is not mentioned in the articles as such, but a maximum recognition is given to EFRAG in the preamble 8, the explanatory remarks as well as in the press release and frequently asked questions.

These joint proposals are fully supported by UNICE (Union des Confédérations de l'Industrie et des Employeurs d'Europe), FEE (Fédération des Experts Comptables Européens), EBF (European Banking Federation), ESG (European Savings Banks Group), GEBC (European Association of Cooperative Banks), CEA (Comité Européen des Assurances), EFFAS (European Federation of Financial Analysts Societies), FESE (Federation of European Securities Exchanges), UEAPME (European Association of Craft, Small and Medium-sized Enterprises) and EFAA (European Federation of Accountants and Auditors for SMEs).

FUNCTION AND TASKS

1. For the last two years FEE has stimulated the debate on a financial reporting strategy in Europe. After publishing its Discussion Paper in October 1999, debate and discussions have continued both within FEE and with other interested parties in Europe. During this period the thinking on financial reporting has developed and changed.

2. The Commission Communication of 13 June 2000, based on a requirement for listed EU companies to use IAS in their consolidated accounts from at latest the financial year 2005 onwards, proposed the introduction of a two-level endorsement mechanism. The endorsement mechanism is intended to give IAS the necessary legal backing. Following the political support of the ECOFIN Council of Ministers in July, it is clear that the EU endorsement mechanism will be introduced to provide public oversight, to oversee the adoption of new standards and interpretations. The endorsement mechanism is expected to operate on the basis of monitored self-regulation and to have a two-tier structure – a political (regulatory) level and a technical (expert) level organised by the private sector. This is confirmed by the proposal for a Regulation on the application of international accounting standards as published on 13 February 2001.
3. There is a general agreement that, in order to ensure that issues identified in Europe are fully understood and properly debated in the IASB, Europe needs to coordinate its views and share its resources, so as to provide input to IASB at an early stage. All organisations involved in these proposals have always stressed the risks of having standards in Europe other than global standards. There is also a view that Europe can only support IAS if it has sufficient input and influence in the development of IAS. A separate standard setter at European level should not be created.
4. Until now, four broad functions for the technical level have been discussed:
 - Proactive contribution to the work of IASC: Proactive coordination of European standard setters, accounting profession, users and preparers so as to contribute to and influence the IASB standard setting process efficiently. The mechanism should normally provide the IASB with submissions on any discussion paper or exposure draft issued by the IASB or SIC (Standing Interpretations Committee). It would also contribute to the development of technical and conceptual papers on emerging topics that would be brought to the attention of the IASB.
 - Initiating changes to the EU Accounting Directives: To help the Commission in their assessment of possible non-conformity of an IAS or SIC with EU Accounting Directives and recommending appropriate changes to the Directives.
 - Technical assessment of the IASC standards and interpretations: Confirming or conversely rejecting a standard or interpretation for application in the EU.
 - Implementation guidance: Identification of issues for which the IASB general interpretation guidance (i.e. SIC Interpretations) is not sufficient to ensure consistent application of a given standard in the EU. The mechanism would communicate such situations to the IASB and urge it to identify appropriate solutions. Also, in cooperation with European securities markets supervisors, the mechanism would develop implementation guidance specifically relevant to EU listed companies.

The specific endorsement function consists of the technical assessment of IAS, the other overall functions form part of the pro-active role.

The technical level has been given the working name “the European Financial Reporting Advisory Group” (EFRAG) for the purpose of this paper.

Pro-active contribution to the work of IASC

5. In order to influence the work of IASC the EFRAG should contribute to all phases of the IASB standard setting process, but in particular at an early stage, which would include the following tasks:

- commenting on IASB consultative papers, exposure drafts, draft SIC interpretations, draft implementation guidance, etc.,
 - early identification of potential incompatibilities with EU Accounting Directives
 - consultation and collection of views of interested parties in Europe (normally through standard setting bodies and other relevant organisations involved)
 - encourage IASB to place topics of specific interest to Europe on its work programme and to influence the direction which the work would take.
 - coordination of work programme of European standard setters in light of IASB work programme
 - providing input to IASC Standards Advisory Council
 - liaison with IASB
 - liaison with IASC Standards Advisory Council (seat on IASC Standards Advisory Council)
 - development of technical and conceptual papers (in the second stage)
6. If Europe wants to have a real influence within IASB it should produce technical and conceptual papers on emerging topics in a similar way as G4+1 is doing today. This would in the longer run be the only way to ensure that specific European topics are included in the IASB agenda. Furthermore to attract high level experts as members of the Technical Expert Group, it is necessary to offer them not only reactive work, but also ambitious creative work. This may however be a task that should not directly be taken up by the EFRAG from the beginning but only when the other tasks are well established and the necessary experience is built up. This part of the pro-active role should be seen as an evolutionary process and might be considered as secondary in the beginning. If a certain project would not be of interest to the IASB or has no priority within IASB, EFRAG might consider to develop European guidance on the subject. However, it should be avoided that European mandatory standards are issued and that EFRAG becomes effectively a standard setter.
7. In commenting on various IASB consultative papers, EFRAG would be encouraged to reach a consensus view. It is unlikely that in practice always a consensus of views can be achieved. In the absence of a consensus view also the minority views should be made public.
8. The Accounting Regulatory Committee would not be involved in the pro-active role in that submissions to the IASB would not require endorsement of the political (regulatory) level. The Accounting Regulatory Committee of the endorsement mechanism would be kept informed of the pro-active contributions to IASB.
9. As part of the pro-active role liaisons related to enforcement (see also under Enforcement) should include:
- liaising with any mechanism for pursuing complaints against companies or auditors about compliance with IAS
 - liaising with those bodies in Europe responsible for enforcement issues, including FESCO.

Initiating changes to the EU Accounting Directives

10. In its Communication and in the Explanatory Memorandum in the proposal for a Regulation, the Commission stated that the Accounting Directives would continue to apply to listed companies preparing their accounts on the basis of IAS. At the same time the Commission has started a review of the Accounting Directives, to modernise the Directives and to remove incompatibilities with (forthcoming) IAS. A separate amendment of the Fourth and Seventh Directives to introduce fair value accounting for certain financial instruments is in the first reading of the European Parliament and the Council of Ministers and shows how cumbersome an amendment of the Directives can be. EFRAG would advise the Commission on any future changes to the Directives, as long as the Directives also remain applicable to listed companies since the Directives should not be a barrier to the use of IAS. Moreover, non-listed companies under a Member State's option,

will also be allowed to apply IAS. EFRAG should also be consulted on the forthcoming modernisation of the Accounting Directives.

The Directives should not form an obstacle to application of IAS in Europe. Rapid changes to the Directives may need to be accommodated.

EFRAG would have to set priorities, and would, at least in the beginning, have to concentrate on the consolidated accounts of listed companies.

Technical assessment of the IASC standards and interpretations

11. The technical assessment is basically the endorsement function. The objective is to provide the necessary legal certainty and to ensure the respect of EU rules and procedures as well as consideration of EU public policy concerns. Rejection of IAS should be exceptional and should be contemplated only as a last resort. In case of incompatibility between the Accounting Directives and an IAS or SIC interpretation, this should be noted during the development process of the standard or interpretation and an advice should be given to amend the Directives, so that it would not have to lead to a rejection of the IAS or SIC interpretation.
12. The technical assessment should consider whether there are any significant reasons to reject standards or interpretations. Acceptance/endorsement of parts of standards or interpretations should not be possible. The only other form of advice permitted should be to accept a standard on the basis that the SIC should consider issuing an interpretation to deal with a unique European circumstance. The advice, resulting from the technical assessment, as to whether there are grounds to reject an IAS (positive or negative advice) is directly submitted by the Technical Expert Group via the Commission to the Accounting Regulatory Committee.

In case an IAS is advised to be rejected, EFRAG should publish a full explanation for the rejection.

13. Given the importance of the consequences of negative advice, there need to be clear voting rules. Voting rules should be based on qualified majority to be refined when the actual size of the Technical Expert Group and the structure of EFRAG have been decided. The voting rules will be detailed in the internal rules/statutes. For a negative (non-endorsement) advice, a larger majority could be required. Any abstention would be counted as a positive vote. For any advice, dissenting opinions should be disclosed upon request.
14. As part of the technical assessment, coordination and liaison would need to take place with the enforcement function on endorsed IAS.
15. The endorsement mechanism needs to act quickly so that European companies do not find themselves in a situation of uncertainty as to the applicability/acceptability of an IAS for which the implementation date has passed, because the formal pronouncement from the endorsement mechanism is outstanding. Therefore, a fixed timeframe following publication of an IAS needs to be established to carry out the assessment of a standard by EFRAG and put forward via the Commission to the Accounting Regulatory Committee. EFRAG has proactively consulted interested parties in Europe throughout the development of each IAS or interpretation and should therefore not need to consult widely in the technical assessment stage.
16. Rapid action at both the technical (expert) level and the political (regulatory) level is required once an IAS or SIC interpretation is published. The timetable of both levels should be coordinated with the IASB work. Both levels need to react within a short time scale.

EFRAG should react within one month after a SIC Interpretation is published and within two months after an IAS is published, under the assumption that the publication is announced in advance.

17. The technical assessment would have to respect the provisions of the Framework for the Preparation and Presentation of Financial Statements (IASB Framework). If necessary, additional criteria for the process of the technical assessment should be developed in connection with the establishment of EFRAG.
18. The existing body of IAS and SIC Interpretations as well as the IASB Framework should not be separately assessed by EFRAG but recommended as a “package” for endorsement via the Commission to the Accounting Regulatory Committee. The IASB may decide to improve certain of the existing IAS and this would be the moment for EFRAG to provide pro-active input. EFRAG could advise IASB as to which IAS could be improved. Piecemeal acceptance of the existing body of IAS would put European listed companies in a difficult position from the beginning. Moreover, the existing standards have already been compared with the Directives and only a limited number of deviations have been found. The deviations found will most likely be covered by the modernisation of the Directives.
19. Some additional tasks of EFRAG have been identified: deciding on implementation dates; choosing of options; or considering additional disclosures. These would have negative consequences for European companies from the point of view of comparability of accounts but also from a competitiveness aspect. Setting different implementation dates within Europe and thereby delaying the application of a standard or interpretation would make it no longer possible to describe the accounts as being in compliance with IAS with all related problems. Closing of options and delaying implementation dates should therefore not normally be considered by EFRAG.

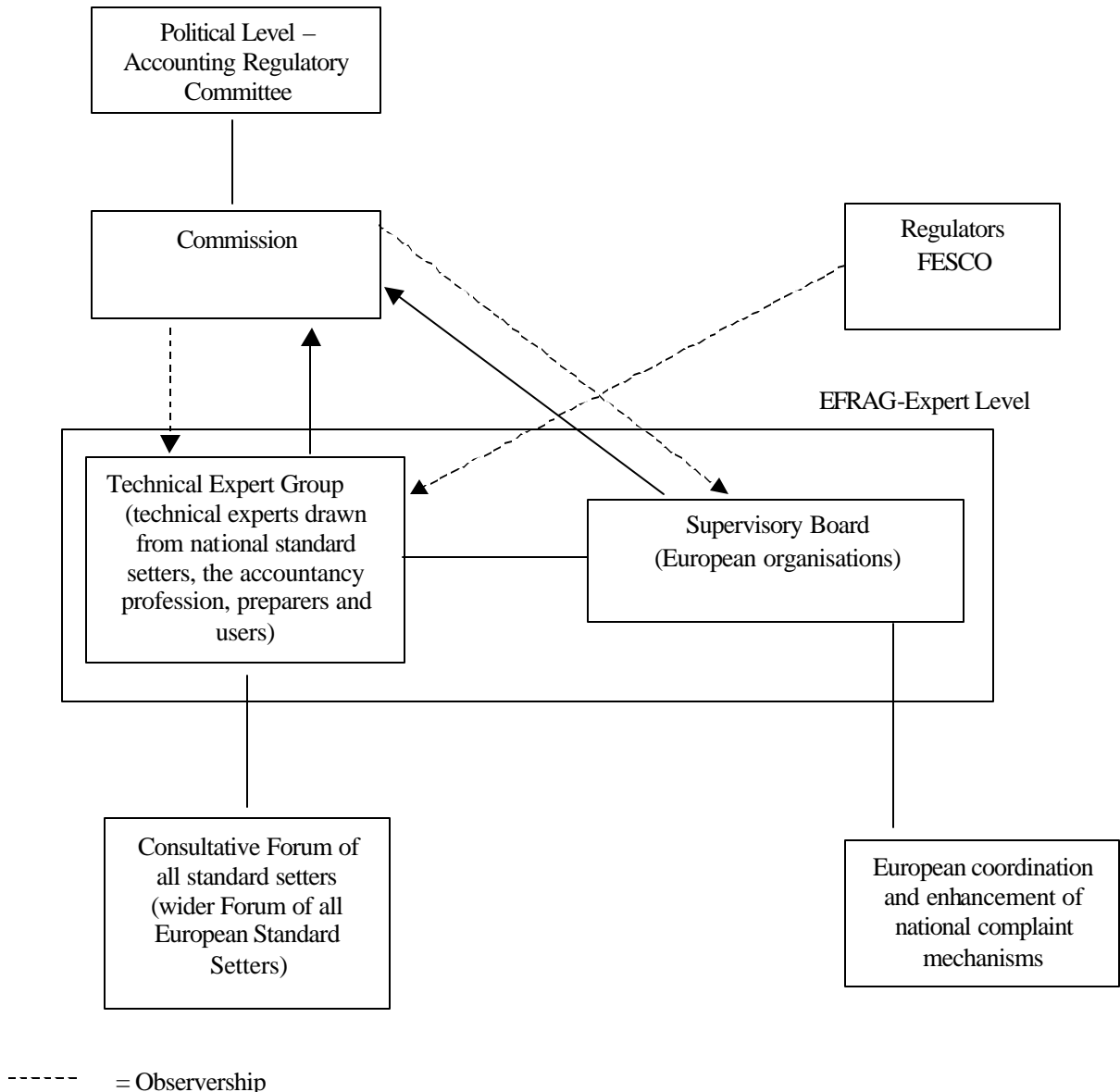
Additional disclosures should be considered with care since they may cause problems for groups operating globally. However disclosures about the company (e.g. directors’ remuneration) as well as all aspects of financial reporting outside the context of financial statements such as the MD&A are not covered by IAS. EFRAG should not propose additional disclosures itself but should advise via the Commission the Accounting Regulatory Committee if any additional disclosures are proposed at European level.

Implementation guidance

20. It is important that endorsed IAS are properly implemented. In a number of countries there is not much technical expertise with IAS. Although implementation guidance – where not provided at IASB level – may need to be provided at national level, a forum is needed at European level to discuss and coordinate implementation issues to avoid different interpretations within and between countries. EFRAG could facilitate such a discussion and coordination and it could act as a channel to bring the issues to the SIC and IASB. Implementation guidance should be defined in a narrow sense and be clearly distinguished from interpretations. It is however recognised that specific national issues remain which are unique for one country and need to be addressed at the national level. A regular contact needs to be established with the SIC/IASB. So far in many countries, IAS are only applied through national standards as part of a certain jurisdiction and not directly. Direct application needs a form of coordination at a European level.
21. EFRAG should communicate issues for interpretation and suggested solutions to the SIC for new and existing IAS. EFRAG should not issue interpretations itself. EFRAG should discuss implementation problems and where necessary – in absence of IASB implementation guidance and after consultation with the IASB – coordinate at European level, resulting in coordinated national guidance. EFRAG could be involved in any IASB debate on implementation guidance and interpretation since this still needs to be solved at IASB level.

ORGANISATION

Proposed structure and context of EFRAG:



22. All interested parties in Europe in financial reporting have to assume their part of the responsibilities and have to contribute to the establishment of the EFRAG. Involvement of users, preparers, the accountancy profession and other interested parties at the European level in addition to national standard setters enhances the legitimacy and credibility of the EFRAG. In order to achieve this EFRAG should consist of a relatively small Technical Expert Group and a Supervisory Board of European Organisations. The Supervisory Board would guarantee representation of the full European interest and undertake the governance tasks which would otherwise need to be carried out by the technical experts themselves. Legitimacy would be derived from the representation of European organisations and, in addition, a proper geographical spread of nationality of the actual members involved in the Supervisory Board could be aimed at.

Technical Expert Group

23. The Technical Expert Group should carry out the technical work of EFRAG as described under Function and tasks. Members of the Technical Expert Group should be highly qualified people with proper knowledge of the European and international financial reporting scene. Members of the Technical Expert Group should have experience in standard setting (now or in the past) and/or be in close contact with national standard setters and/or the IASC and/or have experience in applying IAS. The majority of the members of the Technical Expert Group may come from the Boards of the national standards setters. Some of the members coming from the Board of national standard setters will continue their work with the national standard setter in addition to their membership of EFRAG. Members of the Technical Expert Group should represent the European point of view rather than the individual organization they come from. Liaison with all national standard setters is envisaged through the Consultative Forum of Standard Setters. Board members of national standard setters have usually different backgrounds in that they come from preparers, users, accounting profession, etc. Standard setting experience will ensure the necessary technical expertise of the individuals involved. Also direct representation of preparers, users and the accountancy profession with experience in standard setting would be possible. Members of the Technical Expert Group will be accountable to the Supervisory Board and should work in the European interest. Their role is to develop a view on proposed IAS and their application within Europe through technical analysis and wide consultation amongst national standard setters, regulators, the accounting profession, preparers and users.
24. The Technical Expert Group should be limited in size (8 to 10 members) in order to be workable. A reasonable geographical balance would be respected so that the Technical Expert Group would not be dominated by any particular country or grouping. All members would come from countries in the EEA. Direct membership of the Technical Expert Group is not the only way to influence the EFRAG process, there is a wide consultation process envisaged with open and transparent procedures. Legitimacy is also achieved by the Supervisory Board of European organisations and by the Consultative Forum of all standard setters.
25. The Commission should have a role within the Technical Expert Group as observer in order to provide the necessary link with the Accounting Regulatory Committee. Also other key persons of the Accounting Regulatory Committee could have the right to be an observer to the Technical Expert Group. In this way, the liaison with the Accounting Regulatory Committee would be ensured. Regulators (FESCO) may have observership within the Technical Expert Group or a close relation should be maintained with the regulators.
26. The Chairman of the Technical Expert Group will be appointed by the Supervisory Board. The term for chairmanship is normally for one term of two and half years, but can, at the decision of the Supervisory Board, be extended with maximum one additional term.
27. Membership of the Technical Expert Group would be on a part-time (20% - 50%) basis. It is envisaged that members could remain in their national environment by operating from their home country. In this way, it might be easier to attract people with expertise and a broad geographical background. The term of membership would be two and a half years, renewable. Different terms of appointment could be adopted initially to avoid all members changing at the same time.
28. Members would be selected by the Supervisory Board on recommendation of national standard setters and other relevant organisations.
29. An open and transparent due process should be established for the functioning of the Technical Expert Group and its consultation process before the Technical Expert Group is put in place by the Supervisory Board. The due process and voting rules should form part of the constitution of the EFRAG (statutes/internal rules).

Consultative Forum of Standard Setters

30. The Technical Expert Group should meet with a Consultative Forum of all European standard setters at regular intervals. This Consultative Forum could be seen as an integrated part of EFRAG. The Consultative Forum should be involved in determining the work programme of EFRAG, would provide input to the Technical Expert Group and would be consulted by the Technical Expert Group on major projects. It could also provide a forum to exchange views.

The Consultative Forum would include standard setters from EEA, Switzerland but also from Central and Eastern European countries (accession candidates).

The Consultative Forum would be chaired by the Chairman of the Technical Expert Group.

Wider consultation

31. Making use of the existing consultation structures operated by the IASC, national standard setters and other relevant organisations, the EFRAG should organise a wide and early consultation on the pro-active role obtaining the view of interested parties in Europe through a Consultative Network. This concerns in particular research papers developed by EFRAG itself but also the commenting on exposure drafts, draft interpretations and consultative papers from the IASB. Such a consultation process could be organised with help of a website.

In case of a potential negative advice (non-endorsement of an IAS), it is essential that a full consultation takes place as soon as it becomes likely during the process that such a rejection of an IAS may need to take place. In case of a positive advice, no consultation after publication of the IAS is deemed necessary.

Supervisory Board

32. A governance structure needs to be put in place which monitors the Technical Expert Group to ensure that all views within Europe are taken into account, and to carry out a Trustees function. The Supervisory Board should involve European organisations (representing the constituencies of the national standard setters) and bring European democracy to the process.

Stock exchanges have to play an important role now that many of the initiatives and announced mergers move in the direction of a European capital market. FESCO and industry specific regulators such as those for the banking and insurance industry could have an observer role, since there needs to be a close cooperation with the enforcement structure.

33. In the Supervisory Board, the following European organisations are involved as founding fathers of EFRAG:

- business/preparers (UNICE)
- accountancy profession (FEE)
- European credit sector associations (EBF, ESBG, GEBC)
- insurance (CEA)
- stock exchanges (FESE)
- financial analysts (EFFAS)
- SMEs (UEAPME and EFAA)

The Supervisory Board should consist of approximately 20 members representing the European organisations. When appointing their representatives the European organisations should seek a broad geographical representation. A separate paper sets out the structure of the Supervisory Board, including the number of seats and the number of votes. This paper is annexed to these proposals.

The Commission and FESCO and other supervisors could participate as observers.

34. The tasks of the Supervisory Board would include:

- selection of members of the Technical Expert Group on nomination of standard setters, and other relevant organisations
- appointment of the Chairman of the Technical Expert Group
- advising on the work program of the Technical Expert Group
- monitoring Technical Expert Group
- approval of budget of EFRAG
- organisation of funding of EFRAG

The Supervisory Board should not be involved with the technical and operational work and solutions advised by the Technical Expert Group.

35. In case of a negative advice (non-endorsement of an IAS), the Supervisory Board will submit a separate statement directly to the Political Level to provide its commentary. This statement will be in addition to the negative advice of the Technical Subgroup that has been directly submitted to the Political Level.

36. The Supervisory Board should elect a Chairman from amongst its members.

37. The Supervisory Board should meet at least once a year and more often if needed.

38. The Supervisory Board should endeavour to operate a consensus approach but, in the absence of a consensus, the formal voting procedure should be based on a simple majority. A qualified majority of two/third would be needed on major decisions such as funding and nominations of members and Chairman of the Technical Expert Group.

39. Organisations represented on the Supervisory Board should participate in the funding of EFRAG.

Staff

40. EFRAG would need staff support in order to be able to fulfil its pro-active role in particular that of a wide consultation with interested parties in Europe and the coordination between the organisations involved. In addition there should be administrative support.

41. The technical staff should meet the same technical requirements as the members of the Technical Expert Group.

42. Staff could work on a full-time or part-time basis. Part-time staff would have the advantage of having a direct connection with practice and up to date experience. Technical Staff could be on secondment from national standard setters or other relevant organisations.

43. It could be envisaged to delegate research projects on a project basis to national standard setters or other relevant organisations, which could reduce the number of staff involved.

44. To support the tasks of EFRAG (as described in Function and tasks), the staff should consist of the equivalent of 3 technical staff and one administrative staff. The size of the total resources required would depend on to what extent the pro-active function and tasks are taken up and when and to what extent the work is carried out by the Technical Expert Group or is seconded on a project basis (see also funding) and to what extent the staff is seconded from national standard setters or other relevant organisations. The staff could be put in place on a gradual basis, assuming that the research part of the pro-active function is an evolutionary process [see also para 51 and 52].

Legal form

45. The Commission should recognise EFRAG as the appropriate body to advise on assessing of standards and to provide such advice via the Commission to the Accounting Regulatory Committee.
46. EFRAG should be a private independent organisation in the form of a foundation. It could be established under Belgian law in the form of an international association.

Political (regulatory) level

47. These proposals do not address the tasks of the political (regulatory) level – Accounting Regulatory Committee – or, other than in general terms, the relation between EFRAG and the Accounting Regulatory Committee. The Accounting Regulatory Committee would be assumed to have considered the advice of the Technical Expert Group provided via the Commission. It is also understood that the Accounting Regulatory Committee would be high level and have the authority to take rapid action.

Funding

48. It is important that EFRAG is funded on a scale that is sufficient in size to accommodate the functions and tasks as described before. Therefore the size of the budget needs to be clear and agreed in advance. Funding is the task of the Supervisory Board and one of their first tasks is to prepare and approve a detailed budget and subsequently to arrange for the detailed funding and allocation of funding.
49. Funding could take place in different forms in addition to money:
 - secondment of (part-time) staff (from national standard setters or other organisations)
 - secondment of projects (projects carried out on behalf of EFRAG)
 - direct support of members of the Technical Expert Group (20% - 50% part-time), so that there is no cost to EFRAG
 - provision of administrative support without charge
 - provision of office and meeting facilities without charge
50. All organisations represented on the Supervisory Board should participate in the funding of EFRAG.
51. The total costed budget of EFRAG is estimated to around 1,1 to 1,6 million Euro. This budget is based on the following assumptions:
 - 8 to 10 members Technical Expert Group (20% - 50% part-time) are supported by the organisations/standard setters where they come from as a contribution in kind and are not included in the budget
 - equivalent of 3 technical staff and one admin staff
 - office and logistics costs
 - website.
52. The budget of 1,1 to 1,6 million euro should be seen as the upper limit within which the Supervisory Board has to work. The Supervisory Board members are not paid and no costs will be reimbursed to them (they are supported by the organisation which they represent). The budget for additional fundamental research as described in Paragraph 6 is estimated at 500.000 Euro. This work could also be partly outsourced to standard setters or other relevant organisations without charge.

RELATION TO OTHER BODIES

National Standard Setters

53. Experience in standard setting as a requirement for membership of the Technical Expert Group will ensure a close link with the national standard setters (paragraph 23). A Consultative Forum of Standard Setters is to be created and could be seen as an integrated part of EFRAG (paragraph 30) National standard setters would also be expected to second staff to the technical staff of EFRAG and/or carry out projects on behalf of EFRAG.
54. With respect to implementation guidance (see also Function and tasks), the Technical Expert Group could also provide a forum of national standard setters.
55. National standard setters would work on IAS through EFRAG, but would also be commenting separately on the various IASB exposures and papers and have their direct relationship with IASB (at least the bigger standard setters). National standard setters continue their work on the financial reporting of companies other than listed companies. There will be a continuing convergence between national standards and IAS and increased liaison between European standard setters. An integral approach towards financial reporting is needed at least in the case of consolidated accounts. Any divergence in financial reporting principles between listed companies and other companies should be avoided as far as possible.

European Standard Setters (E5)

56. The E5 standard setters have started to meet informally (E5+2 will disappear when the new IASB is effective, since there would be no longer a need for Board preparations). The Technical Expert Group would replace these meetings since the same standard setters would be involved. In addition there will be meetings of the Consultative Forum in which all standard setters are expected to participate and which gives the standard setters of other countries the opportunity to be involved in IAS matters, for which they may not otherwise have sufficient resources. Also non-EU/EEA standard setters could be involved.

Accounting Advisory Forum

57. The Accounting Advisory Forum would not have a role anymore, since all parties involved would be involved in EFRAG. In order to minimise divergence in financial reporting, there should only be one body of advice.

Contact Committee

Contact Committee

58. The Contact Committee is officially established by the Accounting Directives to advise on (amendments to) the Directives and would continue to have its role in this respect. With the appointment of EFRAG, the activities and work of the Contact Committee may need to be modified. Any duplication of work should to the extent possible be avoided.

Accounting Technical Sub Committee

59. Since the Technical Sub Committee is mainly working on commenting on proposed IAS, it will probably no longer be necessary.

IASC

IASB

60. It is expected that IASB would directly liaise with the Technical Expert Group.

SIC

61. The Technical Expert Group would directly liaise with and communicate to the SIC on interpretation and implementation issues (see also under Function and tasks).

Standards Advisory Council

62. It is not clear how the Standards Advisory Council may be structured; some national standard setters or its representatives may be members (that are not on the Board). It should be the Chairman of the Technical Expert Group that would have a seat.

ENFORCEMENT¹

63. Any requirement to use accounting standards will only be effective if standards are also enforced. In relation to enforcement, several aspects can be considered: self-enforcement, statutory audit, oversight system (by stock exchange, stock exchange regulator or government department) and sanctions/complaints. Global rules, IAS, require global enforcement. Until IAS are enforced at global level, uniform enforcement of IAS in Europe should be the objective to ensure a level playing field where national enforcement systems may otherwise differ.
64. Enforcement is an important issue that needs to be further addressed in Europe. Discussions are taking place within the Commission, FESCO and other interested parties, illustrating the need for improving the European Union's current regulatory framework. National practices and systems should be coordinated and common enforcement rules should be developed in order to start harmonising the wide differences in Europe. Furthermore it could be envisaged to put a system in place to deal with complaints against companies or auditors related to IAS financial statements in Europe.

OTHER

Time table

65. Despite the fact that the requirement to use endorsed IAS becomes effective for the financial year 2005, EFRAG should become operational as soon as possible now the IASB has been established. This could be envisaged for the middle of 2001.

Review of endorsement mechanism

66. There will be a need to review the endorsement mechanism after a period of operation, for example in five years time. This would also include the functioning and effectiveness of EFRAG. Each of the main functions should be reviewed. The Supervisory Board would evaluate the efficiency, functioning and effectiveness of EFRAG on a continuing basis and make whatever adjustments deemed necessary.

¹ FEE is to publish a study on the enforcement mechanisms in operation in European countries.

Modernisation of the Accounting Directives

68. The modernisation of the Accounting Directives and the need for compliance with Accounting Directives by listed companies are not addressed in detail in these proposals. The Technical Expert Group should be involved in advising on any modernisation of the Directives.