

Latest News

FEE will again host a meeting of **European Auditing Standard Setters**. The meeting, which takes place on 29 September, provides an opportunity for national standard setters to share best practice and to get updates from the European Commission, IAASB and FEE on current activities.

Public Sector Accounting in Europe is undergoing a revolution. Administrations at all levels of government in many countries are recognising the benefits of the increased information provided by accruals accounting. FEE and the European Commission are organising a conference to address the key challenges of working towards the production of accruals-based financial statements, which takes place on 27 September.

The **FEE General Assembly** will take place in Brussels on 16 December. The high profile event will see leading figures from the business and regulatory worlds address the European accounting profession. Those interested in attending should contact the FEE secretariat for more information (email: secretariat@fee.be)

Call for Global Standards: IFRS

Prior to recent developments regarding the endorsement of International Financial Reporting Standards in Europe, the accountancy profession made clear its commitment to global standards

Published early in June, the FEE position paper 'Call for Global Standards: IFRS' called on all parties in the financial reporting chain to come to reasonable solutions in a cooperative manner in order to ensure that a global set of standards on financial instruments be endorsed in 2004.

The paper also noted the implications arising from partial endorsement of a standard. This is particularly relevant in the context of the ongoing developments regarding IAS 39 (the standard on Financial Instruments: Recognition and Measurement).

The absence in Europe of any required standard for financial instruments has been a major gap, threatening the integrity of reliable financial reporting. Hence, at the end of June when FEE submitted its formal position on the endorsement of IAS 39 to EFRAG, FEE was consistent with its earlier position and supported its proposed adoption into European company law. Recognising that the standard setter, IASB, is committed to further improving IAS 39, the European accountancy profession believed the standard to be sufficiently robust to form a basis for reporting on financial instruments in Europe.

FEE recognises as entirely appropriate that the IAS Regulation gives endorsement authority to the European Commission, thereby enabling public policy issues associated with individual standards to be considered before their incorporation into European law.

However the European Commission's proposal to carve out certain elements of IAS 39, as reported by EU press and now published, raises serious questions of precedent in the drive towards global standards and risks undermining the benefits to be realised from adopting truly global standards.

The European accountancy profession believes that the endorsement process should not be used as a means to create European standards. Only global standards meet the objectives of financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets, reducing the cost of capital and facilitating global investments.

FEE position paper 'Call for Global Standards: IFRS': <http://www.fee.be/secretariat/Positionpaper.htm>

Implications of Non or Partial Endorsement

- Extra disclosures to explain differences from IFRS, for reasons of transparency
- Companies no longer able to claim that their financial statements are prepared under IFRS, with related consequences for the audit report
- System changes implications of any unique European standards in any area, such as IAS 39
- The risk of setting a precedent
- The risk that some financial institutions, banks or insurance undertakings that apply or want to apply IAS 39 will be seriously disadvantaged
- Access to capital markets could be restricted or made more expensive
- Loss of opportunity to converge IFRS and US GAAP

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Stephen Dale, FEE Indirect Tax Working Party Chairman

VAT Enlarged EU Requires VAT Reform

European taxation experts meet to consider solutions to reverse the trend that has seen VAT become an increasingly complex and costly issue for business

The overly complex nature of the current VAT system facilitates fraud, loses EU member states revenue, and adds to the cost burden for business. That was the conclusion of a high level Round Table meeting that took place in May.

The meeting, organised by FEE, which brought together leading taxation experts from across Europe, was concerned that VAT had not sufficiently evolved over the 50 years since the introduction of the modern VAT system in Europe. As the recent EU enlargement will make VAT matters yet more complex, the Round Table emphasised that VAT systems need to be updated.

"FEE is looking to tackle VAT fraud and to deliver solutions which will benefit both the member states and business. The accountancy profession is more than willing to work with tax authorities and the European Commission to improve the current situation," added Mr. Stephen Dale, Chairman of the FEE Indirect Taxation Working Party.

Moving forward, FEE will build on the momentum gained by the Round Table discussion and develop proposals to be submitted to the European Commission, European Parliament and the EU member states, aimed at making the VAT system more efficient.

The FEE Round Table 'VAT 50 Years Young: VAT and Businesses in a Europe of 25' took place on Thursday, 13 May 2004 in Brussels. To obtain a copy of the conclusions of the Round Table, please contact: Chiara Pisano, FEE Project Manager (chiara_pisano@fee.be).

Liberalisation Recognition of Professional Qualifications

Much progress has been made ahead of the European Parliament's second reading of the proposed Directive on the recognition of professional qualifications

The EU Council of Ministers reached agreement on 27 May, by qualified majority, on the proposal for a Directive on the recognition of professional qualifications. Accountants' activities, with the exception of statutory audit, are covered by the proposed Directive.

Statutory audit is scoped out because the proposed Directive on statutory audit will regulate recognition of audit qualifications. For audit, the system remains based on a mandatory local registration and an aptitude test to assess knowledge of local laws.

A key issue for the profession is that the proposal for a Directive on the recognition of professional qualifications provides specific rules related to cross-border provision of services, on a temporary and occasional basis.

Cross-border provision of services was extensively

discussed in the Council of Ministers. The political agreement is that member states may require the service provider (when crossing internal market borders for the first time in order to provide services) to inform the competent authorities in the host member state in a written declaration, including information concerning insurance cover or other means of personal or collective protection with regard to professional liability. Such a declaration shall be renewed once a year.

The service shall be provided under the professional title of the member state of establishment (origin). However, the service provider will be subject to the professional rules and disciplinary provisions applicable in the host member state. If a registration is required, it must be automatic or limited to a pro forma membership of a professional organisation. Administrative cooperation between competent authorities of different member states is foreseen.

Another important element of the proposal is the opportunity to create common platforms for future harmonisation of qualifications. FEE expressed some concerns because the original text of the proposal did not include any guarantee that professional associations providing such a system would be representative. The agreement reached is that these professional associations must be 'representative at national and European level'.

If the European Parliament accepts this political agreement, the main concerns expressed by FEE in its letter of 10 April 2003 to the President of the Council of Ministers and to the rapporteur in the European Parliament will have been satisfied.

The next step will be to ensure that the proposal for a Directive on services in the internal market also applies the solutions that have been developed for the recognition of professional qualifications. This is a priority for the FEE Liberalisation/Qualification Working Party.

FEE letter of 10 April 2003:
<http://www.fee.be/secretariat/Positionpaper.htm>



Speakers at the VAT Round Table (from left): Stephen Dale, Ben Terra, Chris Needham, Yves Bernaerts, Alex McDougall, Martin Moser and Chas Roy Chowdhury. Pictured third from right, Chiara Pisano, FEE Project Manager

Progress Report on the Eighth Company Law Directive

On the 16 March 2004 the European Commission published its proposal to update the Directive on statutory audit - FEE is making a strong contribution to this initiative to modernise the law on auditing

October 2004

FEE to publish study of the arguments and conclusions reached by governments, regulators, academics and professional bodies that have considered external rotation of audit firms, (external rotation is under consideration as part of the proposed revision of the Eighth Company Law Directive).

October 2004

Economic and Social Committee: Expected to deliver their report to the Council of the EU, European Parliament and the European Commission.

September 2004

European Parliament: Parliament to start consideration of the European Commission's proposal. Lead committee to be selected. Decision expected in February 2005.

June 2004

FEE Letter: Sent to the European Commission's Internal Market Commissioner outlining the profession's concerns in detail.

April 2004

The Council of the EU: Economic and Financial Affairs Council considers the European Commission's proposal. Expected to reach decision by end of November 2004.

March 2004

FEE Policy Document: FEE published a comprehensive policy document on the proposal for submission to the Commission, the Council of Ministers and the European Parliament.

March 2004

FEE Press Release: reacts to European Commission's proposal for a Directive on statutory audit. FEE welcomed the initiative to modernise the law on auditing, but voiced immediate concern over some weaknesses in relation to oversight, audit standards, independence and liability.

March 2004

European Commission: publish its proposal for a Directive on statutory audit of annual accounts and consolidated accounts and amending Council Directives 78/660/EEC and 83/349/EEC.



FEE President David Devlin addressing the EPC Business Breakfast on 25 March 2004, seated from left, William McDonough, Chairman of the PCAOB and Frits Bolkestein, Internal Market Commissioner

7/8 October

European Congress for SMP/SME Accountants

Leaders from the European Commission, IASB and the European accountancy profession to address SME issues at inaugural European Congress on 7/8 October

As the Small & Medium Enterprise (SME) sector is central to the agenda of the European Commission, how will current EU developments impact upon SMEs? And what will be the impact on SMEs' business advisors, the Small and Medium-sized Practices (SMPs)?

The European Congress For SMP/SME Accountants provides a unique opportunity for SME accountants to gain insight into future developments influencing businesses and accountancy firms. The Congress is also an exceptional opportunity to network with fellow professionals from all over Europe.

Global leaders from the accountancy profession will: address key challenges for SME accountants; tackle SME business issues; and tackle SMP professional issues.

The SME Congress will also see the official launch of the latest in FEE's series of practical guides providing advice to SME entrepreneurs, entitled, *Avoiding Business Failure - a practical guide for SMEs*. The guide alerts entrepreneurs and managers of SMEs to short and long-term threats to business viability. The publication identifies and advises on how best to exploit opportunities and mitigate threats, providing guidance on responsible financial management.

The European Congress For SMP/SME Accountants, 'Mastering the changes in the European environment: strategies for SME accountants' will take place on 7/8 October 2004, in Sitges, on the Spanish coast near Barcelona.

The Congress is being organised by FEE, with the co-operation of Arc Méditerranéen des Auditeurs (AMA) and hosted by Instituto de Censores Jurados de Cuentas de España (ICJCE).

European Congress For SMP/SME Accountants

To register for the European Congress For SMP/SME Accountants contact:

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*For information about the Congress in English Spanish, French German and Italian, visit:
<http://www.fee.be/secretariat/SME%20Congress.htm>*

The publication 'Avoiding Business Failure - a practical guide for SMEs' will be available free-of-charge from the FEE website. Copies may be ordered from Sylvie Romancide (email: sylvie_romancide@fee.be).

Sustainability Action Plan for Corporate Social Responsibility

Urgent action is required if CSR reporting is to become widely accepted

In June FEE launched the publication, *FEE Call for Action: Assurance for Sustainability*. Launched before the final report of the European Commission's Multi-stakeholder Forum on Corporate Social Responsibility (CSR), the publication sets out the steps necessary if CSR reporting is aim for a status equal to that of high quality financial reporting. CSR reporting typically sees corporations reporting on their economic, social and environmental impacts.

"FEE, which represents leading practitioners in CSR reporting, believes that credible assurance is the key to increasing confidence in such reporting," said Mr. Lars-Olle Larsson, Chairman of the FEE Sustainability Assurance Group, commenting on the launch of the paper.

The FEE paper identifies the steps that need to be taken by: corporations; standard setters; assurance providers; sustainability indexes; and NGOs.

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The long term objective is to attain widely accepted reporting criteria and effective procedural and quality control standards for assurance work.

There remain many challenges of a business and technical nature to be overcome. Through issuing the 'call for action' FEE aims to facilitate progress to ensure that those challenges are overcome sooner rather than later.

The new publication FEE Call for Action: Assurance for Sustainability can be downloaded free-of-charge from the FEE website. Copies may be ordered from Sylvie Romancide (email: sylvie_romancide@fee.be).

For more info. about the European Commission's Multi-stakeholder forum on CSR: http://www.forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm

Prospectus Directive Accountancy Profession Supporting Directive

The European accountancy profession is actively contributing to the Lamfalussy procedure to help ensure that the Directive achieves its aims

The Prospectuses Directive is central to the creation of the single market for financial services. It will make it easier to raise capital in Europe and increase transparency and market integrity. The Prospectus Directive creates a "single passport" for both EU and non-EU issuers. In other words, once a prospectus is authorised in one member state, it can be used in all the others, cutting red tape and costs for issuers.

The new regime for prospectuses will be effective as from 1 July 2005. However the Prospectuses Directive (2003/71/EC) provides only the legal framework. The implementing measures and guidance are added under the new approach to securities markets regulation, known as the Lamfalussy procedure.

The Lamfalussy procedure has four distinct levels. Level 1: broad framework principles included in legislation are adopted by the European Parliament and Council. Level 2: measures implementing those Directives and adopted by the Commission after advice from the Committee of European Securities

Regulators (CESR) and the agreement of the European Securities Committee. Level 3: co-operation among regulators. Level 4: enforcement of community law.

Following adoption of the Prospectus Directive (level 1), the European Commission adopted a Regulation implementing the Directive on 29 April 2004 as regards information contained in prospectuses as well as the format, incorporation of information by reference and publication of such prospectuses (level 2). CESR published a consultation on the level 3 guidance in June and is expected to finalise the guidance by the end of the year. FEE has contributed to this process by making a detailed and comprehensive submission. FEE has utilised the expertise of the European accounting profession to provide thought leadership on the development of common reporting standards for the financial information disclosure requirements of the Prospectus Directive.

Another key objective is to facilitate the development of common standards for auditors and reporting accountants in the execution of their obligations under the Prospectus Directive. In that respect, a discussion paper will be submitted to FEE Council on the auditors involvement. This paper is intended to be published before the end of 2004.

FEE letter of May 2004 on the Level 3 Guidance: <http://www.fee.be/secretariat/Positionpaper.htm>

Ethics Safeguarding Auditor Independence

New publication explains the principles underlying the EC Recommendation on auditor independence

FEE's Ethics Working Party has just finalised a new paper which provides practical advice on the implementation of the European Commission's Recommendation on Statutory Auditor's Independence in the EU. The Recommendation requires auditors to identify, consider and document threats to their independence and to detail the safeguards which have been put in place to eliminate those threats.

The European accountancy profession supports the Recommendation's conceptual framework approach to auditor independence. Ahead of the adoption of the revised Eighth Company Law Directive on the statutory

audit of annual accounts and consolidated accounts, which is likely to provide an appropriate legal underpinning of the conceptual approach to auditor independence, FEE is demonstrating how the underlying principles of the Recommendation may be applied in practice.

The FEE paper aims to support regulators, supervisors, practitioners and institutes on the application and further development of the framework approach. "The publication will aid the thought process of auditors in their day to day work to identify threats to their objectivity and considering possible safeguards that may be applied to eliminate or to reduce the threat to an acceptable level," explained Dr. Harald Ring, Chairman of the FEE Ethics Working Party.

The publication also provides a comparison of the requirements of the EC Recommendation with that of the independence section of the International Federation of Accountants (IFAC) Code of Ethics.

By addressing the issues that arise when safeguarding auditor independence, the European accountancy profession is again indicating its commitment to enhancing the reliability and credibility of financial information.

The publication 'EC Recommendation on Statutory Auditor's Independence in the EU and comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants - Considerations on the Implementation of the Framework Approach' will be available to download free-of-charge from the FEE website (<http://www.fee.be>) or copies may be ordered from Sylvie Romancide (email: Sylvie_Romancide@fee.be)

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