New Accounting Standards for Europe

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I'd like to start with a word or two about terminology. As you will no doubt know, the name for new standards issued by the International Accounting Standards Board, the IASB, is "International Financial Reporting Standards", or IFRSs. And the first IFRS, on first-time adoption, was issued in June this year. The IASB also wants all the standards, past and present, to be referred to collectively as IFRSs. All the previous standards, however, continue to be called International Accounting Standards, or IASs, and this is the term that I will use predominantly in this talk, partly because it's the more familiar term, and partly because – to be honest – it rolls off the tongue more easily than IFRSs.

Timeline of IASs in Europe

The history of IASs and the EU goes back to 1993, when the then IASC and IOSCO, the International Organization of Securities Commissions, agreed on a minimum body of "core accounting standards" for financial statements of enterprises involved in cross-border offerings and listings. At the time, IOSCO noted that IASs already dealt with many of the core standards.

In 1995, following further discussions, IOSCO's Technical Committee agreed that successful completion of the IASC's then current work programme would mean that IASs would comprise a comprehensive core set of standards as defined by the 1993 agreement. IOSCO announced that completion of comprehensive core standards that are acceptable to its Technical Committee would allow it to recommend endorsement of IASs for cross-border capital raising and listing purposes in all global markets. For its part, the IASC announced a commitment to complete the core standards in 1999. In December 1998, with the approval of IAS 39, the IASC completed all of the items listed in the 1993 minimum body of core standards. Finally, in May 2000, IOSCO endorsed the IASs for multinational offerings and cross-border listings.

Parallel to these developments, 1995 saw the European Commission announce its support for the IOSCO agreement, and for the use of IASs by multinational companies. And in 1996, the EU Contact Committee, an advisory body that aims to facilitate the harmonised application of the Accounting Directives and provides advice to the Commission on additions or amendments to the Directives, decided that the IASs were compatible with the EU Directives, albeit with minor exceptions.

In 2000, the Commission then announced its intention to recommend legislation requiring all EU listed companies to prepare consolidated financial statements in accordance with the IASs starting in 2005. It also proposed the establishment of an EU political and technical endorsement mechanism to oversee the adoption of IASs in the EU and confirm that the IASs will be an appropriate basis for financial reporting by listed EU companies.

In February 2001, the Commission published its draft Regulation that would require all EU companies listed on a regulated market, including banks and insurers, totalling about 7,000 companies in all, to prepare consolidated accounts in accordance with IASs by 2005 at the latest. The draft Regulation also gave Member States the option to extend this requirement to unlisted companies and to individual company accounts.

The IAS Regulation

Following much discussion, and the creation of a large number of committees, working parties and other advisory bodies, the European Parliament adopted the IAS Regulation in March 2002, and ECOFIN, the European Council of Finance Ministers, urged the speedy adoption of IASs in April 2002. Finally, in June last year, the Council of the European Union adopted the IAS Regulation requiring listed companies to prepare their consolidated accounts in accordance with IASs from 2005 onwards. Member States were allowed to defer application until 2007 for those companies that are listed both in the EU and elsewhere and that currently use US GAAP as their primary basis of accounting. The goal of the Regulation was to eliminate barriers to cross-border trading in securities by ensuring that company accounts throughout the EU are reliable, transparent and comparable. The Regulation has the force of law without requiring transposition into national legislation. However, to ensure appropriate political oversight, the Regulation also established a new EU endorsement mechanism.

The Regulation was approved by the European Parliament and published on September 11, 2002 as Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards. It established an Accounting Regulatory Committee (ARC) to advise the Commission on the applicability of the existing IASs and future IFRSs in the EU and stipulated that IASs can only be adopted if they:

- *are not contrary to EU Directives,*
- *are conducive to the European public good, and*
- *meet the criteria of understandability, relevance, reliability and comparability.*

In May this year, the Commission published its Internal Market Strategy 2003-2006. In Point 6, entitled “Improving conditions for business”, the Commission said that it would ask for “appropriate modifications” to some of the existing IASs before they can be endorsed by the ARC for use in Europe.

Finally, July this year saw two key EU meetings on the IASs. These were preceded by a flurry of political activity at the highest levels in support of a move to delay adoption of the IASs dealing with financial instruments until they have been substantially amended to reflect the concerns of the banking and financial services industry about the use of fair value accounting. The first meeting was that of ECOFIN, on July 15th and 16th. It discussed measures for implementing the IAS Regulation and announced that IAS 32 and IAS 39 might not be adopted immediately.

“The Council asks the Commission to request the IASB to continue its dialogue with representatives of European industries in order to find a satisfactory and timely solution for the revised IAS 32 and 39 in view of their envisaged application.

The Council agrees with the Commission regarding the importance of an immediate adoption of all existing IAS, with IAS 32 and 39 as soon as possible thereafter. The adoption of future standards must respect the quality criteria set out in the IAS Regulation and be conducive to the European public good.”

In the second meeting, on July 16th, the ARC voted unanimously to endorse all existing IASs for use in Europe, with the exception of IAS 32 and 39, and the related SIC Interpretations.

That, then, is the current state of play in the EU regarding the IASs.

Why IASs?

The main reason normally given for the development of the IASs, and their adoption in the EU, is that they represent a single set of high-quality, transparent financial accounting standards that meet the needs of companies and investors in today's capital markets. The use of uniform standards should also create a level playing-field in the emerging single European capital market, helping to cut the cost of capital. Using common standards will enhance the comparability of companies reporting in the same sector, increasing transparency and helping investors make more informed decisions.

Although the EU issued its own accounting directives several decades ago – the 4th and 7th Accounting Directives – there is general acceptance that as they stand, these directives no longer meet the needs of today's preparers and users. Additionally, the way these directives were transposed into the national laws of the Member States means that although they all comply with the directives, the national accounting standards are incompatible and incomparable to a greater or lesser extent. After all, I don't think that even though the new German Accounting Standards have brought German accounting principles more up-to-date, they are comparable with, say, UK GAAP in terms of quality and scope.

IASs in Member States

However, this doesn't mean that the IASs will replace the accounting directives. Rather, the directives have been modified to harmonize them with the IASs. One of the reasons for this is that the directives apply to **all** corporate financial reporting in the EU, not just listed companies. However, a number of Member States have decided to exercise the option allowed under the IAS Regulation to extend IAS reporting beyond listed companies. Here are some examples:

In **Belgium**, the Commission for Accounting Standards (CBN/CNC) has recently proposed that IASs should be mandatory for all consolidated financial statements of Belgian companies, starting from 2007, affecting more than 600 unlisted Belgian companies. It has also proposed an ambitious plan to converge Belgian accounting law with IASs from around 2007.

This month, the **Danish** parliament has proposed legislation that would require the use of IASs in individual company financial statements if an entity uses IASs in its consolidated statements, and that would permit non-listed companies to choose to follow IASs, instead of Danish GAAP, in both their consolidated and individual company statements. No starting date has yet been proposed for such a move.

German companies not covered directly by the EU Regulation will be allowed to use IASs for their consolidated financial statements in place of HGB. There are no plans, however, to extend the use of IASs to German single-entity financial statements, including those of group parents, which will continue to be prepared under the HGB. This is particularly significant because it means that Germany looks set to retain the *Maßgeblichkeitsprinzip*, or authoritative principle, under which German single-entity financial statements are fundamentally integrated with the tax accounts.

Just the other week, the **Irish** Institute of Chartered Accountants in Ireland reiterated its call to the Irish government to extend the IAS reporting requirement to all companies in Ireland, with a three-year transition period.

In April this year, the **Portuguese** standard-setter decided to extend the use of IASs to the single-entity financial statements of publicly traded companies, and to the accounts of other companies covered by the statutory audit obligation. It also decided to develop a new Portuguese GAAP for companies opting not to follow the IASs, which will be based largely on a simplified version of the IASs.

Finally, the **UK's** Department of Trade and Industry approved a regulation in July this year that permits all UK companies to use IFRSs as an alternative to UK GAAP, starting in 2005. This will allow publicly traded UK companies to use IFRSs for their single-entity financial statements, and will permit other companies and limited partnerships to use IFRSs for both their single-entity and consolidated financial statements.

And why not US GAAP?

Let's take a brief look at why the EU has decided to adopt the IASs, rather than, say, US GAAP. The Commission has publicly given a number of reasons for this. For example, the fact that US GAAP is actually the national GAAP of the United States, and is focused exclusively on serving the reporting and information needs of preparers and users in the US. This is a legitimate argument. US GAAP is often extraordinarily difficult for non-US companies to apply, and they find themselves having to go through hoops to comply with what are essentially domestic US rules, tailored to a purely US business and regulatory environment.

Another reason given by the Commission is that US GAAP is changing very fast, it is a "moving target". Given the massive amendments now being made to the IASs, I think that this argument is no longer valid. An even less valid argument is the curious, I would say even dubious, claim that "US GAAP is untranslatable". Really? While I don't think anybody would claim that it's easy to translate, it's certainly not impossible. I think the real issue here is that US GAAP would be quite expensive to translate into all the EU official languages, especially if we're talking about a high quality translation. Irrespective of the cost, however, I'm convinced that the cost/benefit of a translation would be tremendous. But no doubt, faced with a potential translation bill going into double-digit millions of euros, the Commission decided that such an expense would be difficult to justify, and settled instead for issuing the "untranslatability" claim.

I think that the prime reason for opting for the IASs over US GAAP, though, is a political one. The Commission – and ultimately the European Council – didn't want EU companies to be subject to the decisions of the FASB, the US Financial Accounting Standards Board, what Sir David Tweedie has referred to as "seven men in a small room somewhere in Connecticut". Neither the EU nor European companies would have any influence on FASB standard-setting, and there is a general belief that there should be "no standardisation without representation". The EU has already demonstrated that it is able to influence IAS standard-setting, although this itself entails a danger that the International Accounting Standards could evolve into European Accounting Standards, and their application would be rejected elsewhere in the world.

However, this doesn't mean that the two sets of accounting standards will continue to evolve separately in the future. The IASB and the FASB have established a wide-ranging "Convergence Project" to try to achieve the greatest possible degree of harmonisation between the US and International standards. This convergence project covers a wide range of accounting issues, from financial instruments, intangible assets, goodwill accounting and contingencies, to impairment, discontinued activities and pensions accounting. A number of these issues have already been transposed into proposed amendments to existing IASs and exposure drafts of new IFRSs.

Conversion projects, first-time adoption

Many companies have already started converting their financial accounting and reporting systems to the IASs, though the situation appears to vary from country to country in the EU. In Germany, hundreds of listed companies are already using the IASs. This is because for five years now, listed companies have been able to use IASs or US GAAP for their consolidated financial reporting. Those companies that were listed in the former Neuer Markt or SMAX segments were actually required to use IASs or US GAAP, and since the discontinuation of these market segments, the requirement has been extended to all companies listed in what's known as the "Prime Standard" segment. Of course, all the companies that are listed in the General Standard, which has less strict listing and reporting requirements, will also have to transition to the IASs by 2005, unless the US GAAP exemption applies.

There can be no doubts that converting to the IASs is a lengthy and expensive business. For example, the cost of conversion in a large international group is likely to be somewhere in the order of 50 to 70 million euros. Because of the need for listed companies to provide at least one year of comparatives, the IAS-compliant accounting systems must also be in place by early 2004, so that interim IAS figures can be captured during the course of the 2004 comparative period. This in turn means that work must already have started **this** year. It's clear though that, despite the high level of publicity surrounding the introduction of the IASs, not all companies have understood the magnitude of the effort and timescale involved in conversion.

Back in 2002, a survey of more than 650 CFOs in the EU by PricewaterhouseCoopers entitled "2005 – Ready or Not", indicated that at the time, more than 60% of the companies affected by the IAS Regulation had not yet started transition planning. This was perhaps not surprising since, when the survey was conducted, the European Union's IAS Regulation had yet to become law and the IASB had not published an exposure draft of its new standard on the first-time adoption of IASs.

The time for preparation is running out fast, and there are now less than four months to go before most December year-end companies will have to start recording transactions in accordance with the IASs. Before they can even consider external reporting, there is a large number of substantial internal measures that must be undertaken, including defining all aspects of the transition, developing internal IAS reporting processes and systems, ensuring that the IT systems are in place, and staff training. A recent survey by the ICAEW, the Institute of Chartered Accountants in England and Wales, for example, produced some highly disturbing findings. It indicated that a third of respondents were either not very aware or not at **all** aware of the EU Regulation, and less than half felt that they were aware what the effect the IASs would have on their company and its financial statements. Less than one in seven companies were aware of the recent UK regulation that would allow the extension of the IASs to unlisted companies in the UK. There also appeared to be some hesitation in beginning preparations for adopting IASs while the standards are still being finalised.

This latter point also surfaces time and time again in my own discussions with clients who are transitioning to the IASs. Why, they ask, are we being expected to spend a lot of time and money converting to IASs when we don't even know what the standards will look like in 2005? This is because as part of the move to IASs in the EU, the IASB has adopted a extensive and highly ambitious – perhaps even over-ambitious – timetable of amendments to existing IASs and the publication of new IFRSs. One of the most important new standards here, IFRS 1 on First-time Adoption, was only published in June this year after many companies had already initiated the conversion process. And the timetable for issuing amendments keeps being adjusted, with deadline slippages happening every month.

The upshot of this is that many companies converting to the IASs are either resigned to having to rework potentially much of their conversion processes and documentation to keep up with amendments to IASs and the introduction of new standards. Or they have decided to wait until more concrete information is available about exactly what standards they will have to start using in 2005. If they choose the first path, their costs will increase, possibly substantially. If they choose the second, they will have to complete the entire conversion process in a very short period of time, which again is likely to be an expensive business.

On the other hand, converting to IASs offers a whole raft of advantages, and it's likely that most corporates believe that the ultimate benefits will outweigh the costs. For external reporting, for example, using IASs throughout a group simplifies the preparation of financial statements by national subsidiaries for use in the consolidated financial statements. This is because the single-entity local GAAP financial statements adjusted to comply with uniform group accounting policies, what are known in German accounting parlance as the *Handelsbilanz II*, or *HB II*, will already comply with the IASs, thereby eliminating a substantial and often time-consuming stage in the consolidation process. Similarly, using IASs as the group-wide accounting standards simplifies the audit of both the local financial statements and the consolidated financial statements. For internal reporting, the use of a uniform, internationally acceptable basis for accounting enhances transparency and communication, helps eliminate accounting errors and consolidation problems, and provides a more robust basis for group-wide financial planning and capital budgeting.

Early adoption by US GAAP reporters

As I mentioned earlier, EU companies that currently report under US GAAP **and** are listed on an exchange outside the EU have been given a two-year extension before they have to start using IASs, meaning that they only have to start publishing IAS financial statements for periods beginning on or after January 1st, 2007. Of course, this refers basically to those EU companies that have a dual listing in the United States for either their shares, ADRs and/or debt instruments.

Those listed companies that currently report under US GAAP and are not listed outside the EU will have to adopt IASs for 2005 like everybody else. Experience in Germany, however, indicates that many, perhaps most, companies that use US GAAP and are listed in the US have decided to early adopt the IASs in time for the 2005 "Big Bang". The primary reason many companies give for this decision is a fear that if they continue using US GAAP only, their market valuation will be discounted to their peers who are using the IASs. In other words, they believe that EU companies might well be penalised by the markets for using only US GAAP in the interim period between 2005 and 2007, and it might be very difficult to subsequently eliminate any discount applied to their share price.

Another factor is that SEC reporting requirements stipulate two years of comparatives, which means that they would have to start introducing IASs internally no later than 2005 in any case. Those companies that have decided to early adopt have already started introducing IAS reporting in parallel with their US GAAP reporting systems. As many of them in turn have listed subsidiaries that are listed in the EU only, and will therefore have to start using IASs no later than 2005, this means that those companies will soon have uniform reporting throughout their consolidated group, which they hope will cut costs and allow faster closure and reporting, both internally and externally. I expect that these companies will start preparing reconciliations to US GAAP for their SEC reporting, rather than producing full-blown US GAAP financial statements.

Compliance

I'll now look at three topics that I think are so closely interrelated that they can't sensibly be viewed in isolation – compliance, enforcement and training.

Compliance, of course, refers to the preparation of financial statements and disclosures that comply with the IASs. Compliance means compliance with all applicable Standards and Interpretations currently in force, as required by the current version of IAS 1, paragraph 11. Obviously, there will be certain standards that do not necessarily apply to each reporting entity, for example IAS 29, which deals with accounting in hyperinflationary economies; IAS 35 on discontinuing operations; or IAS 41, Agriculture.

But these possible exceptions apart, on the whole, most companies will be affected by all the Standards. That means that you can't choose to ignore a particular standard, for example because you think it's difficult to apply, or because you're used to reporting under a simpler local GAAP standard.

Unlike rule-based accounting systems, like US GAAP or the German HGB, the IASs, as a principles-based system, demand much more in the way of analysis and judgement by both preparers and auditors. It's not "tick-the-box" accounting, and it's not designed to make life easier for a company's management, but rather to maximise the quality and transparency of the financial information being reported, to ensure the greatest possible decision-usefulness for the users of the financial information.

The experience in Germany, as one of the first countries to introduce the widespread use of the IASs, indicates that achieving this compliance is not always an easy task. The situation wasn't helped, of course, by the fact that no German translation was available when the first companies started adopting IASs in the mid-nineties. Neither was there much in the way of high-quality models on which they could base their IAS reporting. That's why many of the early IAS adopters based their IAS financial statements to a significant extent on US GAAP.

The compliance situation really started deteriorating when the Neuer Markt was launched in early 1997. Companies listing on the Neuer Markt had to choose between IASs or US GAAP for their consolidated financial reporting, and many of them opted for what were then regarded as the relatively innovative IASs. Again, the lack of high-quality models on which to base IAS reporting didn't help, but what really exacerbated the situation was a combination of young high tech companies with inexperienced financial management, and auditors who were suddenly faced with a flood of IAS conversion projects for which they were seemingly badly prepared and ill equipped.

Although the Neuer Markt has now been discontinued, and the use of IASs (or US GAAP) is now required for companies of all sizes listed in the Prime Standard segment of the Frankfurt Stock Exchange, the lessons for IAS financial reporting from the Neuer Markt experiment are highly relevant. However, there is also evidence that not all of the lessons have been taken to heart.

The Deutsches Aktieninstitut or DAI is a not-for-profit body with the objective of promoting an equity-ownership culture in Germany. Last year, it published a study examining the consolidated financial statements of 100 Neuer Markt companies using IASs and 100 using US GAAP for the December 31st, 2000 year-end, for compliance with the relevant accounting standards. The results are more than disturbing, they are devastating. You can download the full report in German from the DAI web site at www.dai.de — just go to the 2002 Publikationen/Studien. Here's a summary of the highlights.

The situation has certainly improved since that report was published, partly because so many former Neuer Markt companies have disappeared, but also because the number of larger companies adopting IASs has increased substantially. However, our experience is still that many preparers and their accountants have some way to go yet.

Enforcement

It's not just the accounting scandals in the US that have put the spotlight on the issue of enforcing accounting standards, although Enron, WorldCom and all the others have certainly rammed home how important it is not only to **have** high-quality accounting standards, but also to ensure that they're actually **used**. However, there is no justification for sitting back and pointing a finger at the Americans. The IASs do not provide any protection whatsoever against crooked management and auditor collusion or incompetence, and it should be clear by now from our experience in Europe that enforcement is a critical issue, irrespective of the accounting standards involved. The saga of Neuer Markt-listed Comroad AG illustrates starkly how easy it is for criminally minded corporate executives to get away with financial murder: in April last year, KPMG was forced to revoke its audit opinions for Comroad's 1998, 1999 and 2000 financial statements, as they had only just discovered that the company had faked well over 95% of its revenues.

And I'm sure that the scandal closer to home, as it were, at Belgian language technology and translation services company Lernout & Hauspie, is still fresh in the minds of many people in the translation industry.

One of the first documents to address the issue of a regulatory framework for the new, IAS-dominated Europe was the Commission's Communication "EU Financial Reporting Strategy: the way forward", published in June 2000. The Commission wrote that:

"... only IAS that are properly and rigorously enforced will improve the functioning of the EU securities market. Enforcement comprises a cascade of different elements including ~~(1)~~ clear accounting standards ~~(2)~~ timely interpretations and implementation guidance, ~~(3)~~ statutory audit, ~~(4)~~ monitoring by supervisors and ~~(5)~~ effective sanctions. Each of these must work efficiently: the system will be as strong as its weakest part in delivering strong investor and creditor protection.

If this framework is to provide high quality financial reporting, the statutory audit function, which ensures a proper application of accounting standards, will need to be carried out to uniformly high levels across the EU.

This requires giving urgent attention to the establishment of benchmarks for auditing, the development of professional ethics standards and the implementation of effective quality assurance systems for the statutory audit function....

Securities supervisors also have a critical role in ensuring that listed companies comply with financial reporting requirements. There is clearly a major interest in ensuring accurate and consistent application of accounting standards in the securities markets they oversee. In the EU securities markets regulators must be actively involved in enforcement issues. In particular, the Commission looks to European securities markets supervisors (through FESCO - the Forum of European Securities Commissions) to develop and implement a common approach to enforcement. Such an approach would establish a level playing field and avoid the danger of regulatory arbitrage. Peer-reviews of securities markets supervisors' practices could be considered as a useful instrument for ensuring a common approach."

In April 2001, FEE, the European Federation of Accountants, published a survey of enforcement mechanisms in Europe, which for the first time attempted to summarise the wide variety of regulatory regimes existing in the EU. The FEE study identified six levels of enforcement:

☞ *Self-enforcement: preparation of financial statements*

☞ *Statutory audit of financial statements*

☞ *Approval of financial statements*

☞ *Institutional oversight system*

☞ *Courts: sanctions/complaints*

☞ *Public and press reactions.*

The institutional oversight system is probably the most interesting from the enforcement perspective, firstly because it varies so widely in the EU Member States (if it exists at all), and secondly because of the many calls for the establishment of some sort of pan-European accounting enforcement regime in the EU. The FEE study was also able to distinguish between four types of institutional oversight system.

As far as the EU Member States are concerned, Sweden is the only country where the **stock exchange** is responsible for enforcing financial reporting requirements. In other countries where the stock exchange has some sort of regulatory role, this is often limited to prospectuses and interim financial statements.

In Belgium, France, Italy, Portugal and Spain, an independent **stock exchange regulator** or supervisor controls the stock exchanges and enforces financial reporting standards for all types of statutory reporting. These regulators are organised at European level in CESR, the Committee of European Securities Regulators, formerly known as FESCO, the Forum of European Securities Commissions.

The UK has the **Financial Reporting Review Panel**, which investigates complaints brought to its attention.

Finally, some countries have a **ministry department** that is tasked with enforcing financial reporting standards for statutory financial statements. In Denmark and the UK, this is done by a review process.

Austria, Finland, Germany, Greece, Ireland, Luxembourg and the Netherlands have **no** specific **institutional oversight system** that enforces financial reporting standards. The situation in Germany, though, is rather curious. Germany **does** have a national securities regulator, the Federal Financial Supervisory Office, known as the BaFin. However, there are also entirely separate regional securities regulators in each of the

Länder. There is also a supervisory agency at each stock exchange. It is the Federal Justice Ministry, however, that is responsible for accounting law and standards, rather than, say, the economics ministry. That means that at European meetings on enforcement, sometimes up to four separate organisations turn up representing Germany, and of course they don't always have a common position. As one of the German standard-setters told me recently, if anybody knows who's actually responsible for enforcement in Germany, could they please let us know, fast!

CESR, the Committee of European Securities Regulators, published its first standard entitled "Financial Information: Enforcement of standards on financial information in Europe" in March this year. The standard sets out 21 high-level principles addressing various areas of enforcement.

Although it's termed a "standard", I think that it's more of a statement of overarching principles for further discussion and, possibly, implementation, rather than any rigorous "tick-the-box" set of rules. Among other things, the standard stipulates that:

☞ *The Member States should establish independent administrative authorities with ultimate responsibility for the enforcement of financial information standards, although this responsibility may be delegated.*

☞ *The process of selecting financial information to be reviewed for enforcement purposes should at a minimum incorporate a risk-based approach.*

☞ *Enforcers should be able to take appropriate action, for example by requiring the public correction of misstatements.*

☞ *And finally, there should be seamless cross-border coordination.*

Although I think it is rather vague and somewhat bureaucratically principled, this standard at least represents a first attempt to describe the processes and procedures that could possibly be implemented as part of an enforcement regime here in Europe. [I have included this standard in your handouts as it is quite an important document].

However, the CESR approach is only one of several potential solutions to the enforcement problem. There has been quite a heated debate at a low level about how the future enforcement system should be structured. In 2002, for example, the External Corporate Reporting working party of the Schmalenbach-Gesellschaft in Germany urged the establishment of an enforcement institution in the form of a public-sector authority, because it believes that such an authority would be viewed publicly as more authoritative and independent than a privately organised body; it would be treated by the SEC as a partner on an equal footing; and it would be easier for such an authority to impose sanctions.

On the face of it, this would appear to be the classic conflict between continental European statism and the Anglo-American tradition of self-regulation by private bodies. A look at the US and the UK, however, tells a slightly different picture. In the US, the SEC, a federal authority, is responsible for overseeing the development, implementation and enforcement of financial reporting standards. It has devolved responsibility for much of financial accounting standard-setting to the FASB, the Financial Accounting Standards Board. In much the same way, responsibility for setting auditing standards in the US was passed to the AICPA.

However, responsibility for enforcing standards is now the remit of the new Public Company Accounting Oversight Board, a private non-profit organisation created by the Sarbanes-Oxley Act in response to the corporate accounting scandals of recent years. Its mission is to protect investors in US securities markets and to further the public interest by ensuring that public company financial statements are audited according to the highest standards of quality, independence and ethics. The PCAOB is funded principally by fees from listed companies. In April 2003, the PCAOB decided not to delegate responsibility for setting **auditing** standards to the accounting profession but, rather, to set the standards itself. The FASB will continue to set accounting standards, but this means that the AICPA has lost its role in auditing standards. The PCAOB's auditing standards will include matters of quality control, professional ethics, and independence of auditors from companies whose financial statements they audit.

The situation in the UK is half-way between the private and the public solution. The Financial Reporting Review Panel (FRRP), the Financial Reporting Council (FRC) and the Accounting Standards Board (ASB) together make up an organisation whose purpose is to promote good financial reporting. The FRRP examines apparent departures from the legal accounting requirements, including applicable accounting standards, and if necessary seeks an order from the court to remedy them. It is a subsidiary of the FRC, but exercises its functions independently. The FRC provides support and broad policy guidance to the FRRP. The whole organisation is supported and funded jointly by the government, the accountancy profession (through the Consultative Committee of Accountancy Bodies) and the City (the London Stock Exchange together with the banking and investment community).

The Panel considers any matter drawn to its attention and initially decides whether there is a case to answer. It can ask the directors of a company to explain apparent departures from the accounting standards. If it is not satisfied by their explanations, the Panel tries to persuade them to adopt a more appropriate accounting treatment, for example voluntarily withdrawing the accounts and replacing them with revised accounts that rectify any errors. If the Panel is unable to achieve correction on a voluntary basis, it can exercise its powers to secure the necessary revision of the original accounts through a court order. One of the most important tools of the FRRP is its “name and shame” powers, and so far, it has been able to obtain restatements of financial information without having to resort to the courts.

My personal feeling is that a hybrid solution along the lines of the FRRP would be the most appropriate system for the EU, as it combines the strengths of both a public-sector authority with those of a private body, without being encumbered by the unnecessary bureaucracy of a public institution. The inclusion of government as a “stakeholder” ensures that the public interest is served, while at the same time allowing a role for preparers, auditors and users of financial information.

There is perhaps one other body at European level that should be mentioned: EFRAG, the European Financial Reporting Advisory Group, which was established in June 2001 by a broad group of organisations representing the European accounting profession, preparers, users and national standard-setters. Its objectives are to provide technical expertise to the European Commission on the use of IASs in the EU, to participate in the IASB's standard-setting process, and to coordinate positions on the use of IASs in the EU. It has a Technical Expert Group composed of representatives of national standard-setters, the accountancy profession, preparers and users. Its mission is to contribute to the work of the IASB, initiate changes to the EU Accounting Directives, make recommendations to the Commission on the acceptance or rejection of the IASs and Interpretations, and to develop implementation guidance for the IASs in Europe going above and beyond the IASB’s own interpretations and other guidance. In June 2002, EFRAG recommended to the Commission that all the existing IASs and Interpretations should be endorsed en bloc, known colloquially as the “mass baptism”.

Training

I think there's a general consensus that many of the compliance problems can be solved, and the work of any future enforcement agency can be limited to cases of deliberate misstatement, if preparers, auditors and users were better equipped with knowledge about the IASs and how they should be implemented. Training and education in the form of continuing professional development are the keys here.

The large international professional education providers, such as FT Knowledge Financial Learning (formerly the New York Institute of Finance), IIR and the Conference Board have been active in providing IAS seminars and conferences for a number of years now, and smaller, specialist training providers such as IASeminars have also developed a range of courses that are held throughout Europe and North America. The large accounting firms also offer many seminars, courses and conferences on the topic of international accounting in many countries and languages.

The IASB itself announced in April last year that it intended launching a two-tier assessment and certification programme and in December, it issued a consultation paper, asking for comments and proposals. In May this year, the IASCF announced the appointment of Elizabeth Hickey, formerly chair of the New Zealand Financial Reporting Standards Board, as its new Director of Education. Since when, unfortunately, we have heard absolutely nothing.

The comment letters received and published on the IASB website are quite illuminating, as they are probably quite representative of the views in the accounting community. Some respondents want all IAS certification to be restricted to qualified accountants only, while others believe that certification programmes should be open to all interested parties. I fully concur with the latter view, as I believe that only if all parties involved in IAS financial reporting, from preparers all the way through to analysts and financial journalists (and why not translators too?), are well educated, will the true benefits of high-quality financial reporting be fully exploited. I most certainly do not believe that restricting IAS knowledge and assessment to a self-chosen few will improve the quality of financial reporting.

Conclusion

That rounds off my brief overview of certain aspects of the state of play regarding the IASs in Europe today. Obviously, there are some aspects I've hardly touched, for instance the mass of improvements projects currently underway at the IASB, or the nuts and bolts of IFRS 1.

However, I hope that other speakers will be able to present these in greater detail. I'm happy to take any questions now, but please also feel free to ask me any more specific questions you may have today or tomorrow. Thank you.