



Federation of European Accountants
Fédération des Experts comptables Européens

22ND AMA CONFERENCE

Hilde Blomme
FEE Deputy Chief Executive

Palma de Mallorca, 18 October 2013



Topics for discussion

- 1 Context
- 2 About FEE
- 3 The new European Union Accounting Directive of June 2013
- 4 A few words on the European Debate on Audit
- 5 EU drives changes in Taxation
- 6 Questions



CONTEXT

Busy year(s) @ FEE ...



- Accounting
 - ↳ IASB governance (EFRAG)
 - ↳ Review of IFRS regulation (upcoming)
 - ↳ New accounting directive (June 2013)
- Non-financial information (proposed directive April 2013)
- EC corporate governance action plan
- Public sector reporting (IPSASs / EPSASs)

...Busiest years ever in *all* fields of FEE activities

- Tax policy
 - ↳ VAT, CCCTB, FTT...
 - ↳ Fight against fraud...and aggressive planning
- Anti-Money Laundering (Feb. 2013 proposed directive and upcoming EC report on fight against corruption)
- Recognition of professional qualifications
- EU-US trade talks
- ... and more !



... And the most important regulatory challenges

- Audit policy is critical (but it is one of 15 areas of work of FEE)
- It is important to represent the profession in all matters of impact and build reputation as a responsible European public policy stakeholder



All times high public opinion and media scrutiny

FINANCIAL TIMES

Public anger at tax dodgers grows

The Economist

Undeclared beneficial ownership

Licence to loot

The Telegraph

Accountants shoulder blame for financial crisis

Forbes

Don't Count On Europe To Reform Auditors And Accounting



MEPs dilute audit reform rules

theguardian

'Big four' accountants 'use knowledge of Treasury to help rich avoid tax'

Experts offering advice on legislation they helped to create is 'ridiculous conflict of interest', says select committee chair
Margaret Hodge

REUTERS

EC says auditors "over lobbying" against EU reform

Small and Medium sized Practices: BIG on the agenda

- Priority on delivering real value to Member Bodies and their practitioners, better responding to their needs and enhancing FEE visibility
- Rolling out new structure and assessing its functioning
- FEE SMP Forum = Ambassadors Task Force + Champions Network
- Sharing best practices across Member Bodies
- Enhancing external engagement and considering joint-projects and alliances (UEAPME, ESBA, BUSINESSEUROPE)
- Fostering particular topics and own projects (guides, events)



Introduction: About FEE

Federating the European Profession



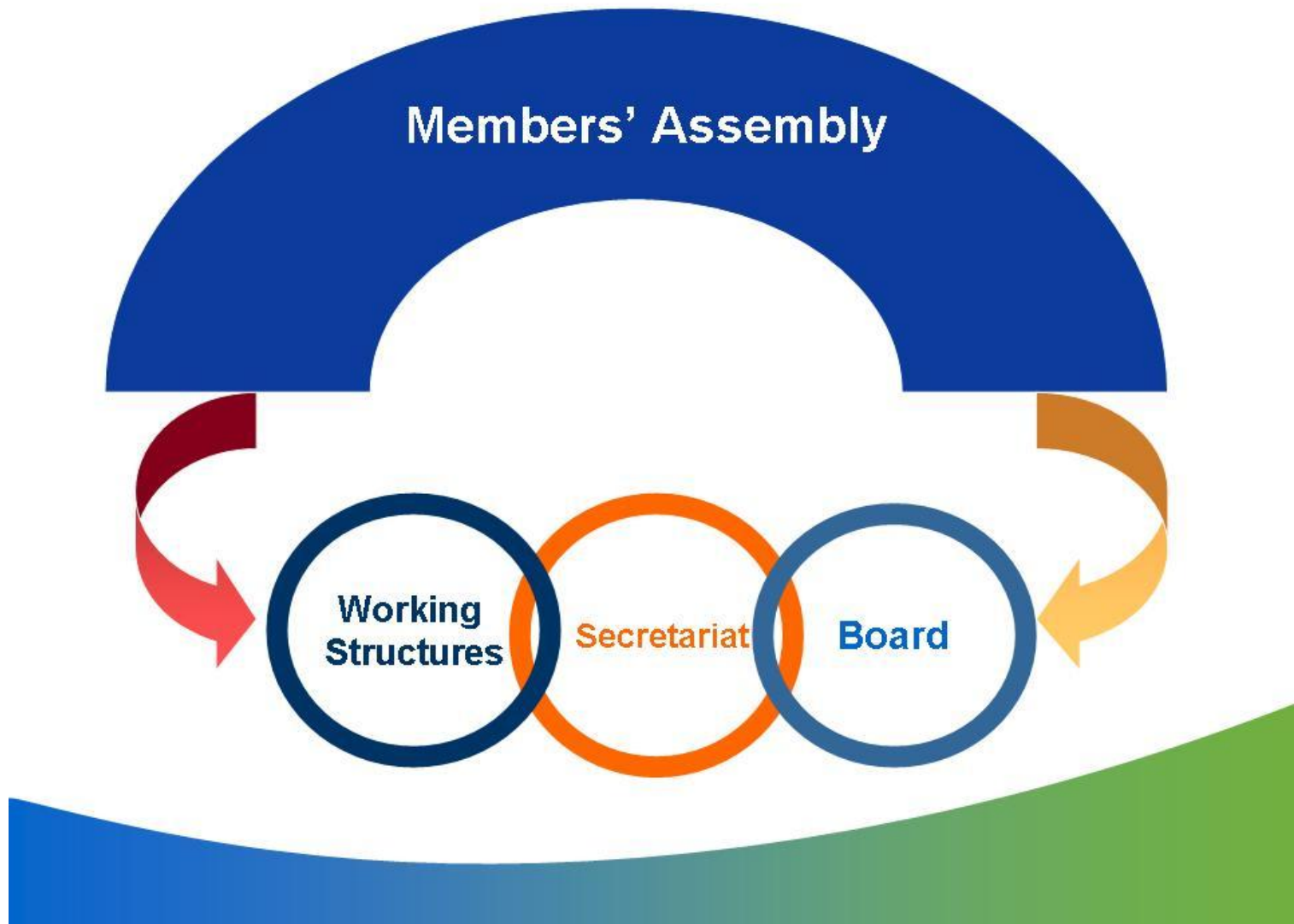
- 45 professional institutes of accountants
- 33 European countries, including all 28 EU Member States

Adding Value to Members

FEE:

- Combines a membership of over 700.000 professional accountants
- Represents the whole profession
 - ↳ In public practice, small, mid-tier and large accountancy firms, businesses of all sizes, public sector and education
- Identifies, analyses and influences relevant public policy developments
- Makes representations to EU Institutions and international organisations
- Promotes co-operation and gathering and sharing of good practices among FEE Members
- Cooperates with other European associations
 - ↳ e.g. BUSINESSEUROPE, UEAPME, ESBA, ECODA, ECGI, EBF, etc.

Governance



Advancing Members' activities and providing thought-leadership



See www.fee.be

FEE Federation of European Accountants
Fédération des Experts Comptables Européens
Standing for trust and integrity

INFO

For immediate use: 29 September 2011

FEE initial reaction on media reports regarding audit quality and audit services supply but warns against overregulation and unintended consequences

Brussels, 29 September 2011 – FEE (Fédération des Experts Comptables Européens) has noted media reports on possible FEE audit policy. The proposals are understood to be compatible with the FEE stance which on Public Interest Entities (PIEs) has already stated that it is important that all the different regulatory proposals are considered on their own merits and not as a package.

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Taking audit policy forward

The views of the Federation of European Accountants

Standing for trust and integrity

Auditors need to reflect on their societal role and their added value. As the needs of society, markets' and stakeholders' evolve, auditors have to change. FEE therefore welcomes the debate launched by Commissioner Barmer and approaches it from the **viewpoint of the long-term collective interest of the entire profession**, whatever the size of firms, areas of practice or Member State, taking into account the European public interest.

Auditors' communication

Proposals on auditors' but the legislative debate more practicable and

More information is a large number of to users of the Internal control (documentation Sarbanes-Oxley

An internal should include some of report's board a

The



Commissioner Barmer & FEE President Johnson
FEE Conference on Audit Policy, 30 June 2011

Many proposals are welcomed improvements

We support proposed measures that are aimed at modernising the current audit framework and advancing audit policy, in particular:

- Measures enhancing the performance of the audit;
- EU adoption of International Standards on Auditing (ISAs) for all statutory audits;
- Development of the role of audit committees, especially in relation to the appointment of statutory auditors;
- The ban of contractual clauses limiting choice of audit firm;
- Improvement of the coordination of audit services at European level, which will necessitate the creation of a representative Stakeholder Group in ESMA.

In a globalised world, the Commission is right in its creation of a single market for audit services how it appears in view of remaining divergences in parts of legislation. Similarly, it rightly considers the size of firms when enabling Member States to decide on undertakings they are best placed to determine on the size of their economy and their tax system.



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Company Law and Corporate Governance

The functioning of Audit Committees

Discussion Paper



June 2012

Comments to be submitted by 28 September 2012

Standing for trust and integrity

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Standing for trust and integrity

Policy Statement

July 2012

The Provision of Non-Audit Services to Audit Clients that are Public Interest Entities (PIEs)

FEE issued a Working Paper on the Provision of Non-Audit Services to Audit Clients in June 2011 following the publication of the European Commission Proposal for a Directive on the prohibition of non-audit services to audit clients of public interest entities (PIEs) in November 2010. FEE is engineering its strategy in the present discussion by considering in further detail the impact of the proposed measures on auditors' interests.

Non-audit services should not be

As the representatives of the public interest, FEE is concerned to ensure that the proposed measures do not have an impact on the quality of audit services provided to audit clients of public interest entities (PIEs).

The European Commission proposal is a necessary step towards the prohibition of non-audit services to audit clients of public interest entities (PIEs) in order to ensure the independence and objectivity of the audit function. However, the proposed measures should be carefully considered in order to ensure that they do not have an impact on the quality of audit services provided to audit clients of public interest entities (PIEs).

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Policy Statement

July 2012

FEE Policy Statement on Improved Auditor Reporting

The European Commission proposal for a Directive on the prohibition of non-audit services to audit clients of public interest entities (PIEs) is a necessary step towards the prohibition of non-audit services to audit clients of public interest entities (PIEs) in order to ensure the independence and objectivity of the audit function. However, the proposed measures should be carefully considered in order to ensure that they do not have an impact on the quality of audit services provided to audit clients of public interest entities (PIEs).

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Policy Statement

July 2012

European Commission proposals and International Initiatives

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Accounting Directive

EC Accounting Directive of 26 June 2013

Combining and amending the existing 4th and 7th
Accounting Directives

Amending the existing Transparency Directive for
listed entities

To be transposed in EU Member States by mid
2015 (20 July 2015)

FEE input at all stages, successful in substantial
improvements to proposals

Accounting Directive –Threshold criteria (1/7)

<i>In million EUR</i>	Small		Medium		Large	
	Previous	New	Previous	New	Previous	New
Balance Sheet	<4.4	4><6	<17.5	<20	>17.5	>20
Net Turnover	<8.8	8><12	<35	<40	>35	>40
<i>Average number of employees</i>	<50	<50	<250	<250	>250	>250

- ✓ Accounting and auditing thresholds : the entity moves up a category **if exceeding 2 of the 3 thresholds for 2 years**
- ✓ Member State option in the small entity threshold range

Micro-entities (2/7)

- **Micros are entities below two of the following criteria:**
 - ↳ Balance Sheet total: EUR 350.000
 - ↳ Net turnover: EUR 700.000
 - ↳ Average staff: 10 employees
- **Member State option to use no, some or all exemptions**
- **Exemptions:**
 - ↳ Recognition of 'Prepayments and Accrued Income' and 'Accruals and Deferred Income' but only for charges other than cost of raw material and consumables, value adjustments, staff costs & tax
 - ↳ Notes to the accounts
 - ↳ Annual reports
- **Permit simplified Balance Sheet and Profit&Loss Account**
- **Micros still subject to keeping records (business transactions & financial position)**

Accounting Directive – Content (3/7)

➤ **General financial reporting principles**

- ↪ **Substance over form principle:** Member State option to exempt all companies from its application
- ↪ **Materiality principle:** Member State option to limit its application to presentation and disclosure

➤ **Alternative measurement basis of fair value**

- ↪ Member State option to permit or require fair value as an alternative measurement basis

➤ **Cash flow statements**

- ↪ No requirements to prepare cash flow statements for any type of companies

Accounting Directive – Content (4/7)

➤ **Limited disclosure requirements for small companies**

- ↪ Member State option to require the following disclosures:
 - Off-balance sheet transactions
 - Post balance sheet items
 - Related party transactions
- ↪ Member State option for limited disclosures required by domestic tax legislation

➤ **The use of IFRS for SMEs**

- ↪ The restriction to write off goodwill removed by a Member State option to determine write off period between 5 - 10 years
- ↪ Other obstacle retained (presentation of unpaid subscribed capital)
- ↪ The IASB asked to remove the remaining obstacle, but will not

Accounting Directive – Content (5/7)

➤ **Country By Country reporting**

- ↪ **Scope:** large companies and PIEs active in the extractive or forestry industries
- ↪ **Threshold** for disclosure per any payment to governments of EUR 100,000
- ↪ Annual disclosure in a public report, outside the annual financial statements
- ↪ No requirement for auditor's involvement
- ↪ **Country by country reporting on tax issues:** following Council agreement, expected to be dealt with in EC Proposal on Non-Financial Information reporting

Accounting Directive – Content (6/7)

➤ **Audit requirement for small companies**

- ↪ No audit requirements for small companies on EU level, possible on national level
- ↪ Explicitly stated: Member States are not prevented from imposing an audit on small companies

➤ **Going concern assumption**

- ↪ Statement in the notes on the conformity of accounting policies with the going concern concept

Accounting Directive – Content (7/7)

➤ Auditor's opinion on the management report

Auditor shall express an opinion on:

- ↪ Whether the management report is **consistent** with the financial statements
- ↪ Whether the management report has been prepared **in accordance with the applicable legal requirements**
- ↪ Based on knowledge and understanding of the undertaking and its environment obtained in the course of the audit, whether he has identified **material misstatements** in the management report and shall give an indication of the nature of any such misstatements.



European Debate on Audit

Work programme and timeline

	Date	Objective
[...]		
COREPER	4 October 2013	Mandate received to start the trilogue
European Parliament (EP)	4 February 2014	(Expected) Vote in Plenary

Objective :

Completing the Dossier before the elections for the EP (i.e. end of March) and the subsequent new European Commission (EC) in 2014,

However, if not successful, process likely to continue !



How the trilogue works

Commission Legal Services



Sebastian Valentin
Bodu (EPP, RO)

Antonio Masip Hidalgo
(S&D, ES)

Alexandra Thein
(ALDE, DE)

Eva Lichtenberger
(The Greens/European
Free Alliance, SE)

Jiri Mastálka
(GUE/NGL, CZ)

Klaus-Heiner
Lehne
(EPP, DE)

Sajjad
Karim
(ECR, UK)



Lithuanian Presidency
of the Council of the
European Union 2013



CONSILIUM
EUROPAEUM

Council
Legal
Services

Key battle grounds EP / EC / Council

- Legal instrument: Directive vs Regulation
- Definition of Public Interest Entity (PIE) (?)
- Role of professional bodies (?)
- Combination of **MAFR** and/or **Tendering, Quality Assessment, Joint Audit**
- **List of prohibited non-audit services** and audit-related & other assurance services
- **Cap** on non-audit services maintained or not? At which level?
- Public auditor's reporting (?)
- Supervision on EU level and role of **ESMA**

FEE Action

➤ ... on Key Battle Ground

↪ Publication of Policy Statements (June 2011 & July 2012)

↪ Communication to FEE Member Bodies about

- The discussions taken place in the EP and Council
- The technical parts, developing key arguments for or against

↪ Letters to and contacts with MEPs throughout the process

↪ Letters to MS Representatives in July 2013 re NAS

↪ Several contacts with Lithuanian Presidency

↪ [...]



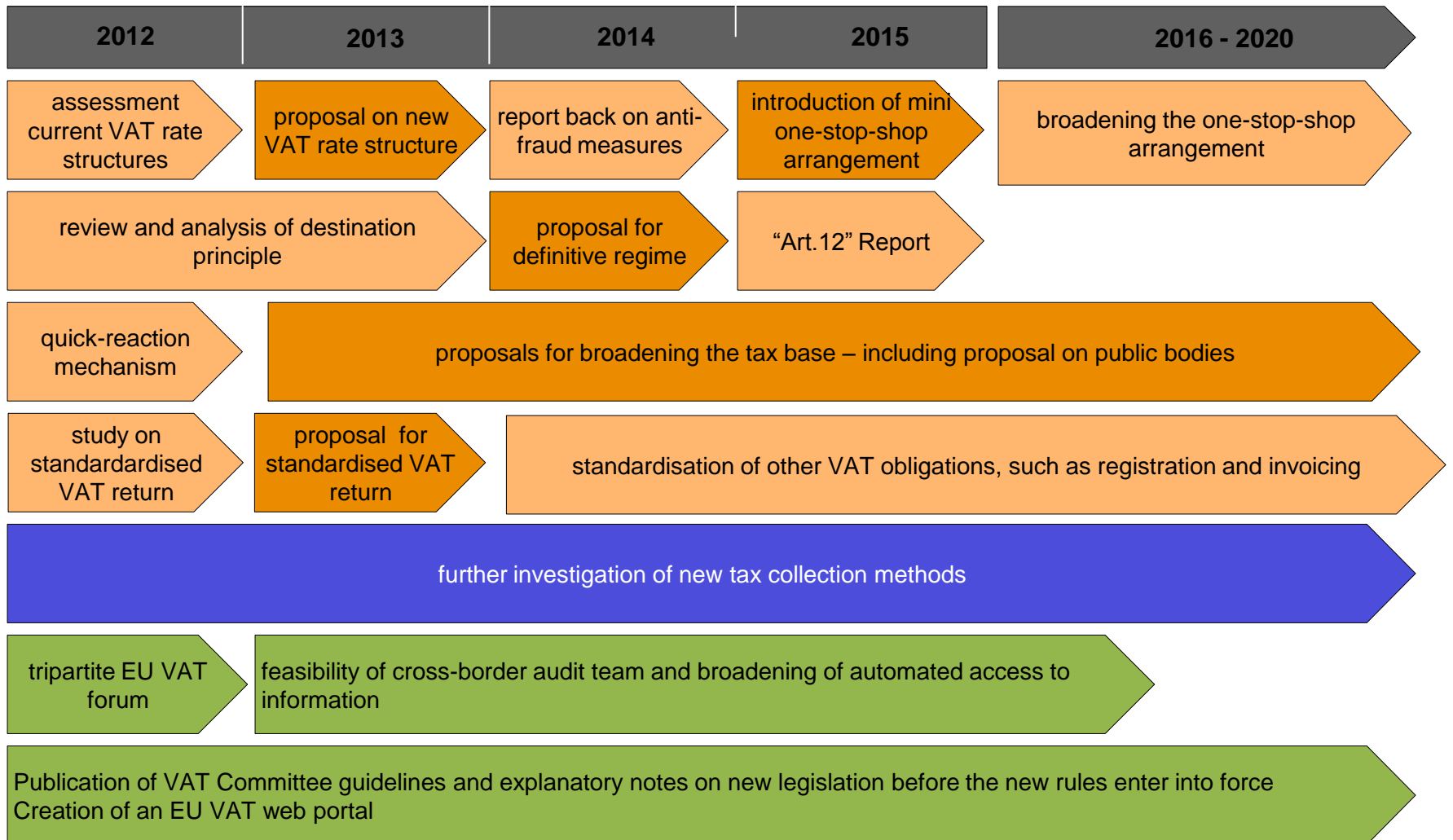
EU drives changes in taxation

Fighting tax fraud and tax avoidance

- EC initiatives
 - ↪ Action Plan with 34 measures
 - ↪ Recommendation on aggressive tax planning
 - ↪ Recommendation on minimum standards on good governance in tax matters for third countries
 - ↪ Proposed Directive on automatic exchange of information
 - ↪ EC Platform on Tax Good Governance
- OECD report and action plan on Base Erosion and Profit Shifting (BEPS); developing a global standard on international tax cooperation and transparency
- G 20 finance ministers endorse automatic exchange of information
- FEE fosters debate on responsible taxation

The future of VAT

The reform continues with a series of EC initiatives over the next years



6

Questions

