



European Financial Reporting Advisory Group ■

ANNUAL REVIEW

■ 2004



EFRAG Objectives

Proactive input to IASB and IFRIC
Endorsement advice to the EU Commission and ARC
Advice on the Accounting Directives

Table of contents

Report of the Chairman of the Supervisory Board		3
About EFRAG		4
Report of the Chairman of the Technical Expert Group		6
Report of the year		9
The Enhancement Project		9
Technical Activities		10
EFRAG Publications		14
Report on the EFRAG Working Groups		15
Financial Highlights 2004		19
APPENDICES		
EFRAG Founding Fathers	TABLE 1	20
EFRAG Supervisory Board Members	TABLE 2	21
EFRAG TEG Members	TABLE 3	22
EFRAG Members of IASB Working Groups	TABLE 4	23
EFRAG Secretariat	TABLE 5	23

EFRAG

Avenue des Arts 13-14

1210 Brussels

E-mail : info@efrag.org

Website : www.efrag.org

Report of the Chairman of the Supervisory Board

Göran Tidström
 Chairman of the EFRAG
 Supervisory Board



Europe is in the middle of the challenging task of changing its accounting to the International Financial Reporting Standards. Companies are struggling to understand and implement all the existing standards. The whole change will have a significant impact on reporting, but also on other dimensions of business behaviour. It is a big challenge to us all, but in the middle of all the issues and the hard work we have to remember the objective namely to create strong European capital markets able to compete with the US market and thereby enhance the growth of the European Region.

The IASCF Constitutional Review has increased even further the focus on accounting. It has gone as far as being discussed in the EU Parliament, and the debate has given rise to a request for more public oversight of the IASB activities. Europe is also focused on the convergence and joint projects of the IASB and FASB, and Europe would request to participate actively at the table with EFRAG being the co-ordinator of the European views.

Given the increasing political interest in accounting in Europe it may be necessary for EFRAG to be further enhanced. The objective would be to ensure an appropriate political interface by having EFRAG formally recognised by the EU system and also by ensuring there is public oversight and fully satisfactory accountability and transparency in our work.

As a consequence, the funding of EFRAG is also to be considered. It is clear to us that Europe will have to increase its funding of accounting activities compared to before the IASB era, especially if we want to influence the future direction of accounting standards. If we do not upgrade the funding of EFRAG from both the private and especially the public sector, there is a real fear that the future direction of the IASB's work will be heavily influenced by the US, where funding comes via a levy on the listed companies.

It is important that we work closely together in Europe with all parties involved, including the Standard Setters, to co-ordinate the European views and thereby give solid and robust input to the IASB. It is important that we speak with a single voice if Europe wants to be an important player in relation to the IASB. The US is well organised with one voice from the FASB with whom the IASB is working very closely. Of course Europe would insist to be involved as a partner in those debates and EFRAG is ready to take on that responsibility.

The importance of EFRAG's role has clearly increased in recent years and it was especially notable, when we had to appoint new members to the EFRAG Technical Expert Group (TEG), that the number and quality of candidates were very good.

Let me finally thank the members of TEG for the results of the year, where EFRAG clearly has increased its influence through the good quality of its technical work.

Göran Tidström
 20 April 2005

About EFRAG

EFRAG – European Financial Reporting Advisory Group - was set up in 2001 to assist the European Commission in the endorsement of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) by providing advice on the technical quality of IFRS. It is a private sector body set up with the encouragement of the European Commission by the European organisations prominent in European capital markets, known collectively as the 'Founding Fathers' (see Table 1).

Under the IAS Regulation (N°1606/2002), that requires all European listed companies to apply IFRS from 2005 in their consolidated financial statements, there is reference to the European Commission seeking advice from a technical committee prior to endorsing standards. EFRAG fulfils the role of that technical committee. In addition to taking advice from EFRAG, the European Commission seeks advice from Member states through the Accounting Regulatory Committee (ARC), in which EFRAG participates as an official observer.

The work of TEG is overseen by a Supervisory Board drawn from the Founding Father organisations of EFRAG and chaired by Göran Tidström, the chairman of Pricewaterhouse Coopers Sweden (see Table 2).

EFRAG operates through a Technical Expert Group (TEG). The 11 members are drawn from throughout the European Union and from a variety of backgrounds. They devote 30 to 50% of their time to EFRAG including meetings for three days each month to consider IFRS and interpretations prepared by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The chairman of TEG – Stig Enevoldsen, partner of Deloitte in Denmark – is full time (see Table 3). The chairman and all members of TEG and the working groups provide their time without charge to EFRAG.

The EFRAG TEG operates independently and in a transparent manner based on a due process and the decisions are taken independently of the Supervisory Board and other interests.

EFRAG's offices are staffed by a small secretariat which provides all the papers. Initially it comprised two full time project managers and an administrative assistant together with the Secretary General but expanded in 2004 with the recruitment of three more project managers. In March 2005, following the retirement of Paul Rutteman, Secretary General, a Technical Director, Paul Ebling, was recruited and Reinhard Biebel was appointed Assistant Technical Director. The current members of the secretariat are listed in Table 5.

EFRAG's role is both proactive and reactive. In addition to commenting on proposed IFRSs and IFRIC interpretations, EFRAG participates in Liaison Standard Setter discussions with IASB and thereby is involved at an early stage in proposed standards. It maintains regular contacts with IASB through meetings with its chairman. IASB Board members and senior staff participate in each TEG meeting.

EFRAG Objectives

Proactive input to IASB
and IFRIC



Endorsement advice to the
EU Commission and ARC



Advice on the Accounting
Directives



The European Commission, CESR and the chairmen of the French, German and UK Standard Setters are non-voting members at TEG meetings. EFRAG maintains contacts with the European Commission directly and through Commission representatives participating as observers in all TEG meetings and working groups.

TEG operates with the assistance of a number of working groups covering specialist areas including:

- Insurance Accounting
- Revenue Recognition
- Service Concessions Arrangements
- Small and Medium sized Entities (SMEs)
- Financial Instruments
- Venture Capital Investments

Reports from the working groups are set out in this Annual Review.

EFRAG is a liaison organisation with the IASB and attends meetings of the liaison standard setters. EFRAG has also been granted observer status in the IASB working groups on (see Table 4):

- Financial Instruments
- Insurance Accounting
- High Level Group on Financial Instruments
- Interest Rate Margin Hedge
- Performance Reporting
- SMEs

The members of TEG are appointed by the Supervisory Board, with the assistance of a Nominating Committee following an open call for candidates.

Candidates for TEG can submit applications directly or through the Founding Father organisations. The Supervisory Board looks primarily to the qualifications of the TEG candidates in terms of knowledge and experience but endeavours to ensure a

broad geographical balance together with experience from preparers, the accounting profession, users and academics.

In the same way, members of working groups are appointed following a call for candidates published on our website with the aim to ensure a professional and geographical balance.

Due process and transparency are important features of EFRAG's work. Therefore, the monthly meetings of TEG are open to the public. When preparing comment letters to the IASB on exposure drafts of proposed IFRSs or IFRIC interpretations and when preparing endorsement advice to the European Commission on these standards and interpretations, EFRAG seeks - via its website - input from organisations, companies and the public on TEG draft views.

“The EFRAG TEG operates independently and in a transparent manner based on a due process and the decisions are taken independently of the Supervisory Board and other interests”

EFRAG also works closely with National Standard Setters in Europe. The chairmen of the three major Standard Setters in Europe participate in TEG meetings as non-voting members. One-day meetings are held quarterly with all European National Standard Setters to exchange views.

EFRAG is funded by the Founding Father organisations that pay subscriptions on a half-yearly basis. In 2004 the total subscription income was 1 million Euros. Financial highlights for 2004 are included in this report.

Report of the Chairman of the EFRAG Technical Expert Group



Stig Enevoldsen

*Chairman of the
EFRAG TEG*

EFRAG has had a very busy and successful year, which started with the activities to enhance the importance of EFRAG. It is obvious that it was important to increase the number of staff from two to four plus a fifth very experienced part timer. In addition EFRAG has now employed an experienced full time Technical Director. Following the enhancement decision the quality of the work of EFRAG has increased and so has the credibility. The creation of additional working groups has also increased EFRAG's ability to participate in more issues with the IASB and to enhance the debate and involvement in Europe.

It was also important to make our work more transparent by opening our meetings for public observers, improving our website with more postings and preparing this Annual Review. We have elaborated on the advantages and contents of the enhancement decision later in this Annual Review, but what we have found particularly important has been to involve the National Standard Setters more closely in our work. Now we meet every 3 months with all European Standard Setters to have their input on our comment letters and endorsement advice, and very importantly we have the chairmen of the Standard Setters in UK, France and Germany to enrich our debate at the monthly EFRAG meetings.

It is important for Europe to get involved in the deep technical work on accounting standard setting and participate in the global debate with the highest degree of technical expertise. EFRAG is now in a position to claim to be the European technical voice vis-à-vis the IASB and therefore we will be ready to be a European observer at IFRIC and get more closely involved in the work of the IASB Board itself. I believe it is helpful to the Commission that it can lean back and leave the detailed technical work to EFRAG and only get involved on the political level on rare occasions when appropriate, for instance in trying to persuade the US and the US SEC to abandon the reconciliation requirements.

The FASB/IASB convergence process is important, and we think it is essential to the acceptability of the outcome in Europe that Europe is involved in a direct way in the discussions and decisions. Some argue that the US has too big an influence in the convergence project and there is a need for a counterbalance. We in EFRAG are ready to be involved and thereby help the project to be successful. It should of course be in a co-operative way and should involve creating one European voice by establishing a carefully composed delegation.

There is at present in Europe a strong perception that more interpretations from IFRIC and more accounting guidance are generally needed. Although we are concerned about adding rules to the principles based IASB standards, we need increased output from IFRIC. EFRAG has taken the initiative to contact CESR and FEE to organise a discussion on moving the issue forward. EFRAG is currently working on setting up a forum to collect and identify issues to be dealt with by IFRIC and to support IFRIC by analysing these issues along the lines proposed by the IASB itself in its draft Memorandum of Understanding with National Standard Setters. It is important that we work in partnership with IFRIC and with all the relevant stakeholders in Europe - including CESR, National Standard Setters, preparers, users, the accounting profession and the EU Commission - to achieve consistent application and to get the necessary resources.

There needs to be an increased emphasis on industry-specific issues such as insurance, banking and concession industry issues etc.

Report of the Chairman of the EFRAG Technical Expert Group

It is also important, in EFRAG's view, that Europe encourages IFRIC to change track: IFRIC is not a standard setter, but an interpretation sub-committee and it should therefore concentrate on more narrow issues. In addition it is imperative that it speeds up its activities - soon - to meet the perceived demand. Otherwise other players will be forced and want to take action and issue European inter-pretations. We have already seen the first attempts in the individual countries where many groups are ready to issue interpretations. Such a move is very concerning, because it may create a new Tower of Babel in Europe via conflicting interpretations instead of moving towards one single accounting language in Europe.

“Following the enhancement decision the quality of the work of EFRAG has increased and so has the credibility”

Turning to the more narrow accounting issues, it is very positive that the IASB has developed the amendment to the IAS 39 on the limited use of the Fair Value Option (FVO). We should all appreciate the efforts made to help Europe resolve the problem that occurred when the FVO of liabilities was carved out. The proposal seems satisfactory to all. EFRAG has made a special effort to fast track the endorsement procedure by starting our process based on the preliminary draft of the amendment, but of course subject to changes. We hope the amendment can be endorsed by the Commission in July, so that European entities will have certainty on this issue 4 to 5 months before the end of the year. Another controversial issue is the Interest Rate Margin Hedge proposal which is being put forward as a way of eliminating the second carve out of IAS 39. One may hope for a positive outcome, but it seems very uncertain at this point in time. A major breakthrough is needed soon to maintain the hope of a joint solution.

EFRAG has now come to the first accounting issue where we have decided to issue negative endorsement advice, namely on IFRIC 3 Emission Rights. It is an unfortunate situation for Europe, but EFRAG is set up to make an independent technical evaluation of the standards and interpretations from IASB and IFRIC. The negative decision was unanimously supported by TEG members, so the message is strong. It has also resulted in IFRIC deciding to reconsider the issue to try to come up with a more robust accounting solution to the Emission Rights issue. We strongly support this work.

In relation to the accounting for concessions it is very unfortunate that draft interpretations were issued only recently (in March 2005) even though it has been requested for more than two years. It might now create problems for the interim reports in 2005 and maybe also for the 2005 annual financial statements. It is in such situations that a faster process is needed from IFRIC.

The IASB has several very important projects on its agenda, including the Conceptual Framework, Revenue Recognition, Performance Reporting, Business Combinations Phase II, Consolidation, Insurance Accounting and Employee Benefits just to mention a few. Some of these projects will undoubtedly be very controversial in Europe and therefore it is important that the European constituents get involved in the debates in the early phases. Therefore EFRAG will be trying to create and stimulate the debate on these issues in Europe. For instance we expect to issue a discussion paper later this year on Revenue Recognition even before the IASB has issued a discussion paper. The work has been carried out jointly with the German Accounting Standards Committee. We also expect the

Report of the Chairman of the EFRAG Technical Expert Group

Supervisory Board to host another Advisory Forum to get some of the more high level views on subjects brought into the public and open debate.

Finally I thank the staff for their great performance in 2004. We have promoted Reinhard Biebel to Assistant Technical Director and we have hired Paul Ebling as our new Technical Director. I surely expect our technical quality to increase as a consequence.

We also thank Johan van Helleman who chaired EFRAG successfully for the first 3 years in a very inspiring way and ensured a good start for EFRAG. We should also thank Begoña Giner and Allan Cook who retire after almost four years as members of TEG. They were part of the originally appointed members of TEG and their hard work has helped EFRAG towards success. We should also thank the retired Secretary General, Paul Rutteman, who has done a great job establishing the EFRAG secretariat and supporting the Technical Expert Group and the Supervisory Board over the last 3 and a half years.

The year 2005 is expected to be very busy for EFRAG because of an expected big volume of output from the IASB and IFRIC. EFRAG is ready to deal with the challenge and in addition be proactive on upcoming issues. We believe that we have the support of the European stakeholders to be the European voice, so we look to next year with a great deal of optimism.

Stig Enevoldsen
20 April 2005

www.efrag.org

The screenshot shows the EFRAG website interface in a Microsoft Internet Explorer browser window. The address bar displays 'http://www.efrag.org'. The website header includes the EFRAG logo and the text 'European Financial Reporting Advisory Group'. A navigation menu on the left lists 'Efrag', 'Current projects', 'Projects alphabetical', and 'Meetings'. The main content area features several news items, each with a date and a title. A circular callout highlights the following item:

15 April 2005 | Endorsement of Cash Flow Hedge Accounting of Forecast Intragroup Transactions
EFRAG invites comments by no later than 16 May 2005
Project: Endorsement of IAS 39 - Cash Flow Hedge Accounting of Forecast Intragroup Transactions More>>

Other visible news items include:

- 20 April 2005 | The Fair Value Option - Effective Date and transitional provisions
- 07 April 2005 | IFRIC D11 Changes in Contributions to ESPPs
- 04 April 2005 | UPDATE ON TEG COMPOSITION

On the right side of the page, there are three boxes with the following titles:

- Invitation to comment: Endorsement of IAS 39 - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Proposed amendments to IAS 39 - The Fair Value Option
- Service Concession Arrangements

The Enhancement Project

Enhancement Changes

The Supervisory Board of EFRAG developed proposals for the enhancement of the operations in late 2003 and completed the project in early 2004. As a result, a number of changes were made including:

- Appointing a full time chairman of TEG
- Opening TEG meetings to the public
- Expanding staff levels
- Improving the due process
- Organising an advisory forum
- Developing working parties of specialists in key areas
- Inviting key National Standard Setters to participate in TEG
- Expanding consultation arrangements with European Standard Setters
- Moving from 2-day to 3-day meetings
- Setting out dissenting views in responses

1. Chairman and Secretariat

Stig Enevoldsen came in as full time chairman supported by his firm – Deloitte. Johan van Helleman had successfully steered EFRAG through its early years as part-time chairman. Simultaneously, staff levels were increased by the addition of two project managers and a half-time very experienced senior project manager. Having a full time chairman with more staff allowed EFRAG to broaden and deepen the scope of its technical work and, among other things, also allowed the association to be involved in more conference activities. The Chairman and the Secretary General have delivered a considerable number of speeches during 2004.

2. Working Groups

The system of using working groups to deal

with the key issues of the day has been introduced with working groups set up for:

- Insurance Accounting
- Revenue Recognition
- Service Concessions Arrangements
- Small and Medium sized Enterprises (SMEs)
- Financial Instruments
- Venture Capital Investments

Reports from these groups are included in a separate section of this Annual Review. The working groups are normally chaired by a member of TEG. The establishment of the working groups has been a success for EFRAG although organising and monitoring them requires a substantial amount of resources. The working groups' objective is to ensure high quality input to TEG and finally to the IASB. This is ensured by receiving the voluntary support from some of the best experts in Europe in the respective areas.

3. Advisory Forum

The first Advisory Forum took place in September 2004 and considered the issue of Performance Reporting. Some 70 invited participants debated on the subject with a carefully selected panel. The invited participants were users, auditors and high level financial officers of listed companies having to move to IFRS. The debate enabled the TEG to hear the practical points arising from various IASB proposals. EFRAG believes that the first Advisory Forum was a success that should be repeated on other subjects.

4. Liaison Standard Setters

EFRAG now meets with the IASB and its Liaison Standard Setters (from the US, Canada, Australia, New Zealand, Japan, France, Germany and UK) to look at upcoming issues.

These discussions are likely to foreshadow significant changes to IFRS in the future. IASB has also invited EFRAG to undertake research into aspects of accounting by venture capital investment companies. One of the key questions here relates to the consolidation of companies 'controlled' by venture capital organisations. However it seems that the IASB has downgraded the work related to the meetings with the Liaison Standard Setters and will instead work more with the standard setters on joint projects on a bilateral basis. EFRAG intends to participate actively in that process.

5. Co-operation with National Standard Setters

EFRAG has expanded the consultation arrangements with European Standard Setters and has increased the number of regular meetings with all Standard Setters in Europe from three to four meetings per year. This will ensure a proper involvement of all standard setting organisations and a permanent exchange of views and ideas.

In addition, the three chairmen of the biggest Standard Setters in Europe – UK, France and Germany – have been elected non-voting members of the EFRAG TEG. EFRAG is actively pursuing ways to work more closely with European National Standard Setters to be able to maintain the ability to be at the forefront of accounting issues.

6. EFRAG TEG meetings

EFRAG is committed to deal with issues at an early stage and in a transparent process. Therefore the monthly TEG meetings have been opened to the public. In addition the meetings have been expanded from two to three days meetings because of the workload and to ensure high quality output. There is no doubt that the TEG comment letters are now

reaching a satisfactory level. TEG has had 12 meetings during the year – 11 ordinary meetings and one extraordinary meeting to deal with the IAS 39 carve out (see later).

7. Other changes to enhance the EFRAG operations:

- EFRAG has approved a policy on the publication of dissenting views of TEG members, so as to allow members to set out views that are different from the majority view.
- EFRAG has established a regular summary update reporting on the decisions taken in the monthly TEG meetings.
- EFRAG's main way of communication is the EFRAG website. All drafts, invitations to comment, letters received, final comments and summaries of the TEG meetings are published there. In order to increase the user-friendliness the website will be re-designed.

Technical Activities

Exposure Drafts and Standards

2004 started with a flurry of activity. IASB, keen to complete the stable platform of standards to be applied from 2005, published 13 improved standards and the amended IAS 32 and IAS 39 on financial instruments during the Christmas week 2003. EFRAG had to publish draft endorsement advice letters soon afterwards.

The activity of the IASB and IFRIC gave rise to a very high level of activity for EFRAG because final standards and interpretations require issuance of draft endorsement advice letters and final endorsement advice letters. Exposure drafts and draft interpretations give rise to draft comment letters and final comment letters. Draft comment letters and

draft endorsement advice letters are posted on the EFRAG website for comment, and the final letters are issued after a careful consideration of the comments received from the European constituents. The amendments to IAS 39, the standard on financial instruments, resulted in very many comment letters to be considered. During 2004 EFRAG in total has issued 19 draft comment letters and 21 comment letters plus 14 draft endorsement advice and 9 endorsement advice letters. For further details see the table of publications on page 14.

1. IAS 32/39

While the 13 updated standards raised only a few problems, IAS 39 proved to be controversial and much of the year was taken up with amendments of different kinds culminating in the carve outs of the fair value option and some hedging provisions in the version finally endorsed in Europe.

Generally EFRAG has been able to support endorsement of the standards and interpretations issued although in some cases with certain reservations. However, in relation to IAS 39, EFRAG was divided in its views and accordingly finally refrained from providing endorsement advice – positive or negative.

IAS 39 has attracted criticism from the banking sector because it does not accommodate the approaches used by many banks (particularly in continental Europe) to hedge their interest rate risks. To give IASB and the banks more time to find a solution acceptable to both, the banks and IASB are looking at a possible approach known as Interest Rate Margin Hedging. The European Commission, in endorsing IAS 39, removed wording that prevented the use of such hedging solutions. EFRAG was asked at short notice

to assess the effectiveness of the carve outs in meeting the Commission's objectives without full due process. EFRAG provided that advice whilst making it clear that it was expressing no opinion on the desirability of the carve outs.

In the same way, banking regulators - in particular the European Central Bank and the Basel Committee - expressed concerns that the Fair Value Option included in IAS 39 could in certain circumstances endanger the financial stability. Accordingly, the Commission also proposed carve-outs to IAS 39 preventing the Fair Value Option from being used for liabilities. These carve outs cause problems for insurance companies and other entities with assets (that are shown at fair value) that match liabilities (that are not adjusted). The resulting mismatch can distort the results of such companies and again, efforts are being made to resolve the problem. Fortunately the IASB has put forward a change with the objective to limit the Fair Value Option. The proposal has gained broad support from most players in Europe and we should commend the IASB for the good work to find a high quality compromise.

2. Other Standards

IASB issued in 2004 IFRS 2 Share-based Payment, IFRS 3 Business Combinations and amendments to IAS 36 Impairment of Assets and IAS 38 Intangible Assets, IFRS 4 Insurance Contracts, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 Exploration for and Evaluation of Mineral Resources and ED 7 Financial Instruments: Disclosures. In addition several amendments to IAS 39 Financial instruments: Recognition and Measurement as well as a Discussion Paper on Accounting Standards for Small and Medium-sized Entities (SMEs) have been published. Some of those standards, amendments and proposals were controversial especially IFRS 2,

but also to some extent parts of IFRS 3, amendments to IAS 36 and 38, and IFRS 4.

3. IFRS 2

IFRS 2 on Share-based Payment was known to be controversial because in the US a parallel standard had been delayed as a result of congressional pressure reacting to misgivings about the effects on fast growing high-tech companies collectively known as "Silicon Valley". EFRAG too was lobbied by similar organisations, but nevertheless recommended endorsement of IFRS 2 and it was duly endorsed. Subsequently the US issued a standard similar to IFRS 2, arguably because IFRS 2 had been accepted in Europe and in the interests of convergence, but the implementation has been postponed by the SEC.

4. IFRS 4

IFRS 4 Insurance Contracts, which was based on ED 5, has been a controversial issue for quite some time, but after a long debate there was general acceptance by preparers, auditors, users and standard setters of the standard as an interim solution. IFRS 4, which gives relief from the accounting hierarchy (paragraphs 10-12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors), shall be replaced by a new comprehensive standard on accounting for insurance contracts, which is currently being developed by the IASB under phase 2 of the project. Unfortunately it may take many years before a final standard is issued.

5. IFRS 6

IFRS 6 Exploration for and Evaluation of Mineral Resources was issued in December 2004. It permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the

requirements of the accounting hierarchy (paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors). Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. IFRS 6 is an interim measure – similar to IFRS 4 – until a comprehensive standard is developed. The second phase of the project is currently a research topic of the IASB. The aim is to publish a discussion paper in 2006.

IFRIC Drafts and Interpretations

At the same time, IFRIC started issuing a number of draft interpretations including IFRIC D4, D5, D6, D7, D8, D9, D10 and D11. IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, IFRIC 2 Members' Shares in Co-operative Entities and IFRIC 3 Emission Rights have been issued in final form during 2004. EFRAG recommended endorsement of IFRIC 1 in July 2004 and of IFRIC 2 in January 2005.

IFRIC 3 Emission Rights, which has been issued in December 2004, provides guidance on accounting for greenhouse gas emissions. However, IFRIC 3 proved to be very controversial and EFRAG, after a number of discussions, agreed to advise the European Commission not to endorse IFRIC 3. As a result, IFRIC decided to revisit the subject although it remains to be seen whether a satisfactory solution can be developed.

In 2004, EFRAG was in particular concerned about the need to interpret the standards to provide guidance on two particular subjects:

- The capital of co-operative entities
- Accounting for service concession arrangements

Co-operative entities (banks in particular) have specific difficulties in that members of such co-operatives can in certain circumstances seek repayment of their capital contributions subject to certain restrictions. EFRAG participated in finding a solution and welcomed IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments, which generally resolves the issues for most co-operative banks and many other co-operatives.

As regards accounting for service concessions (such as toll roads) EFRAG has followed closely the proposals made by IFRIC. As progress in developing the relevant interpretations had been slow, EFRAG put forward proposals to IFRIC for workable transition arrangements for the year of 2005. IFRIC finally issued draft interpretations on the subject in March 2005, suggesting that a final solution might be ready at the end of 2005. This creates certainly problems for the accounting and the continuity during 2005. It is hoped that a solution will be found sooner than expected.

Other Comment Letters

In 2004 EFRAG also provided its comments on the IASCF Constitutional Review and participated in the public hearings on the Review. EFRAG's Supervisory Board and Founding Father organisations have been very active on this subject and have commented on the second round of the IASCF Constitutional Review early 2005.

EFRAG has also commented on the CESR equivalence project for non-European filers on European Stock Exchanges. It is a very important project, where EFRAG will follow the technical outcome.



TEG meeting

EFRAG Publications 2004

	<i>Draft comment letter</i>	<i>Final comment letter</i>	<i>Draft endorsement advice</i>	<i>Final endorsement advice</i>
<i>IFRSs</i>				
Improved IASs			27 Jan	3 Mar
ED 6/IFRS 6 Mineral Resources	29 Jan	23 April	15 Dec	
ED 7 Financial Instruments: Disclosures	14 Sep	12 Nov		
IFRS 2 Share-based Payment			8 Mar	26 Apr
IFRS 3 Business Combinations			28 Apr	4 June
Amendments IAS 36 Impairment, 38 Intangible Assets			28 Apr	4 June
Amendments IFRS 3 Business Combinations	14 May	23 July		
IFRS 4 Insurance Contracts			23 Apr	4 June
IFRS 5 Assets held for Sale			23 Apr	4 June
Amendments IAS 19 Employee Benefits	19 May	23 July	21 Dec	
Amendments IAS 32 Financial Instruments			4 June	8 July
Amendments IAS 39 Financial Instruments			4 June	8 July
Amendments IAS 39 Fair Value Option	19 May	23 July		
ED IAS 39 Initial Application Transition	19 July	15 Oct		
ED IAS 39 Cash Flow Hedge Accounting	19 July	19 Oct		
ED IAS 39 Financial Guarantees	23 July	15 Oct		
SME Discussion Paper	30 July	14 Oct		
<i>IFRICs</i>				
IFRIC 1 Changes in Decommissioning Liabilities			10 June	19 July
IFRIC D3/IFRIC 4 Determining a Lease	28 Jan	31 Mar	20 Dec	
IFRIC D4/IFRIC 5 Interests in Decommissioning Funds	30 Jan	31 Mar	20 Dec	
IFRIC D5 Hyperinflationary Economies	31 Mar	14 May	20 Dec	
IFRIC D6 Multi-employee Plans	17 June	23 July		
IFRIC D7 Scope of SIC12	19 July	8 Sep	19 Nov	
IFRIC D8/IFRIC 2 Co-operative Entities	19 July	9 Sep	29 Nov	
IFRIC D9 Promised Return Plans	23 July	24 Sep		
IFRIC D10 Waste Electrical and Electronic Equipment	17 Dec			
IFRIC D11 Changes in Contributions to ESPPs	17 Dec			
<i>Other Projects</i>				
CESR Standard No 2		26 Jan		
IASCF Constitutional Review		28 June		
IASB Deliberative Process	15 June	19 July		
Service Concessions		22 Nov		
CESR Equivalence Project		27 Dec		

Report on the EFRAG Working Groups

Insurance Accounting Working Group

The EFRAG Supervisory Board decided in 2002 to establish a sub-committee - in close cooperation with CEA, the European Insurers Association - to deal with insurance matters. Insurance accounting matters have high priority in Europe given the fact that IFRS 4 Insurance Contracts can only be seen as an interim standard and there is no long-term comprehensive international accounting standard on insurance yet. The role of the EFRAG Insurance Sub-committee was to influence the development of IFRS and IFRIC Interpretations on insurance specific matters, including advising the Technical Expert Group.

The Sub-committee performed well, making a big effort to respond to the IASB on ED 5, which was finally published as IFRS 4 Insurance Contracts. During the due process on ED 5, EFRAG communicated its concerns about the project clearly and the final standard has taken into account important aspects of EFRAG's and others' views. Although very controversial from the beginning, IFRS 4 - with the support of EFRAG's insurance sub-committee and TEG - was endorsed by the Commission for mandatory use in Europe from 2005.

Future Activities

IFRS 4 has to be seen as the first step in the improvement of insurance accounting and therefore the IASB has set up an Advisory group on Insurance Contracts Phase II with the aim of developing a long-term standard replacing IFRS 4 possibly by 2008/09. The priority for EFRAG in 2005 will be to concentrate on Phase II of the project. EFRAG decided in 2004 to restructure its sub-committee into an Insurance Accounting Working

Group. Key objectives of the new working group are to help EFRAG provide pro-active contribution to the work of the IASB and IFRIC from a European standpoint and to identify interpretation and implementation issues on insurance specific matters.

The members of the working group are:

Benoit Jaspar, Chairman (Assicurazioni Generali), Bernard Bolle-Reddat (BNP-Paribas), Ruurd Van den Berg (AEGON), Jacques LeDoutit (AXA), Hugh Francis (AVIVA), Catherine Guttman (Deloitte and EFRAG TEG member), Joachim Kölschbach (KPMG), Nigel Masters (PWC), Carsten Zielke (WestLB), Paul Ebling (EFRAG), Svetlana Boysen (EFRAG).

Revenue Recognition Working Group

Both IASB and FASB have identified revenue recognition as an issue of high priority. IASB sees a pressing need to modernise its standard on revenue recognition. This is especially the case since the current standard IAS 18 Revenue lacks guidance on certain complex contract structures, e.g. multiple-element contracts. For the FASB the issue is even more urgent since some of the accounting scandals in recent years are linked to the area of revenue recognition and a comprehensive standard on revenue recognition does not yet exist under US GAAP. Proposals regarding the general direction of the new standard on revenue recognition have already been discussed; both Boards are considering an approach which strongly links revenue recognition to the definition of assets and liabilities.

EFRAG established a working group on revenue recognition to fundamentally

Report on the EFRAG Working Groups

evaluate the issue of revenue recognition accounting including evaluating whether the current literature can be amended and improved based on an asset and liability model or whether there is need for a new and more revolutionary approach. The objective of the working group is also to stimulate a discussion in Europe on this important issue by publishing a discussion paper.

The members of the working group are:

Prof. Klaus Pohle, Chairman (GASC), Dr. Mareike Kühne (GASC), Prof. Jens Wüstemann (University of Mannheim), Sonja Kierzek (University of Mannheim), Prof. Sven Hayn (Ernst & Young), Prof. Begoña Giner (University of Valencia), Andrew Lennard (ASB), Patrick Petit (CNC), Jerome Chevy (CNC), Martin Noordzij (CAR), Sigvard Heurlin (EFRAG), Reinhard Biebel (EFRAG).

The group met four times in 2004 and has reported back to the EFRAG TEG on a regular basis. Considerable progress has been made in developing a discussion paper likely to be issued by the EFRAG TEG as a European input for discussion in 2005.

Future Activities

A future standard on revenue recognition will not only have to be conceptually well founded, but will also have to provide clear, consistent and practical principles for identifying and measuring performance obligations. Keeping this in mind, EFRAG hopes to support the development of a high-quality standard on revenue recognition as well as promoting a reasonable balance between the users' need for useful information, the obligation of preparers to provide reliable data and the duty of auditors to report on those.

Service Concessions Working Group

EFRAG established a working group on Service Concession Arrangements in July 2004. The working group aims to assist at an early stage to IFRIC's work by formulating technical input on this complex issue. As an outcome of these working group meetings and deliberations at TEG, EFRAG provided IFRIC with preliminary comments.

Service Concession arrangements are becoming more and more common in a growing number of European countries. Therefore Europe sees it as very important that the service concessions accounting is clarified. This means addressing not only disclosures, as has already been done in SIC 29, but also recognition and measurement issues.

In March 2005 IFRIC issued three draft interpretations regarding the recognition and measurement of Service Concession Arrangements, IFRIC D12 to D14.

One key issue not yet addressed is the urgent need for an (interim) accounting solution for the reporting period 2005 for the concession industry in the first half of 2005.

The members of the working group are:

Hans Leeuwerik, Chairman (EFRAG TEG member), Jan Backhuijs (PWC), Hans Kurt Bergheimer (Bilfinger Berger), Gerard Duhamel (FIEC), Jesus Herranz (FIEC), Jorge Herreros (Deloitte), Philippe Hubert (GroupVE), Jean-Louis Lebrun (Mazars), David Loweth (ASB), Antoni Reczek (PWC), Thomas Scholz (EC), Sigvard Heurlin (EFRAG), Bart De Leeuw (EFRAG).

Report on the EFRAG Working Groups

SME Joint Working Group

The SME Joint Working Group was established in 2004 as a joint working group of several organisations with FEE and EFRAG as the leaders. The group represents users, preparers, accountants, the European Commission and National Standard Setters. The working group's aim is to contribute to the development of relevant accounting standards for SMEs that might be used in Europe.

In 2003 the IASB started a project to develop accounting standards suitable for SMEs. The IASB has developed some preliminary and tentative views about the basic approach that it will follow in developing IASB accounting standards for SMEs. In June 2004, the IASB issued a Discussion Paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities". Based on comment letters from their constituents the IASB has revised its approach and will continue the development of IASB accounting standards for SMEs in 2005. An exposure draft of the IASB accounting standards for SMEs is expected to be issued in first quarter of 2006. The IASB has set up an advisory panel to help it in its work and Mr. Gerhard Prachner has been appointed as EFRAG's representative on the advisory panel.

The main objectives of EFRAG's joint working group in 2004 was to debate ideas and solutions for the direction of SME accounting in Europe ensuring that European views are taken into account by the IASB and to contribute to EFRAG's response to the IASB Discussion Paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities". EFRAG finalised its comment letter on the IASB Discussion Paper in October 2004.

Future Activities

In 2005, the main tasks for the joint working group will be to monitor IASB developments on the SME project and further debate the direction of SME accounting in Europe. The debate will include further elaboration of the group's view on users of SME financial statements, users' needs and definition of a SME. Furthermore the working group will continuously consider whether European specific implications are considered by the IASB.

The members of the group are:

Hans van Damme, Co-Chairman (FEE), Françoise Florès, Co-Chairman (EFRAG TEG member), Catherine Ameye (FEE), Jose Maria Bove (Bové Montero y Cia), John Bowen-Walsh (ICAI), Gabriele Bremes (IDW Germany), Carl-Gustaf Buren (Svenskt Näringsliv), David Coleman (UNICE), Christine Darville (Fédération des Entreprises de Belgique), Sarah De Greef (Fédération des Entreprises de Belgique), Isabelle Ferrand (Confédération Nationale du Crédit Mutuel), Henri Giot (Ordre des Experts Comptables), Franz Gross (Österreichischer Genossenschaftsverband), Signe Haakanes (Den Norske Revisorforening), Jorge Herreros (Deloitte), Robin Jarvis (ACCA), Mikael Lindroos (EC), Solvy Mayr (BDI Germany), Felix Mayrhofer (ESBG), Helmut Ortolf (DZ-Bank), Constanze Pettersson (ESBG), Chiara Pisano (FEE), Jens Poll (Dres Brönner Treuhand-Revision), Gerhard Prachner (PWC), Päivi Rätty (Confederation of Finnish Industry), Fabienne Renaud-Aidan (CNC France), Stefan Reymer (IDW Germany), Marcel Roy (EACB), Isobel Sharp (Deloitte), Saskia Slomp (FEE), Willem H. Van Leeuwen (SHV Holdings), Charlotte Norre (EFRAG).

Report on the EFRAG Working Groups

Financial Instruments Working Group

EFRAG has recently established a working group on financial instruments. This group will contribute to the pro-active work of EFRAG to promote improvements in reporting for financial instruments taking into account European views.

Reporting for financial instruments and in particular IAS 39 Financial Instruments: Recognition and Measurement has been attracting a lot of attention in Europe. The European Commission adopted IAS 39 for application in Europe with certain sections being temporarily carved out pending further improvements in the standard. The carved out sections include optional measurements of liabilities at fair value and certain aspects of hedge accounting. Therefore, finding solutions that would allow Europe to adopt the full version of IAS 39 as published by the IASB and a more satisfactory regime for accounting for financial instruments in general are important areas in application of international financial reporting standards in Europe.

The EFRAG working group on financial instruments consists of highly qualified individuals with technical expertise in financial instruments representing preparers, auditors, users and regulators of financial statements from various European countries. The work programme of the group will cover current issues, including potential solutions for the carved out areas in IAS 39, and the longer-term revision of IAS 39, and other related issues.

The members of the working group are:

Thomas Naumann, Chairman (Dresdner Bank, EFRAG TEG member), David Bradbery, (UBS Investment Bank), Isabelle Collignon

(Crédit Agricole SA), Petri Hofste (KPMG), Gordon Ireland (PWC), Victor Jimenez (Banco Bilbao Vizcaya Argentaria), Ingvar Linse (Swedbank), Helmut Ortolf (DZ Bank AG), Massimo Romano (Assicurazioni Generali), Hugh Shields (Barclays Capital), Agnes Tardos (PWC), Paul Ebling (EFRAG), Svetlana Boysen (EFRAG).

Venture Capital Investments Working Party

The working party has been asked to consider various alternatives to account for investments made by venture capital companies and similar companies. Although the current standard, IAS 27 Consolidated and Separate Financial Statements, requires consolidation of such investments, discussion with financial analysts and other users suggest that their understanding of the financial performance of venture capital and similar companies would be improved if these companies could be evaluated by measuring the related investments at fair value with changes in fair value reflected in the profit and loss in the period of change.

The working party gives business input to EFRAG's discussions of the above subject and of whether a limited exception to the requirements of IAS 27 should be suggested to the IASB.

The output of the working party discussions will be one or more papers presenting pros and cons with various alternatives of accounting for the above investments.

The members of the working party are:

Mike Brown (3i), Pierre Hervé (NATEXIS), Annie Lambrecht (Ernst&Young), Heidi Lepäntalo (Capman), Sigvard Heurlin (EFRAG), Bart De Leeuw (EFRAG).

Financial Highlights 2004

EUROPEAN FINANCIAL REPORTING ADVISORY GROUP (EFRAG)
Abbreviated Financial Statements as of 31 December 2004:

Income Statement	2004 T€	2003 T€
<i>Members' Contributions</i>	1000	1000
Personnel cost	-814	-684
Office rent	-207	-157
Meeting cost	-50	-40
Other cost	-40	-40
<i>Operating Expenses</i>	-1111	-921
<i>Operating Loss</i>	-111	79
<i>Financial Result</i>	2	-4
<i>Net Loss/Profit</i>	-109	75
Balance Sheet	31 December 2004 T€	31 December 2003 T€
Total Fixed Assets	10	14
Total Current Assets	998	922
<i>Total Assets</i>	1008	936
Accumulated Surplus	610	719
Creditors	398	217
<i>Total Liabilities</i>	1008	936

TABLE 1

EFRAG Founding Fathers

UNICE	Union of Industrial and Employers' Confederations of Europe
ERT	European Round Table
FEE	European Federation of Accountants
FESE	Federation of European Securities Exchanges
EFFAS	European Federation of Financial Analysts Societies
CEA	European Insurance Organisation
FBE	European Banking Federation
ESBG	European Savings Banks Group
EACB	European Association of Co-operative Banks
UEAPME	European Association of Craft Small- and Medium-sized Enterprises
EFAA	European Federation of Accountants and Auditors

EFRAG Supervisory Board as of 1 April 2005

Göran Tidström, Chairman	PWC Sweden
John Glen, Deputy Chairman	UNICE/ERT
Paul Arlman	FESE
Philippe Crouzet	UNICE/ERT
David Devlin	FEE
Javier de Frutos	EFFAS
Hervé Guider	EACB
Klaus-Günther Klein	FEE
David Lindsell	FEE
Chris de Noose	ESBG/WSBI
Guido Ravoet	FBE
Peter Sampers	UNICE/ERT
Jos Streppel	CEA
Maija Torkko	UNICE/ERT
Hans van Damme	FEE
Jan Verhoeve	EFAA/UEAPME
Advisors	
Jérôme Chauvin	UNICE/ERT
Paul Chisnall	FBE
Robin Jarvis	EFAA/UEAPME
Constanze Pettersson	ESBG/WSBI
Patricia Plas	CEA
Marcel Roy	EACB
Saskia Slomp	FEE
Wilfried Wilms	FBE
Observer	
European Commission	

TABLE 3

EFRAG TEG Members

Stig Enevoldsen, Chairman	Denmark	Auditor
Allan Cook ¹	UK	Standard Setter
Françoise Flores	France	Industry
Begoña Giner ²	Spain	Academic
Catherine Guttmann	France	Insurance Advisor
Hans Leeuwerik	The Netherlands	Industry
Ugo Marinelli	Italy	Auditor / Academic
Thomas Naumann	Germany	Banker
Friedrich Spandl	Austria	Financial Analyst
Dominique Thouvenin	France	Auditor
New TEG members from 1 April 2005 :		
Mike Ashley	UK	Auditor, Member of the UK ASB
Thomas Seeberg	Germany	Industry
Michael Starkie	UK	Industry
NON VOTING MEMBERS AT TEG MEETINGS		
Chairmen of large National Standard Setters:		
Antoine Bracchi	CNC	
Ian Mackintosh	ASB	
Klaus Pohle ³	GASB	
NON VOTING OBSERVERS INVITED AT TEG MEETINGS		
European Commission		
CESR		

¹ Until 31 March 2005.

² Until 31 March 2005.

³ On a temporary basis Klaus Pohle had voting rights until 31 March 2005.

TABLE 4

EFRAG Members of IASB Working Groups

Financial Instruments	Thomas Naumann
Insurance Accounting	Catherine Guttman
High Level Group	Stig Enevoldsen
Interest Rate Margin Hedge	Stig Enevoldsen / Paul Ebling
Performance Reporting	Françoise Florès
SMEs	Gerhard Prachner

TABLE 5

EFRAG Secretariat as of 1 April 2005

Stig Enevoldsen, Chairman	stig@efrag.org
Paul Ebling, Technical Director	paul@efrag.org
Reinhard Biebel, Assistant Technical Director	reinhard.biebel@efrag.org
Sigvard Heurlin, Senior Project Manager	sigvard.heurlin@efrag.org
Svetlana Boysen, Project Manager	svetlana.boysen@efrag.org
Bart De Leeuw, Project Manager	bart.de.leeuw@efrag.org
Charlotte Norre, Project Manager	charlotte.norre@efrag.org
Nathalie Saintmard, Office Assistant	nathalie.saintmard@efrag.org

ANNUAL REVIEW
— 2004

www.efrag.org

 **EFRAG**

European Financial Reporting Advisory Group ■

Avenue des Arts 13-14 ■ B-1210 Brussels