Better regulation for a competitive market

Jan 07 Building the European Capital Market

A review of developments (Fourth Edition)

www.pwc.com/corporatereporting

www.pwc.com/ifrs

PricewaterhouseCoopers

Contents

	Page
Introduction	
The Financial Services Action Plan	2
Priorities for the next phase	4
Financial Reporting	
Lessons from the first year of IFRS	5
Consistency of IFRS application	6
Endorsement	7
Non-GAAP measures	8
Tax aspects	8
Issuers	
Prospectuses	9
Non-EU issuers and Equivalence	11
Transparency Directive	12
Corporate Governance and Company Law	
The Commission's action plan	15
Board responsibilities and transparency	16
Internal control	17
Independent directors and audit committees	17
Investor Protection	
Auditing	19
Takeovers and mergers	20
Market Abuse	20
Markets in Financial Instruments Directive	21
Shareholders' rights	21
Enforcement	
Committee of European Securities Regulators	22
Standards on enforcement	22
Regulatory coordination	23
Transatlantic dialogue	24
Key issues for European business	25
Appendices	
EU legislation – a glossary of terms	26
White Paper – priorities for the next five years	27
Contact information	28

Preface

Building an integrated European Capital Market in a global economy has formed a cornerstone of the Financial Services Action Plan and is one of the key objectives of the European Union.

The Action Plan is nearly completed and the European institutions can be proud of the progress achieved to date. The next four years will see a phase of consolidation, with relatively few legislative initiatives. The European rules must now be translated effectively into national regulation, properly applied and correctly enforced by the supervisory authorities. The regulations have to be allowed to settle down and show how they can work in practice. This will be a challenge not just for the individual member states but also for the EU institutions responsible for monitoring progress and ensuring consistency of application within the Union.

But the work is not finished in a number of areas. The policies developed at EU level are affected by, and have an influence on, policies and legislation elsewhere in the world. Therefore it will be very important to engage closely with regulators outside the European Union and ensure that the reach of regulations both into and outside the EU is reasonable and equitable, and designed to facilitate trade and the provision of services across borders.

PricewaterhouseCoopers will continue to take part in the debates on the future of the European capital market. This review summarises the current status of some of the key elements in the Single European Capital Market and includes our views on these developments.

We hope you find this summary useful and we encourage you to consult with our team of regulatory contacts on any of the issues raised in this publication.

Wolfgang Wagner
Senior Partner and CEO, Eurofirms

Jens Røder
Eurofirms Regulatory Leader

January 2007

This booklet was researched and prepared by Graham Gilmour, Kevin Desmond and Mike Davies, with the assistance of our network of regulatory partners around Europe.

Introduction

Combining the forces of its 27 member states, the European Union is the world's second largest economy. However, given the inherently national nature of the economies and related markets, the economic power of the EU is not always recognised or exercised in a cohesive fashion.

Investors and commentators now routinely refer to 'Europe's equity markets', rather than, say, the French or German equity markets. But this change in attitude by market participants has until recently not been reflected in the legal and regulatory structures. These have remained essentially national. Nor has company law kept pace with modern business and investors' needs in an increasingly global environment.

We support strongly the EU's single market agenda. It is necessary if Europe is to have more effective and efficient capital markets and if Europe is to be fully competitive on the world stage.

'Consideration will be given to those instruments that put the least burden on companies and leave them as much flexibility as possible'

The Financial Services Action Plan
The Financial Services Action Plan (FSAP) published in 1999 set out a five-year legislative process to deliver the components of a single European Capital Market.

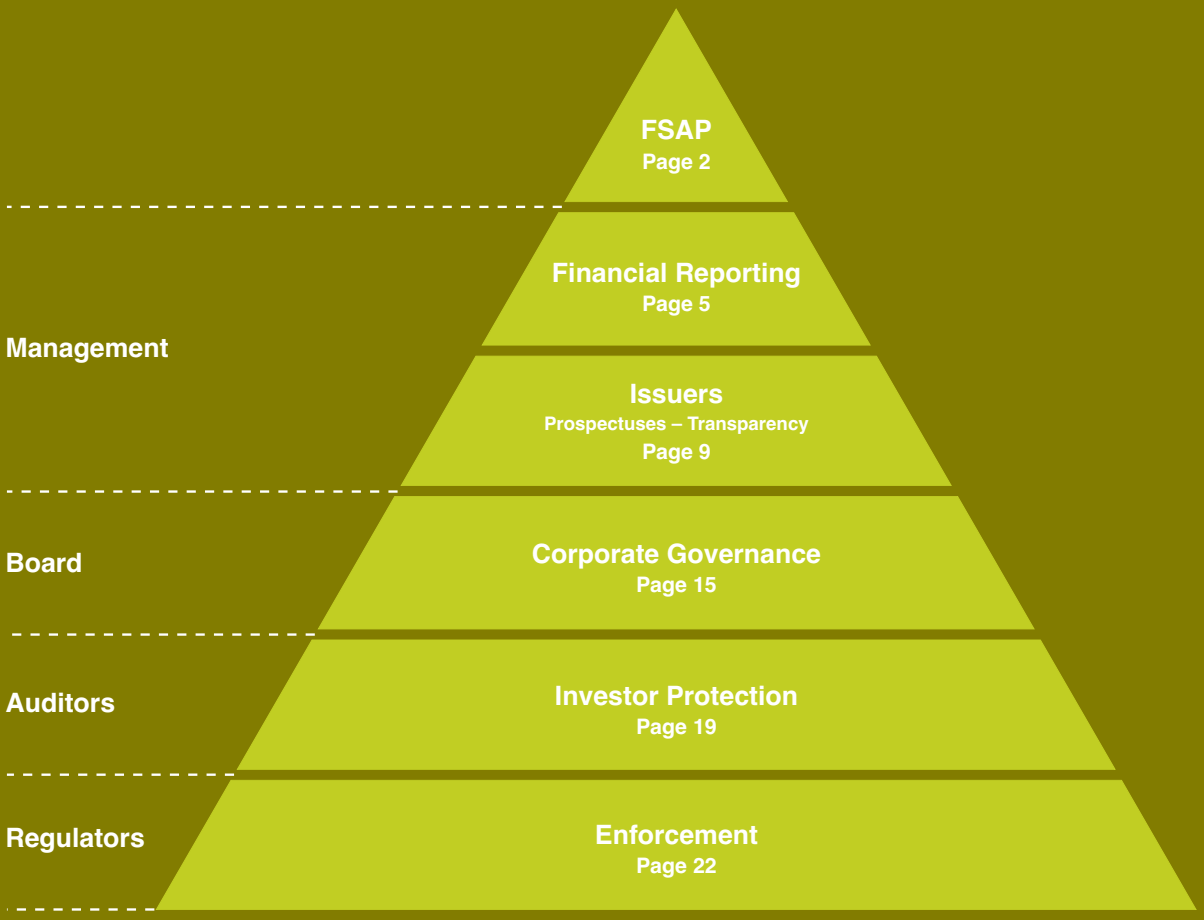
Key elements of the FSAP are depicted on the opposite page. Each of these is covered in more detail in the following sections of this booklet.

The need to deliver the FSAP in a relatively short time frame led to the development of a more flexible approach to law-making by the Commission. The approach (popularly called the "Lamfalussy Approach") involved greater use of committees and specialist technical input in framing detailed legislation. For example, the legislation on Prospectuses and Transparency was adopted by the Commission and the European Parliament, based on technical advice by the Committee of European Securities Regulators (CESR) and the favourable vote of member states. This is supplemented by guidelines and non-binding standards issued by CESR.

The 42 measures from the 1999 Action Plan are now substantially adopted. This is a significant achievement for the EU, and one that has not gone unnoticed in the world's other major capital markets. Commenting in November 2006, as the US launched its own Committee on Capital Markets, the US Treasury Secretary observed 'a number of foreign markets have developed excellent standards and protocols'.

But all markets need constantly to look at their attractiveness as a place to do business. Hence the Commission is looking at how further to refine the single Capital Market.

The European Capital Market



Priorities for the next phase

In December 2005, the European Commission published in a White Paper its priorities for financial services for the next five-year period. This is not a new Action Plan – rather it is a strategy to enhance and consolidate the work the EU has already set in motion.

Although there are fewer measures than in the previous FSAP, the objectives the Commission has set for the next phase are nevertheless ambitious. The key priorities are to:

- Consolidate towards an integrated, open, inclusive, competitive, and economically efficient EU financial market
- Remove remaining barriers so financial services can be provided and capital can circulate freely in the EU at lowest possible cost – with effective levels of prudential and conduct of business regulation – giving financial stability, consumer benefits and consumer protection
- Implement, enforce and continuously evaluate existing legislation and apply the 'better regulation' agenda to future initiatives
- Enhance supervisory cooperation and convergence, deepen relations with other global financial marketplaces and strengthen European influence globally.

The White Paper signalled a further change in emphasis in the Commission's approach to law-making. Under the 'better regulation' agenda, stakeholder consultation will take place before any legislation is deemed necessary. Greater consideration will be given to those instruments that put the least burden on companies.

Consistent with these changes, the Commission has created a European Securities Markets Expert Group (ESME), comprising 20 experts from the business, investment and legal communities. The group will assist the EC with legal and technical advice on aspects of the EU securities framework, as well as practical and economic analysis of the impact of specific directives.

A number of specific legislative objectives were also identified in the White Paper. These mostly relate to the financial services sector and are listed in the Appendix on page 27.

While we fully support the drive towards enhancing the Single Capital Market and the future priorities, we also believe that sufficient time should be allowed for the existing initiatives to be absorbed. Member states need time to consolidate the initiatives and legislation in order to ensure consistency of application. And market participants will need time to adapt to the new requirements.

Financial Reporting

By setting 2005 as the target date for the adoption of IFRS (International Financial Reporting Standards) for listed companies, the European Commission has ensured that IFRS is one of the most important accounting languages in use around the world.

Use of a common standard for financial reporting helps economic development by providing a single basis of measurement and comparison of financial performance. This facilitates competition in the allocation of capital. A recent PwC survey of European fund managers showed that they have a good understanding of the impact IFRS has on companies and say they find IFRS information useful.

The EC's IAS Regulation was passed in June 2002. It requires that all EU incorporated companies that are listed on EU regulated markets prepare their consolidated accounts in accordance with IFRS from 2005. The only exceptions are that individual member states can permit their companies already reporting under full US generally accepted accounting principles (GAAP), and those that have only listed debt, to extend the deadline for implementing IFRS until 2007.

For the vast majority of European listed companies, IFRS reporting is already a reality. They will now be planning the release of their second set of annual results under the new framework, with the benefit of the lessons learned from the first year of implementation.

Individual EU member states have the option to extend the use of IFRS to other companies. They can require, or permit, non-listed and private companies to prepare their statutory accounts on the basis of IFRS. For small and medium-sized companies, the IASB is currently developing a separate reporting standard. The Commission is taking a close interest in this project, and has warned that, in order to help business, the resulting requirements should be simple and easy to apply.

Lessons from the first year of IFRS

During 2006 PwC surveyed almost a 100 UK Finance Directors from FTSE 350 companies and asked them to identify the specific areas that created the greatest additional work (and costs) for preparers of IFRS. They identified areas such as: financial instruments; share options; deferred tax and identification and valuation of intangible assets. Some of these areas require a much greater focus on valuation and the underlying economics than was perhaps the case under previous GAAP.

More than a third of the companies surveyed encountered surprises in terms of finding additional, unexpected differences in their IFRS accounts. As companies again review their accounting policies as they prepare for their second year of IFRS reporting, they may find with the benefit of experience and hindsight that further issues arise.

Preparers and users need sufficient time to adjust and get used to the current set of IFRS standards. Responding to this concern, the IASB has announced that, while work will continue on its 'roadmap' to develop new standards, no new IFRSs will be effective before 2009. This should allow a period of stability for preparers and other users.

Our view

In preparing their second year's IFRS financial statements, EU listed companies should be reviewing the lessons learned from the first year of reporting. Our experience was that many companies managed to meet the 2005 deadline because they established dedicated project teams to work on transition. In some cases the objective was met by deploying 'work-arounds' - for example using spreadsheets to generate some numbers and disclosures. That worked for 2005, but the real challenge is to move from the project phase to 'business as usual'. The current IFRS standards are here to stay for the next few years and companies need to have flexible and durable systems that generate IFRS-compliant data.

As the IASB develops more standards that try to portray the underlying economics, particularly based on fair or market values of assets and liabilities, all those involved in the financial reporting process need to look afresh at the skill-sets needed by those working with the standards. Companies need to consider this as they look ahead to the next 'wave' of new IFRS standards likely to be applicable from 2009.

Consistency of IFRS application

The 2005/06 company reporting season in Europe was unprecedented – more than 7,000 listed companies reporting for the first time under a new accounting framework. Based on what we know at present, and recognising that key regulators including the Commission and the US SEC are still looking at how companies reported in the first year, the transition seems to have gone reasonably well.

While implementation has been generally successful, that has not yet translated into full understanding of the implications of the change. We can expect some continuing uncertainty in the market about how to interpret the first few sets of results, particularly for certain companies or specific sectors.

European regulators recognise that there will inevitably be teething problems in the application and interpretation of IFRS. A European 'Roundtable' on Consistent Application has been established, at which practical issues in applying the standards are discussed. A range of interested parties, including the Commission, CESR, standard setters, the accounting profession and preparers, participate in the roundtables. The intention is to raise issues for the attention of the International Financial Reporting Interpretations Committee (IFRIC), rather than to write European-level interpretations. The Commission's view is that all major interpretation issues in Europe should be brought to the roundtables.

Our view

IFRS is a principles-based framework and every set of company circumstances is different. Management and auditors must have the ability to make reasonable judgments around accounting treatments. These judgments are necessary and should be respected by stakeholders in the financial reporting process. The test for the reasonableness of a judgment should be based on how well it conforms to the principles underlying the relevant standard.

The 'roundtable' to discuss emerging issues may be helpful, particularly in flagging issues for IFRIC's attention in the early years of IFRS application in Europe. However, our impression is that, without stronger participation by preparer groups, the sustainability of such a forum remains questionable in the longer term. In addition, any issue raised at the roundtable inevitably takes some time to feed through the system. The issues discussed in 2006, even if identified as being suitable for referral to IFRIC or for other action, are unlikely to have any effect on companies' reporting in 2006/07 – the accounting policy decisions have already been made.

'There will inevitably be a few teething problems in the application and interpretation of IFRS'

Endorsement

In order to be formally adopted by the European Union for use in consolidated financial statements, IFRS standards have to go through a process of 'endorsement'. This is necessary to give legal effect to the use of IFRS at a pan-European level. The standards are first reviewed by a group of technical experts in EFRAG (the European Financial Reporting Advisory Group). EFRAG then provides advice to the Commission which prepares a recommendation for consideration by the ARC (Accounting Regulatory Committee) composed of representatives of member states. The ARC votes on the Commission's recommendation and it passes into law unless the Parliament calls for the Commission and ARC to reconsider.

The Commission has announced that a further body, the Standards Advisory Review Group (SARG) will be interposed between EFRAG and the ARC. This group, which consists of government body representatives, will not provide technical input, but will review the process and provide independent advice to the Commission and member states that EFRAG's opinions are objective and well-balanced.

Not all of the standards issued by the IASB have been endorsed in full for use in Europe. In October 2004, the ARC decided in favour of the EC's proposal to endorse IAS 39 'Financial Instruments: Recognition and Measurement' minus certain provisions on the full fair value option and on portfolio hedging of core deposits. The fair value issue has since been addressed by the IASB issuing an amendment to IAS 39, but the hedging 'carve out' still remains.

Although it is not the intent to create different standards, the endorsement procedure may result in different standards applied in Europe from the IFRS standards issued by the IASB at any point in time. The Commission has recommended that the accounting framework for EU listed companies be described as 'International Financial Reporting Standards (IFRSs) as adopted by the European Union', to reflect their legal status and the fact that minor differences exist.

A further issue is that the endorsement procedure results in a delay before a standard becomes officially 'adopted' for use in the EU. The Commission acknowledges this is a concern and is working to address it. It has indicated that Regulations endorsing IFRS standards entering into force after the balance sheet date but before the date the financial statements are signed can be used by companies, provided early application is expressly permitted in the Regulation and in the related IFRS.

Foreign private issuers are permitted by the US SEC to present financial statements in accordance with IFRS or in accordance with IFRSs as adopted by the EU. However, if a company files its statements for the first time in accordance with the EU standards, it will need to include an additional one-time reconciliation from EU standards to 'full' IFRS, as well as the usual reconciliation to US GAAP.

Our view

We continue to support one set of financial reporting standards used globally on a consistent basis. The endorsement procedure means that the standards applied in the European Union may not be identical to those used elsewhere in the world. We urge all parties to continue to work towards the full implementation of IFRS as speedily as possible, so that different frameworks described as 'IFRS as adopted in country X' do not become entrenched in different markets.

The delay (of up to eight months in some cases) in IFRS standards being adopted has caused significant uncertainty for companies. The Commission and Member States should take all possible steps to reduce the time taken for endorsement. We would be concerned if the proposed new SARG extended further the time taken to endorse new standards.

Non-GAAP measures
Companies have for many years supplemented existing information in their statutory financial statements with additional 'non-GAAP' measures to help explain their performance. EBITDA (earnings before interest, tax, depreciation and amortisation) is a commonly used example. Some commentators suggested that, with so many companies converting to IFRS, there is scope for different non-GAAP measures to proliferate. In October 2005 CESR issued a recommendation on the use of non-GAAP measures or 'alternative performance measures' (APM). Key points of the recommendation are:

- Terminology used in APM should be defined
- APM should be presented in addition to the GAAP measures and the differences explained
- Comparatives should be provided
- APM should be presented consistently over time
- GAAP measures should be presented with greater prominence than APM
- Companies should explain why APM are presented and how they are used internally.

Our view
The focus on non-GAAP or alternative performance measures is welcome. However, this is an area where some common principles on presentation are needed.

The recommendation by CESR needs clarification before it can be widely used and understood. For example, it is unclear from the guidance whether EBITDA, 'cash earnings', earnings before one-time charges and similar measures constitute defined GAAP measures or alternative performance measures. It would also be helpful if CESR could coordinate its approach with key regulators in other markets such as the US, where a more restrictive view of GAAP measures may be taken.

Tax aspects
Taxation and Customs policies have an important part to play in the EC's 'Lisbon strategy', with its focus on growth and jobs. A key part of this is the Commission's policy of working towards a Common Consolidated Corporate Tax Base (CCCTB). Adoption of a CCCTB, it is argued, is easier once IFRS accounts are used generally. Benefits identified by the Commission include easier compliance, cross-border loss offsets and facilitating various restructuring issues.

The proposal does not extend to harmonised corporate income tax rates. There would clearly be a need to devise a method for sharing the consolidated tax base between Member States so that each state could apply its own tax rate(s).

Our view
The proposal has merit in principle but issues to solve include:

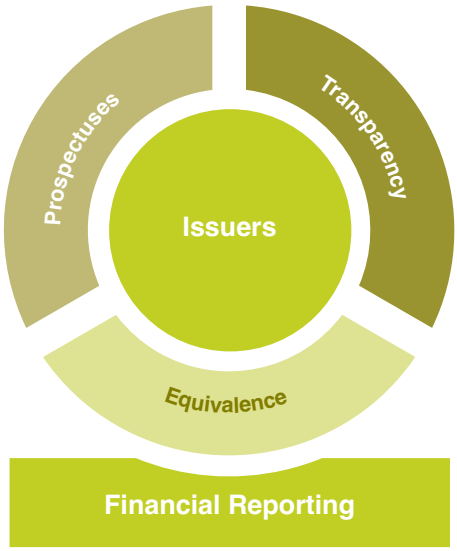
- How the CCCTB would apply to groups with non-EU interests
- Whether this proposal applies at consolidated group level only or to individual companies (holding companies or generally)
- The implications of possibly having a differing tax system for international or cross-border businesses and SMEs.

In any case, more experience is probably needed in local adoption of IFRS-based accounts as a basis for tax charges. One of the major concerns with IFRS is the potential for variability between successive years' results through changing valuations. This implies fluctuating tax charges – which could well concern the governments and tax authorities as well as companies.

It seems unlikely that CCCTB will be adopted generally within the EU as it will not get unanimous approval from members. However, there is every chance that the Commission will encourage a subset of member states to adopt the proposal. This will add to the issues to be solved – for example, how will the concept apply within groups that encompass both CCCTB and non-CCCTB states? That would seem to increase the administrative burdens, at least initially, for business rather than reduce them.

Issuers

Companies raising capital in the EU are subject to several regulations and directives aimed at facilitating access to capital on a pan-European basis and increasing the comparability, frequency and transparency of published information. In conjunction with the financial reporting framework discussed above, Directives on Prospectuses and Transparency together with guidance on 'equivalence' of accounting standards set out the principal rules for issuers.



Prospectuses
The Prospectus Directive, adopted in July 2003, has now been implemented in member states. It sets outs the basis for providing a pan-European regime for offering securities to the public or admitting securities to trading on an EU regulated exchange. It provides a framework for a consistent approach to when a prospectus is required and sets a common standard for disclosure.

To achieve the goal of common standards the Prospectus Directive is a 'maximum harmonisation' directive. Member states are not able to impose additional requirements on issuers from other member states as to when a prospectus might be required or its content. The directive sets out only the main principles – detailed implementing measures are set out in an EU Regulation.

Scope of the directive
The directive applies whenever securities are offered to the public in the EU or admitted to trading on a regulated market in the EU. It applies to EU domiciled issuers and to foreign issuers. (Certain exceptions apply such as where an issue is a further issue of securities for less than 10% of an already traded class.)

It requires that prospectuses be approved by an issuer's home member state – the country where the issuer is incorporated. There is an exception for issues of debt securities with a denomination in excess of €1,000 where issuers will be able to choose the member state where the prospectus is to be approved.

The manner in which a prospectus is to be drawn up is not prescribed. It can either be a single document (currently common practice for many European offerings), or three separate documents – a 'summary', a 'registration document' and a 'securities note'. The prospectus will normally be drawn up in the language of the home member state and a language customary in international finance. Only the summary may be required to be translated into the language of any member state where the securities are to be offered or traded.

Issuers

Implementing measures
The contents of a prospectus are specified in detailed implementing measures in the Prospectus Regulation. These reflect the advice provided to the Commission by CESR which consulted with market participants.

A 'building block' approach to the contents of a prospectus is adopted. There is a hierarchy of requirements tied to different types of offerings, working from a maximum level applicable to equity securities, through retail debt, to lesser requirements for high denomination debt (for example, high denomination securities in excess of €50,000).

Our view
The detailed implementing measures provide a well-balanced approach to prospectus disclosure that should provide the basis for a common standard across the EU.

Financial information
A key component of any prospectus is the company's track record of financial performance. The principal requirement is for three years' audited historical financial information.

One issue is the requirement for the last two years' financial information to be presented on the basis of the accounting policies applicable to the current year. Consequently, issuers applying to be admitted to a regulated market for the first time will be required to provide two years' IFRS consolidated accounts, although they would not necessarily have prepared such information prior to admission to trading.

Other financial information requirements cover the situation where either pro forma financial information to show the impact of a major acquisition or disposal, or a profit forecast, is included in a prospectus.

An important consequence of these proposals is the need for common standards for the detailed presentation of financial information, as well as common standards for auditors in providing reports on such information. One area that is being addressed by the Commission and CESR is that of complex financial histories. The proposal is that a prospectus should present not only the financial record of an issuer of equity securities but that it should also present the record of those significant entities that it has or will have acquired that are not otherwise included in its consolidated accounts.

CESR has provided recommendations that address a number of the more common financial information issues. The accounting profession in Europe, through its representative body FEE (Fédération des Experts Comptables Européens), is helping to develop additional guidance on the auditor's reporting responsibilities in relation to the Prospectus Directive.

'The Directive provides a consistent approach to when a prospectus is required and sets a common standard for disclosure'

Issuers

Non-EU issuers and Equivalence

An issue of significance to non-EU issuers has been whether the Prospectus Directive would have the effect of requiring them to prepare audited financial information when drawing up a prospectus on the basis of IFRS, or local GAAP 'equivalent' to IFRS.

The Commission mandated CESR to provide it with advice as to whether three specific non-EU GAAPs, those of Canada, Japan and the United States, are 'equivalent' to IFRS.

Having considered CESR's advice and consulted with member states, the European Securities Committee and other interested parties, the Commission recently announced that it will permit third-country issuers to continue to provide accounts prior to 2009 using a GAAP other than IFRS, provided one of the following conditions is met:

(a) the financial information contains an explicit and unreserved statement that it complies with IFRS; or
(b) the financial information is prepared in accordance with the GAAP of either Canada, Japan or the USA; or
(c) the financial information is prepared in accordance with the GAAP of a third country, and the following conditions are satisfied:
(i) the third-country authority responsible for accounting standards has made a public commitment to converge with IFRS; and
(ii) the authority has established a work programme which demonstrates progress towards convergence before 31 December 2008; and
(iii) the issuer provides satisfactory evidence to the relevant competent authority demonstrating that the conditions in (i) and (ii) above are satisfied.

The Commission will however need to adopt a definition of equivalence and an equivalence mechanism before the beginning of January 2008.

Our view

The Commission's announcement to delay a final decision on equivalence until 2009 is helpful in removing the immediate uncertainty for issuers. However the postponement means that a similar decision-point on how to define equivalence will be reached in a year's time. The potential impact of any future decision to require non-EU issuers to prepare IFRS information would be that they need to capture potentially significant amounts of data and would need sufficient advance notice. The imposition of IFRS reporting in the future may well cause some issuers not to offer their securities in the EU, thus potentially depriving European investors of opportunities. It is unlikely that the convergence programs that the IASB has initiated with the accounting standard setters of major economies such as the US, China and Japan will be completed during this period, although sufficient progress may have been made to facilitate the decision.

Issuers

Transparency Directive

A key element of market regulation is the availability of information to investors – for example the frequency with which companies report, and the information they provide on matters such as major shareholdings. The Commission consulted on these aspects, culminating in the final adoption of a Transparency Directive in December 2004. The Directive should be implemented in member states by January 2007.

This directive supersedes the existing Interim Reporting and Major Shareholdings Directives as well as setting out requirements in relation to the annual financial report.

Unlike the Prospectus Directive, the Transparency Directive is not a 'maximum harmonisation' directive. Member state governments will be able to impose additional requirements above the minimum level envisaged in the directive, though only on issuers incorporated in their own country. Also, exchanges will be able to impose additional requirements on issuers traded on their markets.

Annual reports

For the first time, the Transparency Directive introduces requirements into securities law concerning the annual financial report. Until now this has been a matter for company law, although some member states and exchanges have imposed additional disclosure requirements.

The Transparency Directive supplements the IAS Regulation and national company law by requiring:

- Publication of the annual report within four months;
- The report to be 'made available to the public' in the EU; and
- A responsibility statement by the board (similar to the responsibility statements required of the CEO and CFO under the US Sarbanes-Oxley Act).

The Directive may ultimately have a significant impact on the liability of those responsible for preparing the annual financial report as well as on auditors. Annual financial reports have traditionally been prepared for, and addressed to, the shareholders. Under the Directive, companies may have to take into account the divergent and potentially conflicting interests of other interested parties. These include prospective investors, both nationally and across borders within and outside the EU.

Half-year reporting
The Transparency Directive updates the existing Interim Reporting Directive to require:

- Half-yearly reporting within two months of the period-end;
- IAS 34 or equivalent disclosure standards;
- A management report; and
- A responsibility statement by the board.

It does not mandate any form of auditor audit or review of half-year reports, although disclosure is required if an audit or a review by the auditors has been conducted.

Quarterly reporting
The merits of companies having to report financial information on a quarterly basis were widely debated by commentators during the development of the Directive. The final requirement is that there will be a limited information disclosure obligation on issuers between the annual report and half-year report.

This would take the form of an interim management statement comprising:

- An explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer; and
- A general description of the financial position and performance of the issuer during the period.

This information should be filed between ten weeks after the beginning and six weeks before the end of each relevant six-month period. Companies that already issue quarterly financial reports (in accordance with national or exchange requirements, or on a voluntary basis) would be exempted from the requirement to give the narrative management statements.

The requirements for companies preparing consolidated financial statements to present information during each year are summarised in the table below:

	Annual financial statements	Half-year report	Intermediate quarters
Level of information	Full IFRS financial statements	Interim financial information in accordance with IAS 34	Narrative management statements – material events, general description of financial position. (Not required if quarterly financial reports are issued)
Audit or review	Audit	Not required but disclose if either audit or review carried out	Not required
Filing deadline	4 months	2 months	Between 10 weeks after the beginning, and 6 weeks before the end, of each six-month period

Issuers

Some issuers may find it a significant challenge to meet all the proposed requirements for annual, half-year and interim management statements.

Our view

The Directive does not require quarterly financial reporting in accordance with IFRS. However, some member states and exchanges may impose more onerous requirements. Where companies are required to, or volunteer to provide, any level of quarterly financial information, we believe this should be on an IFRS-compliant basis. Issuers will need to be prepared to incur the necessary accounting systems development costs in order to provide the information on this basis.

Major shareholding disclosures

The directive enhances the existing EU regime by requiring that disclosure of major changes in holdings of securities should be made at thresholds starting at 5% and then at 5% intervals to 30%, then 50% and 75%. These thresholds are measured by reference to the proportion of voting rights held.

Non-EU issuers

Member states are permitted to exempt non-EU issuers from any of the requirements where the requirements in their domestic market are 'equivalent' to the provisions of the directive. In line with the approach on prospectuses, the Commission recently announced that third-country issuers would be permitted to continue to provide accounts prior to 2009 using a GAAP other than IFRS, provided certain conditions are met.

Our view

The long-term answer is convergence of market disclosure practices on a global basis, but there should in the meantime be mutual recognition of substantially similar market requirements.

Corporate Governance and Company Law

Corporate governance has two aspects. It should facilitate the development of value-creating enterprises, while at the same time providing for accountability of how the business is run for the benefit of shareholders and other stakeholders. Increasingly, companies are expected to be accountable for how they have governed themselves and how they have responded to the interests of different stakeholder groups.

Recent corporate failures have raised the profile of corporate governance. Beginning in 2003, the European Commission reacted to market concerns by pursuing its Action Plan 'Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward'. Many of the proposed actions focus on corporate governance, and do not necessarily involve legislation.

At the same time, the Commission set up a European Corporate Governance Forum to examine best practices in member states with a view to enhancing the convergence of national corporate governance codes and providing advice to the Commission. The Forum comprises senior experts from various professional backgrounds including issuers, investors, academics, regulators and auditors. It meets, under the chairmanship of the Commission, two to three times a year.

The Commission's action plan
The Commission's short-term priorities in the first phase of its plan, and the extent to which they have been achieved, are listed in the table below:

Short-term priorities (2004-2006)	Preferred type of initiative	Status
Enhanced corporate governance disclosure requirements (including a corporate governance statement in annual reports)	Legislative (directive amending existing legislation)	Completed
Confirming at EU level the collective responsibility of board members for financial statements	Legislative (directive amending existing legislation)	Completed
Strengthening the role of independent non-executive and supervisory directors	Non-legislative (recommendation)	Completed
Fostering an appropriate disclosure regime for directors' remuneration	Non-legislative (recommendation)	Completed
Establishing a European forum to coordinate corporate governance efforts of member states	Non-legislative	Completed
Integrated legal framework to facilitate efficient shareholder communication and decision-making (participation in meetings, exercise of voting rights, cross-border voting)	Legislative (directive)	In process

Some of these measures are discussed in this section. With respect to the last area in the table, the Commission published in 2006 a proposal for a directive on Shareholders' Rights (see page 21).

In the last year, the Commission launched a consultation and public hearing on the second phase of the Action Plan, inspired by the twin agendas of fostering a competitive market place and delivering better regulation.

The report on feedback from the consultation confirmed:

- The need to avoid 'regulatory fatigue' – and for a stabilisation period to allow market participants to absorb existing changes
- That the focus for EU initiatives should be on lifting obstacles to the free flow of capital between member states and to the right of establishment and on granting additional flexibility to companies.

As a result of the consultation, the Commission has indicated that future priorities will include: a proposal for a 14th Company Law Directive on mobility of company registered offices; a feasibility study on a European Private Company Statute for small businesses; and a communication on simplification of regulation for companies.

Board responsibilities and transparency

During 2006, amended versions of the Fourth and Seventh Accounting Directives were finally adopted that include the following features:

- Confirmation of **board members' collective responsibility** for financial statements. Member States will be required to introduce appropriate sanctions and civil liability rules for non-compliance.
- Requirements for additional disclosure in the notes to the financial statements of all material **off-balance sheet arrangements** including Special Purpose Entities.
- Disclosure by unlisted companies of **transactions with related parties** (based on the IAS 24 definition) when those transactions are material and not carried out under normal commercial conditions.
- Provision by all EU listed companies of a **corporate governance statement** as a specific part of their annual reports, embracing information about the risk management system and internal controls (see below), shareholders' rights, and the operation of the shareholders' meeting and the board and its committees.

Our view

Provisions in company law to disclose transactions with related parties should continue to be on the basis of the definitions and requirements of IAS 24. Companies should not have to comply with multiple rules.

However, the requirement to disclose all material off-balance sheet arrangements could lead to voluminous disclosures on group entities and on transactions with those entities. The vast majority of these transactions would be conducted in the 'ordinary course of business', hence making it potentially more difficult to identify the relevant relationships.

Internal control
Reporting on internal control by management and by auditors has continued to be a topic of significant debate in European corporate governance, prompted by the coincidence of several factors and events:

- The above-mentioned requirement for a corporate governance statement, including a 'description of the main features of the company's internal control and risk management systems in relation to their financial reporting processes'
- Reviews of the national requirements for internal control reporting which have been recently established in several key member states, including the UK
- Reviews of the experiences from the first two years of Sarbanes-Oxley Section 404 reporting by auditors for US domestic registrants, and subsequent relaxation of the 404 rules for certain categories of issuers
- US foreign private issuers, including those in Europe, will have to apply the Section 404 requirements from this year.

The European Corporate Governance Forum issued a Statement on Risk Management and Internal Control during 2006, following discussion. The Forum concluded that an extra legal obligation for companies' boards to certify the effectiveness of internal controls, as required in the US by the Sarbanes-Oxley Act, is not needed in Europe. Many European companies already have an obligation to keep proper accounting records.

Additionally, the Forum emphasises that boards of listed and other public-interest entities are already responsible for monitoring the effectiveness of internal controls – under the latest Directive on Statutory Audit – and it believes that there should be a sufficient balance between the benefits of any additional requirements and the costs and other burdens for companies.

While it considers there is no current need for further measures, the Forum intends to keep under review whether existing arrangements prove sufficient to ensure that internal controls within the EU meet best practice.

Our view
It is important that the debate on risk management and internal control continues to remain open. Experience of various approaches to risk management and internal control continues to evolve, providing the opportunity to review how these approaches work in practice. Furthermore, there is a need to consider the scope for a global convergence of risk management and internal control practices through market forces and investor demand.

Role of Independent directors
The presence of an independent element on the board, capable of challenging the decisions of management, can help to protect the interests of shareholders. Those independent directors can also give more detailed, objective consideration of sensitive issues such as director nomination, financial reporting and directors' remuneration.

The EC issued in October 2004 two recommendations on directors' remuneration and the role of non-executive and supervisory directors. These recommendations are not mandatory, but member states are asked to consider how the principles in each recommendation are applied in their respective jurisdictions.

The Recommendation on the role of independent directors concentrates on key areas where there may be conflicts of interest. It includes minimum recommended standards for the qualifications, commitment and independence of non-executive or supervisory directors. The main principles in the recommendation are:

- Board composition. The administrative, managerial and supervisory bodies should include an appropriate balance of executive and non-executive directors so that no individual or small group can dominate decision-making.
- Number of independent directors. A sufficient number of independent non-executive directors should be elected to the board and its committees to ensure that any potential conflicts of interest will be properly dealt with.
- Committees. Nomination, remuneration and audit committees should normally be created within the board. These committees should make recommendations for decisions to be taken by the board.
- Annual self-assessment. This should include an assessment of the membership, organisation and operation of the board, as well as an evaluation of the competence and effectiveness of each board member and of each committee.
- Appointment and removal. Non-executive directors should be appointed for specified terms subject to maximum intervals to be determined at national level.

Independence
A director is considered independent when he or she is free from any business, family or other relationship – with the company, its controlling shareholder or the management – which might jeopardise his or her judgment.

Qualifications
Members should have appropriate diversity of knowledge, judgment and experience. Directors should devote to their duties the necessary time and attention. Upon nomination, the other commitments of the director should be disclosed.

Our view
The involvement of quality individuals on the board, able to exercise objective judgment, is of greater importance than satisfying detailed rules on independence.

Defining standards for independent directors should not result in a 'box-ticking' approach. Emphasis should be given to encouraging better-equipped non-executives – stressing the need for relevant (particularly financial) expertise, appropriate briefing and training, and regular assessments of performance.

Audit Committees
In addition to the recommendation on independent directors, audit committees have been given additional attention in the revised Eighth Directive on statutory audit (see page 19).

The original intention of the Commission was to mandate the use of audit committees for listed companies through this Directive. However, the final version of the legislation permits member states to retain their encouragement for audit committees through the use of voluntary codes and standards. The 'comply or explain' approach used by some member states will therefore continue.

'The corporate governance regulatory framework should encourage entrepreneurship'

Investor Protection

Auditing

Auditing is a key component of the corporate reporting supply chain. It is seen by most investors and regulators as a source of independent assurance on published financial information.

The merits of international principles-based standards apply equally to auditing as for accounting and regulation. Audit standards – the framework of professional guidance for how auditors perform their audit work – are increasingly determined internationally. The International Auditing and Assurance Standards Board (IAASB) has the task to prepare and issue International Standards on Auditing (ISAs).

In April 2006 the revised Eighth Company Law Directive on statutory audit of annual and consolidated accounts was finally approved. The Directive's main provisions in relation to auditing standards and a number of other areas, include:

- The requirement to use International Standards on Auditing for all EU statutory audits once those standards have been endorsed. Member states can only impose additional requirements in certain defined circumstances
- Designation by member states of competent authorities responsible for approval, registration, quality assurance, inspection and discipline of auditors. Those authorities must be organised such as to prevent conflicts of interest
- The duty of the statutory auditor or audit firm to document factors which may affect the auditor's independence (such as performing other work for the companies they audit) and safeguards against these risks
- The requirement to change the key audit partner dealing with an audited company every seven years.

Member states have 24 months in which to transpose the requirements into national law.

The Directive also required the Commission to undertake a study of auditor liability in Europe. This study was completed in October 2006. It concluded that the failure of an audit network could lead to difficult consequences for the financial markets in general and for the ability of companies to meet their statutory auditing obligations, and that some form of limitation on auditor liability could reduce the risk.

Our view

The revised 8th Directive provides a firm foundation for the regulation of the audit profession in Europe. The challenge now is to ensure that the 27 member states implement the directive as quickly and with as few 'add-ons' as possible. Although the Directive is a 'minimum harmonisation' standard, it will be detrimental to the creation of a single EU market in financial services if member states add requirements to satisfy perceived local needs. The Commission should keep a close watch on this over the next 18 months as the directive is implemented.

The study on auditor liability that was published in October 2006 was a thoughtful piece of work that provides a sound basis for the development of an EC consultation in this area. The case for liability reform appears to be getting stronger and the time is now right for the Commission to act.

Investor protection

Takeovers and mergers

The Takeover Directive has been one of the longest-running in its formation. Regulation of takeover and merger activity is a key element in any capital market, but agreeing on a common position across the EU given the widely divergent legacies in member states has proved an elusive goal.

In late 2003 EU ministers finally agreed on a compromise position and a Directive on Take-over Bids was adopted in April 2004. The directive allows member states to decide whether or not to prohibit devices such as 'poison pills' and multiple voting shares that are designed to make hostile takeovers more difficult. Member states are however allowed to relax such prohibitions where the bidding companies are not subject to similar rules.

Some commentators, including the Commission itself, have expressed disappointment with this outcome which preserves member state options.

Additionally, the 10th Company Law Directive on cross-border mergers was adopted in October 2005. It sets up a simple framework to facilitate mergers of limited liability companies on a cross-border basis, drawing largely on the national rules applicable to domestic mergers.

Market Abuse

This directive provides the legal basis for regulations to deal with insider dealing and market manipulation. It entered into force in April 2003.

The directive is supplemented by detailed implementing measures drawn up on the basis of advice from CESR. These measures provide definitions of inside information and market manipulation. They also provide recommendations on how relevant interests or conflicts of interest should be disclosed, and on 'safe harbour' conditions – the conditions for exemption from the prohibitions of insider dealing in specific cases.

'Investors deserve financial information based on high-quality voluntary standards, supplemented by rules for investor protection'

Markets in Financial Instruments Directive (MiFID)
The main purpose of the Markets in Financial Instruments Directive (MiFID) – also called the Investment Services directive - is to provide a framework for stock exchanges and investment banks to operate on a pan-European basis. An overhaul was needed because of the complexities arising from an increasing tendency for member states to impose differing local requirements on incoming operators.

Issues covered include: market transparency regarding the terms on which investment firms deal with clients (this would apply for deals up to a certain value – above that value, professional investors would be allowed to fix prices by a process of negotiation); provisions for a 'suitability' test when giving advice to retail investors; and arrangements as to when 'home country' regulation would apply in cross-border situations.

The directive was finally adopted in April 2004. Further implementing measures were adopted during 2006.

One aspect of MiFID is that it sets out the organisational and operating conditions for authorised investment firms, including ancillary services such as investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments. It requires that firms take reasonable steps to identify relevant conflicts of interest and prevent those conflicts from adversely affecting the interests of clients.

In December 2006 the Commission published a Communication on Investment Research and Financial Analysts. It concluded that, taken together, the MiFID and Market Abuse Directive represent a significant step forward to creating a European-level framework for avoiding, managing and disclosing conflicts of interest in all investment services. The EC does not propose to introduce further specific legislation in the area, but will continue to monitor the application of the existing measures.

Shareholders' Rights
As part of its Action Plan on Company Law, the Commission considered enhancement of the ability of shareholders of listed companies to exercise their rights as a priority. Shareholders now invest in securities in many different ways, sometimes using a chain of intermediaries such as brokers and nominees. Some commentators have suggested that shareholders – particularly in cross-border situations – are not always provided with the information and the mechanisms necessary to exercise their votes.

The Commission launched two consultations on shareholders' rights, inviting comments on possible EU minimum standards to facilitate the cross-border exercise of shareholders' rights. The large majority of respondents confirmed the need for action in this area.

In January 2006 the Commission published a proposal for a Directive on the exercise of voting rights by shareholders of companies having their registered office in a member state and whose shares are admitted to trading on a regulated market. Four key objectives of the directive are to:

- Ensure that general meetings are convened sufficiently in advance and that documents are made available in time to allow shareholder participation
- Abolish 'share blocking' arrangements
- Remove legal obstacles to electronic participation in meetings
- Offer non-resident shareholders a simple means of voting without attending the meeting.

The Commission received many comments from interested parties, and over 100 amendments were proposed to the directive. The final directive is not expected to appear until early 2007.

Enforcement

The FSAP creates a framework for capital market activity based on standards recognised by law. However, there is also a need for a mechanism to support auditors and others and ensure those standards are applied and enforced. To assist with Enforcement, the EC established the Committee of European Securities Regulators (CESR).

Committee of European Securities Regulators
The membership of CESR comprises the national securities regulators in the 27 member states, plus the securities authorities of Norway and Iceland.

As well as working closely with the European Commission, CESR has observer status on several other important bodies such as the European Securities Committee (ESC), the Accounting Regulatory Committee (ARC), and the European Financial Reporting Advisory Group (EFRAG).

CESR's principal role is to provide advice to the Commission, and to issue recommendations on standards and guidance to national securities regulators to be implemented in each member state. It is responsible for drafting implementation guidance on some of the key capital market directives, for example the Prospectus and Transparency directives. (The directives provide a basic framework, leaving many detailed matters to be tackled through implementation guidance.) CESR consults widely with market practitioners on its guidance, both through issuing draft pronouncements and holding public hearings.

CESR is also the body that has been empowered by the EC to issue standards for the enforcement of financial reporting. However, the responsibility for enforcement action continues to rest with member states.

Standards on Enforcement
The IAS Regulation specifies the accounting standards to be used by EU listed companies. There also needs to be a process for ensuring that those standards are properly and consistently applied. This process in commonly referred to as 'enforcement'.

In April 2003 CESR issued its first standard, providing guidance for countries on the approach they should adopt. Standard No1 sets out 21 high-level principles that should be applied by the authorities in each member state. They in turn will apply them to the financial information released by individual issuers whose securities are admitted to trading on an EU regulated market. The principles will apply to the supervision of annual and interim financial statements, as well as prospectuses.

Enforcement

Enforcement activities should be performed in each member state by 'competent independent administrative authorities'. This includes securities commissions as well as the review panels used in a few countries. Financial statements should be selected for review partly on the basis of risk – and not simply on a random or sample basis. Where accounts are found to be deficient, the individual authorities are expected to have a range of sanctions available, including asking for public correction of misstatements.

In April 2004 CESR issued its Standard No2 on co-ordination and convergence of enforcement activities carried out by national authorities. This standard provides basic principles for sharing of information, pre-issuance consultation and discussion of enforcement decisions and experiences among the EU national enforcers.

'National regulators should not take a different view from their peers in other countries with regard to key enforcement issues'

Regulatory coordination

The initial operation of CESR shows that European securities regulators are beginning to coordinate their approaches. The most recent half-yearly report by CESR to the European institutions noted significant progress in narrowing the areas of difference in supervisory practices. However, the report also noted certain obstacles to supervisory convergence in the securities field, in particular: a lack of clarity among member states regarding the relevant competent authorities under the Transparency Directive; and a risk of different treatments by CESR members of third-country GAAPs. CESR is currently investigating ways to ensure that these potential obstacles are addressed.

Aside from encouraging a common supervisory culture, CESR's 2007 work programme also includes an evaluation of the functioning of the Prospectus Directive, and enhancement of the information on IFRS enforcement decisions available to members.

CESR also cooperates with other market regulators with Europe-wide responsibilities. In late 2005 it signed a joint protocol with the Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). Key aims of the protocol are to: share information and experiences; produce joint work or reports to relevant EU institutions; and to reduce regulatory burdens and streamline processes.

Enforcement

Transatlantic dialogue

A key element of the transatlantic dialogue on regulatory matters that the European Commission has initiated with the SEC and others has been the recognition by CESR and the US SEC, early in 2004, of their mutual importance as regulators of the world's two largest capital markets. This has, amongst other matters, resulted in a joint statement by CESR and the SEC of the terms of reference for future cooperation.

The two primary objectives of this cooperation are to identify emerging risks in the US and EU markets at an early stage, and to discuss potential regulatory projects in the interests of facilitating converged ways of addressing common issues.

In 2006 CESR and the US SEC published a work plan to guide the process of cooperation in the short term. A key area of focus is the application by internationally-active companies of US GAAP in the EU and IFRS in the United States. The two organisations will promote full consideration of international counterparts' positions on application and enforcement, and avoidance of conflicting regulatory decisions on application of IFRS and US GAAP.

Other priorities include: the modernisation of financial reporting and disclosure information technology; regulatory platforms for risk management; and protocols for the sharing of confidential information.

Our view

Enforcement of IFRS on a consistent basis across the EU (and beyond) is a huge challenge and to make it work effectively significant resources will need to be committed by CESR and by national authorities.

The publication of CESR's first and second standards demonstrates that national agencies are beginning to coordinate their approaches to regulation. National regulators should not take a different view from their peers in other countries with regard to key enforcement issues. Where they make decisions about how to apply IFRS they should be made public. To ensure the market can benefit and understand, regulators should be required to explain and justify their positions.

CESR's cooperation with the US SEC is of critical importance. There remain great differences between the financial and corporate reporting and regulatory cultures between Europe and the US, and understanding these is a necessary precursor to trying to find common approaches.

Key issues for European business

- As your company prepares its second set of annual IFRS results, has it evaluated fully the lessons learnt and experience gained from the first year of IFRS reporting?
- Are the financial reporting and budgeting systems and controls able to generate IFRS-compliant data on a permanent basis?
- If an ‘enforcement authority’ reviewed your financial statements today, how would they stand up?
- Is there sufficient independent director involvement in your company, particularly in the areas of financial reporting, internal control and executive remuneration?
- Is the business prepared for the reporting deadlines under the Transparency Directive?
- Are the reporting and disclosure controls adequate to support the release of interim management statements?
- Are you tracking the key Single Capital Market initiatives and their potential impact on your business?
- Are you making your voice heard in the debate?

Appendices

EU legislation – a glossary of terms

Action to achieve unity in the European Union is based on the rule of law. Community law is an independent legal system that takes precedence over national legal provisions. In general, EU law is composed of three different, but interdependent, types of legislation.

1. **Primary legislation** is agreed by direct negotiation between member state governments. These agreements are laid down in the form of treaties (for example the original Treaty of Rome) that are then subject to ratification by the national parliaments. The same procedure applies for any subsequent amendments to the treaties.

   The treaties also define the role and responsibilities of EU institutions and bodies involved in decision-making processes.

2. **Secondary legislation** is based on the treaties and a variety of legislative procedures are defined in the treaties. Community law may take the following forms:

Regulations are directly applicable and binding in all EU member states without the need for any national implementing legislation.

Directives bind member states as to the objectives to be achieved within a certain time limit, while leaving to the national authorities the choice of form and means to be used. Directives are implemented in national legislation in accordance with the procedures of the individual member states.

Decisions are binding on those to whom they are addressed. Thus, decisions do not require national implementing legislation. A decision may be addressed to any or all member states, to enterprises or to individuals.

Recommendations and opinions are not binding.

3. **Case law** includes judgments of the European Court of Justice and of the European Court of First Instance, for example, in response to referrals from the Commission, national courts of the member states or individuals.

White Paper – priorities for the next five years

In December 2005 the Commission published its White Paper on Financial Services Policy 2005-2010. The paper identified a series of activities that the Commission plans to undertake in the next five years in order to deliver its objectives, particularly in the areas of banking and insurance. These include some specific short-term legislative measures, together with some longer-term projects. These are listed in the table of recent and planned activities below.

Proposed legislative measures	Publication
Capital Requirements Directive	June 2006
Supervisory approval process for mergers and acquisitions in the banking, insurance and securities sectors - Directive	Sept 2006
Consumer credit – modified proposal for a Directive	In progress
Mortgage credit – White Paper	2007
Banking – proposal for a Payment Services Directive	2007
Insurance – Solvency II Directive	2007

Other projects

E-money Directive – review	July 2006
Insurance guarantee schemes – study	Aug 2006
Clearing and Settlement – code of conduct	Nov 2006
Deposit guarantee schemes – self-regulatory improvements	Nov 2006
Investment funds – White Paper	Nov 2006
Retail bank accounts – review by expert group	2007
Credit intermediaries – results of study	2008

The Commission has announced that it does not currently plan further legislation in the areas of rating agencies and financial analysts. It believes that existing legislation, together with market self-regulatory measures, are better placed to provide responses to market developments in these areas.

Contact information

For more information about the developments summarised in this booklet, please contact one of our **network of European regulatory specialists:**

Austria
Gerhard Prachner
+43 (1) 501 881800

Czech Republic
Petr Kriz
+420 251 152045

Denmark
Jens Røder
+45 3945 3238

European public affairs office
Mike Davies +32 (2) 710 4642
Helga D'Heygere +32 (2) 710 4642

France
Pierre Dufils
+33 (1) 5657 1015

Germany
Thomas Scholz
+49 (69) 9585 1644

Hungary
Mike Birch
+36 (1) 461 9183

Ireland
David Devlin
+353 (1) 662 6351

Italy
Alberto Giussani
+390 (2) 7785 265

Netherlands
Peter Veerman
+31 (20) 568 4507

Spain
Carlos Quindos
+34 (93) 253 2728

Sweden
Ake Danielsson
+46 (8) 555 331 23

United Kingdom
Peter Wyman +44 (20) 7213 4777
Graham Gilmour +44 (20) 7804 2297

For more information about **IFRS** and its application in Europe, please contact one of the partners in our Global Accounting Consulting Services:

Ian Wright
+44 (20) 7804 3300

Mary Dolson
+44 (20) 7804 2930

For more information about the **Capital Markets** initiatives described in this booklet, please contact:

Tom Troubridge
+44 (20) 7804 4723

Kevin Desmond
+44 (20) 7804 2792

Other publications

PricewaterhouseCoopers has published the following publications on International Financial Reporting Standards and corporate practices. They are available from your nearest PricewaterhouseCoopers office.

Acquisitions – Accounting and transparency under IFRS 3

Adopting IFRS – A step-by-step illustration of the transition to IFRS

Applying IFRS – Finding the right solution (available on Comperio[1])

Audit Committees – Good Practices for Meeting Market Expectations

Financial instruments under IFRS

IAS 39 – Achieving hedge accounting in practice

IFRS Disclosure Checklist 2006

IFRS Measurement Checklist 2006

IFRS News – Shedding light on the IASB's activities

IFRS Pocket Guide 2006

IFRS Survey - The European investors' view

Illustrative condensed consolidated interim financial information for existing IFRS preparers

Illustrative Consolidated Financial Statements 2006 – Banks

Illustrative Consolidated Financial Statements 2006 – Insurance

Illustrative Consolidated Financial Statements 2006 – Investment Property

Illustrative Consolidated Corporate Financial Statements 2006

Illustrative Financial Statements 2006 – Investment Funds

Illustrative Interim Consolidated Financial Statements 2005 – for first-time adopters of IFRS

Impact of improvements, amendments and new standards for continuing users of IFRS

Making the Change to International Financial Reporting Standards

Share-based payment – A practical guide to applying IFRS 2

SIC-12 and FIN 46R – The substance of control

Similarities and Differences – A comparison of IFRS and US GAAP

Understanding IAS 29 – Financial Reporting in Hyperinflationary Economies

World Watch – Governance and Corporate Reporting

These publications and the latest news on IFRS can be found at www.pwc.com/ifrs

[1]Comperio can be purchased from the website – **www.pwccomperio.com**

www.pwc.com

PricewaterhouseCoopers (www.pwc.com) is the world's largest professional services organisation. Drawing on the knowledge and skills of 125,000 people in 142 countries, we build relationships by providing services based on quality and integrity.