

P R E S S R E L E A S E

The FREP strengthens its preventive activities

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The German Financial Reporting Enforcement Panel (FREP) is now able to answer pre-clearance inquiries from listed companies about concrete accounting problems.

The FREP's main task is to examine annual and half-yearly financial reports as part of its two-stage enforcement procedure, which is primarily designed to have a preventive effect. For some time now, listed companies have been urging the FREP to enable them to make pre-clearance inquiries about complex accounting issues in exceptional cases also when an examination is not in process. Following in-depth discussions on this topic with the German Ministries of Justice and Finance, an agreement has now been reached that will allow the FREP to respond to concrete pre-clearance inquiries in appropriate cases. The FREP believes that this will enable it to strengthen its preventive function, as potential financial reporting errors may be avoided before financial statements are prepared.

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Listed companies that are subject to the enforcement regime in Germany can make pre-clearance inquiries relating to specific issues. To do this, they must submit a sufficiently concrete description of the issue and the accounting treatment proposed by the company, as well as an opinion from their (current) auditors. This will ensure that the FREP is not asked to make general interpretations of IFRSs, nor will it be required to provide advice on structuring transactions.

If the FREP accepts a specific pre-clearance inquiry, it will provide its opinion on the proposed accounting treatment in a discussion with the company. However, it will not be bound to follow this opinion in any subsequent enforcement procedure. To avoid compromising regular enforcement examinations – the primary mission of the FREP – specific pre-clearance inquiries can only be accepted in suitable cases and only to a limited extent.

The FREP will inform the Federal Financial Supervisory Authority (BaFin) of specific pre-clearance inquiries it receives. In specific cases of greater interest, issues arising in pre-clearance inquiries may also be submitted for discussion at the European level (European Enforcement Coordination Sessions), such is also the case for enforcement examinations. The experience gained from pre-clearance inquiries will be continuously assessed together with the German government.

Dr. Herbert Meyer, President of the FREP, notes that: “With its expertise in IFRS and the knowledge gained from its experience from around 500 examinations, the FREP is pleased to take on this new task. The FREP believes that this will make a significant contribution towards strengthening its preventive function because its response to specific pre-clearance inquiries will help reduce the number of errors identified in future enforcement procedures. Particularly in light of the often highly complex International Financial Reporting Standards, we have frequently been told by companies subject to enforcement examinations that they would have preferred to

approach the FREP before preparing their financial statements so as to obtain greater assurance when assessing critical accounting issues.”

According to Dr. Werner Brandt (Chairman of the FREP Governing Board), “This move will allow companies – and I say this not in my capacity at the FREP, but as CFO of SAP AG – to discuss critical accounting issues with the FREP before they prepare their financial statements. In a time of increasing complexity in accounting issues and the often extremely complicated financial reporting standards, CFOs see the instrument of specific pre-clearance inquiries as a key element in the process of improving the quality of financial reporting.”

You can find out more about the FREP from our website at www.frep.info.

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