European Parliament
2014-2019

Plenary sitting

A8-0172/2016

3.5.2016

REPORT

on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)
(2016/2006(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Theodor Dumitru Stolojan

PR_INI

CONTENTS

Page

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)
(2016/2006(INI))

The European Parliament,

– having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[1],

– having regard to the report of the High-Level Group on Financial Supervision in the EU, chaired by Jacques de Larosière, of 25 February 2009,

– having regard to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013[2] on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC [3]of the European Parliament and of the Council and repealing Council Directives 78/660/EEC[4] and 83/349/EEC[5],

– having regard to Directive 2012/30/EU of the European Parliament and of the Council of 25 October 2012 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 54 of the Treaty on the Functioning of the European Union, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent[6],

– having regard to Regulation (EU) No 258/2014[7] of the European Parliament and of the Council of 3 April 2014 establishing a Union Programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC[8],

– having regard to the Commission proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 258/2014 establishing a Union Programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 (COM(2016)0202),

– having regard to the October 2013 report by Philippe Maystadt entitled ‘Should IFRS

---

[1] OJ L 243, 11.9.2002, p. 1.
[2] OJ L 182, 29.6.2013, p.19.
[3] OJ L 157, 9.6.2006, p. 87.
[4] OJ L 222, 14.8.1978, p. 11.
[5] OJ L 193, 18.7.1983, p. 1.
[6] OJ L 315, 14.11.2012, p. 74.
[7] OJ L 105, 8.4.2014, p. 1.
[8] OJ L 253, 25.9.2009. p. 8.

standards be more European?',

– having regard to the Commission report of 2 July 2014 to the European Parliament and the Council on the progress achieved in the implementation of the reform of EFRAG following the recommendation provided in the Maystadt report (COM (2014)0396),

– having regard to the Commission report of 18 June 2015 to the European Parliament and the Council on evaluation of Regulation (EC) No 1606/2002 of 19 July 2002 on the application of international accounting standards (COM (2015)0301),

– having regard to the Commission report of 17 September 2015 to the European Parliament and the Council on the activities of the IFRS Foundation, EFRAG and PIOB in 2014 (COM(2015)0461),

– having regard to the Communication from the Commission of 30 September 2015 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on an Action Plan on Building a Capital Markets Union (COM (2015)0468),

– having regard to the study on the International Accounting Standards Board (IASB) ('The European Union's Role in International Economic Fora – paper 7: The IASB') and the four studies on IFRS 9 ('IFRS Endorsement Criteria in Relation to IFRS 9', 'The Significance of IFRS 9 for Financial Stability and Supervisory Rules', 'Impairments of Greek Government Bonds under IAS 39 and IFRS 9: A Case Study' and 'Expected-Loss-Based Accounting for the Impairment of Financial Instruments: the FASB and IASB IFRS 9 Approaches'),

– having regard to Commission Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council[1],

– having regard to the G20 Leaders' Statement of 2 April 2009,

– having regard to the IASB's Discussion Paper of July 2013 entitled 'A Review of the Conceptual Framework for Financial Reporting' (DP/2013/1) and the IASB's Request for Views of July 2015 entitled 'Trustees' Review of Structure and Effectiveness: Issues for the Review',

– having regard to the Commission's Comment of 1 December 2015 on the IASB Trustees' Review of Structure and Effectiveness,

– having regard to International Financial Reporting Standard (IFRS) 9 on Financial Instruments issued on 24 July 2014 by the IASB, to EFRAG's endorsement advice on IFRS 9, to EFRAG's assessment of IFRS 9 against the true and fair view principle, to the meeting documents of the Accounting Regulatory Committee (ARC) on IFRS 9 and to the comment letters from the European Central Bank (ECB) and European Banking Authority (EBA) on the endorsement of IFRS 9,

[1] OJ L 340, 22.12.2007, p. 66.

– having regard to the letter of 14 January 2014 sent on behalf of the coordinators of its Committee on Economic and Monetary Affairs, commenting on the IASB discussion paper entitled 'A Review of the Conceptual Framework for Financial Reporting',

– having regard to the European Securities and Markets Authority (ESMA) Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2014, of 31 March 2015 (ESMA/2015/659),

– having regard to the ESMA guidelines on enforcement of financial information, of 10 July 2014 (ESMA/2014/807),

– having regard to the ESMA table on compliance with the ESMA guidelines on enforcement of financial information, of 19 January 2016 (ESMA/2015/203 REV),

– having regard to its resolution of 24 April 2008 on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standard Board (IASB)[1],

– having regard to its resolution of 12 April 2016 on the EU role in the framework of international financial, monetary and regulatory institutions and bodies[2],

– having regard to Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts[3], amended by Directive 2014/56 of the European Parliament and of the Council of 16 April 2014[4] applicable from mid-June 2016,

– having regard to Rule 52 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Budgetary Control (A8-0172/2016),

A. whereas the International Financial Reporting Standards (IFRS) and the international standards on auditing (ISA) are one essential component needed for the efficient functioning of the internal market and of the capital markets; whereas the IFRS and ISA can be understood as a public good, should not therefore endanger financial stability or hinder the economic development of the Union and should serve the common good and not only the interests of investors, lenders and creditors;

B. whereas falsification of company accounts poses a threat to economic and financial stability in addition to undermining public confidence in the social market economy model;

C. whereas the purpose of the IFRS is to strengthen accountability by reducing the information gap between investors and companies, to protect investment, to bring transparency through enhancing the international comparability and quality of financial information, to enable investors and other market participants to make informed

[1] OJ C 259E, 29.10.2009, p. 94.
[2] Texts adopted, P8_TA(2016)0108.
[3] OJ L 157, 9.6.2006, p. 87.
[4] OJ L 158, 27.5.2014, p. 196.

economic decisions, and therefore to influence the behaviour of actors in financial markets and impact the stability of these markets; whereas, however, this 'decision usefulness' model of accounting is not entirely consistent with the 'capital adequacy' function of accounting as described in ECJ case-law and the Accounting Directive suggesting that the conceptual basis of accounting under the IFRS framework does not encompass the purpose of accounts in EU law, for which a true and fair view of the specific figures is the standard, as set out in written answer E-016071/2015 from Commissioner Jonathan Hill dated 25 February 2016; whereas the true and fair view requirement calls for a holistic assessment in which figures and qualitative explanations are important;

D. whereas the Accounting Directive states that accounts are ‘of special importance for the protection of shareholders, members and third parties’ and that 'such undertakings offer no safeguards to third parties beyond the amounts of their net assets'; whereas the Accounting Directive also states that its aim is ‘to protect the interests subsisting in companies with share capital’ by ensuring that dividends are not paid out of share capital; whereas this general purpose of accounts can only be fulfilled if the figures set out in the accounts give a true and fair view of a company's assets and liabilities, financial position and profit or loss; whereas a true and fair view, the determination of dividend payments and the assessment of the solvency of a company also require qualitative information and a wider evaluation of risks;

E. whereas the IASB functions under the umbrella of the IFRS Foundation – a private not-for-profit corporation registered in London, UK and Delaware, US – and is the standard setter whose processes must be transparent, independent and subject to direct public accountability; whereas the EU contributes around 14 % of the IFRS Foundation’s budget and is therefore its largest financial contributor;

F. whereas the global movement of capital requires a global system of accounting standards; whereas the IFRS are applied in 116 jurisdictions under different modalities (full adoption, partial, option or convergence), but not in the US for domestic issuers;

G. whereas the September 2002 Norwalk Agreement between the IASB and the US Financial Accounting Standards Board (FASB) proposed that there should be convergence between the IFRS issued by the IASB and the US-GAAP issued by the FASB;

H. whereas in the EU the endorsement process is based on the endorsement criteria as stipulated in the IAS Regulation; whereas an IFRS should not be contrary to the true and fair view principle as included in the Accounting Directive, which requires that financial statements must give a ‘true and fair’ view of a company’s assets and liabilities, financial position and profit or loss; whereas dividends and bonuses should not be paid out of unrealised profits which ultimately means out of capital as the Capital Maintenance Directive requires; whereas the IFRS should be conducive to the public good in Europe and should meet basic criteria related to the quality of information required for financial statements;

I. whereas the Commission, the Council and the European Parliament are involved in the endorsement process based on advice from the European Financial Reporting Advisory Group (EFRAG), a private technical adviser of the Commission, and on the work of the

Accounting Regulatory Committee (ARC) composed of representatives from the Member States; whereas the Maystadt report discussed the possibility of setting up an agency to replace EFRAG as a longer-term solution;

J. whereas, within the EU, different stakeholders – particularly long-term investors – have raised the issue of the consistency of the IFRS with the legal requirements of the Accounting Directive, in particular the principles of prudence and stewardship; whereas the involvement of Parliament in the standard-setting process is not sufficient and is not commensurate with the EU budget's financial contribution to the IFRS Foundation; whereas emphasis has also been put on strengthening Europe's voice in order to ensure that such principles are fully acknowledged and embedded throughout the standard-setting process;

K. whereas the recent financial crises brought the role played by IFRS in financial stability and growth onto the G20 and EU agendas, in particular the rules regarding the recognition of losses incurred in the banking system; whereas the G20 and the De Larosière report highlighted key issues with respect to accounting standards ahead of the crisis, including off-balance sheet accounting, the procyclicality related to the mark-to-market principle and profit and loss recognition, the underestimation of risk accumulation during cyclical upturns and the lack of a common and transparent methodology for the valuation of illiquid and impaired assets;

L. whereas the IASB delivered the IFRS 9 financial instruments as a key response to some aspects of the crisis and to its impact on the banking sector; whereas EFRAG's advice on IFRS 9 was positive, with a number of observations concerning the use of 'fair value' in the event of market difficulties, the lack of conceptual basis regarding the 12-month loss provisioning approach and the unsatisfactory provisions pertaining to long-term investment; whereas, owing to the different effective dates of IFRS 9 and the forthcoming insurance standard, the advice expressed a reservation on the applicability of the standard to the insurance sector; whereas this issue is acknowledged by the IASB itself; whereas there are concerns that the proposed accounting treatment of equity may negatively affect long-term investment; whereas the ECB and EBA comment letters on IFRS 9 were positive but also mentioned a number of specific shortcomings;

M. whereas the off-balance sheet accounting issue was addressed in the subsequent amendments to 'IFRS 7 Financial Instruments: Disclosures' and the issuance of three new standards – 'IFRS 10 Consolidated financial statements', 'IFRS 11 Joint arrangements' and 'IFRS 12 Disclosure of interests in other entities';

N. whereas in May 2015 the IASB published an Exposure Draft of the 'Conceptual Framework' which describes concepts assisting the IASB in developing the IFRS, enabling preparers of financial statements to develop and select accounting policies and helping all parties to understand and interpret the IFRS;

O. whereas the governance structure of the IFRS Foundation is under review, in accordance with its constitution; whereas this is therefore the right time to review the organisational set-up and the changes required for the governing and monitoring bodies of the IFRS Foundation and the IASB, with a view to integrating them better into the system of international financial institutions and ensuring broad representation (such as consumer representation agencies and finance ministries) of interests and public accountability that will guarantee high-quality accounting standards;

P. whereas the ISA are developed by the International Auditing and Assurance Standards Board (IAASB), an independent body hosted by the International Federation of Accountants (IFAC); whereas the Public Interest Oversight Board (PIOB) is an international independent organisation that oversees the process leading to the adoption of the ISA and the IFAC's other public interest activities;

Q. whereas the Union programme to support specific activities in the field of financial reporting and auditing for the period 2014-2020 covers the funding of the IFRS Foundation and the PIOB for 2014-2020, but the funding of EFRAG only for 2014-2016;

Evaluation of 10 years of the application of IFRS in the EU

1. Notes the Commission’s IAS evaluation report on the application of the IFRS in the EU and its assessment that the objectives of the IAS Regulation have been met; regrets that the Commission has not yet proposed the legal changes that are required to solve the shortcomings identified in its evaluation; calls on the standard setter to ensure that the IFRS are coherent within the existing body of accounting standards and to promote convergence at international level; calls for a more coordinated approach in developing new standards, including coordinated timelines for application, in particular with regard to the implementation of IFRS 9 Financial Instruments and the new IFRS 4 Insurance Contracts; urges the Commission to put forward diligently legal proposals to this end and to ensure that any delay does not result in misalignment or disruption of competition within the insurance industry; calls on the Commission to examine in detail whether the recommendations of the de Larosière report have been fully implemented, in particular Recommendation No 4, which states that a wider reflection on the mark-to-market principle is needed;

2. Calls on the Commission to comply as a matter of urgency with the Maystadt recommendation regarding expansion of the ‘public good’ criterion, i.e. that accounting standards should neither jeopardise financial stability in the EU nor hinder the EU’s economic development, and to ensure that this criterion will be fully respected during the endorsement process; urges the Commission, together with EFRAG, to issue clear guidelines on the meaning of the ‘public good’ and the ‘true and fair view’ principle on the basis of ECJ case-law and the Accounting Directive in order to arrive at a common understanding of these endorsement criteria; calls on the Commission to put forward a proposal to incorporate Maystadt's definition of the 'public good' criterion into the IAS Regulation; calls on the Commission, together with EFRAG, to examine systematically whether the 'public good' criterion as defined by Maystadt requires changes to existing accounting standards and, on this basis, to cooperate with the IASB and national and third-country standard setters to obtain wider support for modifications or, in the absence of such wider support, to provide in EU law for specific standards to meet such criteria where needed;

3. Notes that the ‘true and fair view’ test of Article 4(3) of Directive 2013/34/EU applies to the figures set out in the accounts as the standard for the purpose of accounts prepared according to European law, as described in Recitals 3 and 29 of the directive; highlights that this purpose relates to the capital adequacy function of accounts, i.e. that

investors, both creditors and shareholders, use the figures in the annual accounts as the basis for determining whether a company is 'net asset' solvent and for determining dividend payments;

4. Emphasises that a core component of achieving the true and fair view of the figures set out in the accounts is prudent valuation, which means no understating of losses or overstating of profits, as described in Article 6(1)(c)(i) and (ii) of the Accounting Directive; points out that this interpretation of the Accounting Directive has been confirmed by numerous ECJ rulings;

5. Notes that Recital 9 of the IAS Regulation allows a degree of flexibility when making a decision to endorse an IFRS by not requiring 'a strict conformity with each and every provision of those Directives'; suggests, however, that this does not extend to allowing IFRS to deviate so far from the general purpose of the 2013 Accounting Directive (2013/34/EU), which replaced the Fourth Company Law Directive (78/660/EEC) and Seventh Company Law Directive (83/349/EEC) referred to in the first indent of Article 3(2) of the IAS Regulation, as to result in financial statements that overstate profits or understate losses; considers, in this connection, that the endorsement of IAS 39 was possibly contrary to this general purpose of the Fourth and Seventh Company Law Directives, superseded by the 2013 Accounting Directive, given its incurred loss model, and in particular to Article 31(1)(c)(bb) of the Fourth Company Law Directive, which stated that 'all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one [should be measured and recognised], even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up';

6. Welcomes the intention of the IASB to reintroduce the principle of 'prudence' and re-inforce 'stewardship' in the new Conceptual Framework; regrets that the IASB's interpretation of 'prudence' only means 'prudent treatment of discretion'; notes that the IASB's understanding of the principle of prudence and stewardship is not the same as what is stated in the relevant ECJ case-law and the Accounting Directive; believes that the principle of prudence should be accompanied by the principle of reliability; calls on the Commission and EFRAG to agree on the meaning of the principle of prudence and stewardship as defined in ECJ case-law and the Accounting Directive and, on this basis, to cooperate with the IASB and national and third-country standard setters in order to obtain wider support for these principles; calls on the IASB to examine systematically whether a revised Conceptual Framework requires changes to existing accounting standards and to make modifications where needed;

7. Notes the reform regarding the recognition of losses in the IFRS framework, which should allow for a more prudent build-up of loss provisions on the basis of the forward-looking concept of loss expectation instead of incurred losses; takes the view that the EU endorsement process should carefully and prudently frame the way in which the expected loss concept is to be specified so as to avoid model overreliance and allow clear supervisory guidance on asset impairment;

8. Takes the view that the off-balance sheet accounting issue has not yet been properly and effectively addressed as the decision as to whether or not an asset is to be reported on balance sheets is still subject to a mechanistic rule which can be circumvented; calls on

the IASB to correct these shortcomings;

9. Welcomes the IFRS Foundation and IOSCO protocols on enhanced cooperation in view of the key issues, identified by the G20, concerning regulation of securities markets; considers this cooperation to be necessary in order to meet the need for high-quality global accounting standards and to encourage application of consistent standards across varying national settings;

10. Is convinced that the exchange of information between the IASB and IOSCO on growing IFRS use should be viewed not only as a stocktaking exercise, but also as an opportunity to identify instances of best practice; welcomes, in this regard, the annual 'enforcer discussion session' introduced by IOSCO in order to inform the IASB about key implementation and enforcement issues;

11. Notes that the effects of an accounting standard must be fully understood; insists that it should be a priority for the IASB and EFRAG to strengthen their impact analyses, notably in the field of macroeconomics, and to assess the different needs of the wide variety of stakeholders, including long-term investors and companies, as well as the general public; calls on the Commission to remind EFRAG to strengthen its capacity to assess the impact of new accounting standards on financial stability, with an explicit focus on European needs that should be introduced into the IASB's standardisation earlier on in the process; notes, in particular, the absence of a quantitative impact assessment for IFRS 9, for which no data will be available before 2017; calls on the Commission to make sure that IFRS 9 serves the EU long-term investment strategy, especially by restricting provisions which could introduce excessive short-term volatility in financial statements; notes that the European Supervisory Authorities (ESAs) – ESMA, EBA and EIOPA – which have the expertise and capacity to assist in this task rejected full membership of the EFRAG Board because of EFRAG being a private body; considers that the ECB and ESAs, as observers of the EFRAG Board following the reformed governance arrangements, would contribute positively to taking greater account of effects on financial stability; calls on the Commission, in the context of the revision of the IAS Regulation, to explore ways of being provided with a systematic formal feedback from the ESAs;

12. Is convinced that only simple rules can be effectively applied by users and controlled by supervisors; recalls that, in its statement of 2 April 2009, the G 20 called for less complexity in accounting standards for financial instruments and for clarity and consistency in the application of valuation standards internationally, working with supervisors; is concerned about the persisting complexity of the IFRS; calls for this complexity to be reduced wherever appropriate and possible when developing new accounting standards; believes that a less complex accounting standards system will contribute to more uniform implementation so that company financial data are comparable between Member States;

13. Calls for mandatory country-by-country reporting under IFRS; reiterates Parliament's view that public country-by-country reporting can play a decisive role in combating tax avoidance and fraud;

14. Asks the IASB, the Commission and EFRAG to involve Parliament and the Council at an early stage when developing financial reporting standards in general and in the

endorsement process in particular; takes the view that the scrutiny process for the adoption of IFRS in the EU should be formalised and structured by analogy with the scrutiny process applicable to 'level 2' measures in the field of financial services; recommends that the European authorities invite civil society stakeholders to support their activities, including at the EFRAG level; calls on the Commission to create a space for stakeholders to discuss fundamental principles of accounting in Europe; calls on the Commission to grant Parliament the possibility to receive a short list of EFRAG board president candidates so as to organise informal hearings ahead of a vote on the proposed candidate;

15. Notes in this context that Parliament should play the role of an active promoter of IFRS, provided that the requests contained in this resolution are properly taken into account, as evidence exists that the benefits outweigh the costs;

16. Is convinced that a globalised economy needs internationally accepted accounting standards; recalls, however, that convergence is not an objective in itself but only desirable if it results in better accounting standards reflecting an orientation towards the public good, prudence and reliability; believes therefore, that a robust dialogue should continue between the IASB and national accounting standards setters, despite the slow progress of the convergence process;

17. Notes that the majority of enterprises are SMEs; notes the Commission’s intention to explore with the IASB the possibility of developing common high-quality and simplified accounting standards for SMEs which could be used, on a voluntary basis, at EU level by SMEs listed on Multilateral Trading Facilities (MTFs), and more specifically SME growth markets; notes, in this connection, the possibilities of the already existing financial reporting standards for SMEs; believes that, as a condition for work to continue in this field, IFRS have to be less complex and must not promote pro-cyclicality, and that SME interests should be sufficiently represented on the IASB; believes that the relevant stakeholders should be represented on the IASB; calls on the Commission to undertake a proper impact assessment of the effects of IFRS on SMEs before taking any further steps; calls for such a development to be carefully monitored and that Parliament should be fully informed, with due account being taken of the 'better regulation' process;

18. Stresses that national standard setters are now closely integrated in EFRAG; identifies, therefore, the advisory role of EFRAG when it comes to accounting issues relating to small listed companies and SMEs more generally;

19. Welcomes the fact that the Commission is encouraging Member States to follow the ESMA guidelines on the enforcement of financial information; deplores that several Member States do not comply and do not intend to comply with the ESMA guidelines on the enforcement of financial information; calls on these Member States to work towards compliance; calls on the Commission to assess whether ESMA’s powers make it possible to ensure consistent and coherent enforcement across the EU and, if not, to explore other ways to ensure proper application of enforcement;

20. Acknowledges that the balance between the mandatory scope of application of the IAS Regulation and the option for the Member States to extend the use of the IFRS at national level ensures proper subsidiarity and proportionality;

21. Welcomes the Commission's intention to examine the case for coordinating the EU rules relating to dividend distribution; recalls, in this connection, Article 17(1) of the Capital Maintenance Directive, which refers directly to a company's annual accounts as the basis for decisions relating to dividend distributions and places certain restrictions on the distribution of dividends; notes that the Commission's evaluation of the IAS Regulation has shown some evidence that differences in enforcement of IFRS persist between Member States; stresses that capital maintenance and dividend distribution rules have been cited in the report on the evaluation of the IAS Regulation as a source of legal challenges which can arise in certain jurisdictions where Member States permit or require the use of IFRS for individual annual financial statements on which distributable profits are based; points out that each Member State considers how to address such issues in its national legislation within the framework of the EU capital maintenance requirements; calls on the Commission, in this connection, to ensure compliance with the Capital Maintenance Directive and the Accounting Directive;

22. Calls on EFRAG and the Commission to examine as soon as possible whether accounting standards allow tax fraud and tax avoidance and to make all the necessary changes to correct and prevent potential abuse;

23. Notes ongoing efforts to enhance transparency and comparability of public accounts by developing European Public Sector Accounting Standards (EPSAS);

Activities of the IFRS Foundation, EFRAG and the PIOB

24. Supports the Commission recommendations that the Monitoring Board of the IFRS Foundation should shift the focus of its attention from the issue of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation; believes, however that further progress should be made as regards the governance of the IFRS Foundation and the IASB, in particular in terms of transparency, prevention of conflicts of interest and diversity of hired experts; points out that IASB's legitimacy is at stake if the Monitoring Board continues to disagree over its responsibility while depending on consensus decisions; supports, in particular, the Commission's proposal to consider the reporting needs of investors with different investment time horizons and to provide specific solutions, in particular for long-term investors, when developing their standards; supports better integration of the IASB into the system of international financial institutions and steps to ensure broad representation (such as consumer representation agencies and finance ministries) of interests and public accountability that will guarantee high-quality accounting standards;

25. Notes the dominance of private actors on the IASB; points out that medium-sized businesses are not represented at all; points out that the IFRS Foundation continues to rely on voluntary contributions, often from the private sector, which may give rise to a risk of conflicts of interests; calls on the Commission to urge the IFRS Foundation to aim for a more diversified and balanced financing structure, including on the basis of fees and public sources;

26. Welcomes the activities of the IFRS Foundation/IASB in carbon and climate reporting; takes the view, in particular, that key long-term structural issues such as the valuation of stranded carbon assets in undertakings' balance sheets should be explicitly added to the IFRS working programme with a view to developing related standards; calls on the

IFRS bodies to put the challenge of carbon reporting and carbon risks on their agenda;

27. Calls on the Commission and EFRAG to look into the shift in pension asset allocation from equities to bonds as a result of the introduction of the mark-to-market accounting under IFRS;

28. Supports the Commission in urging the IFRS Foundation to ensure that use of the IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB; calls on the Commission to explore ways to reform the IFRS Foundation and the IASB in order to remove veto rights from members which do not fulfil the aforementioned criteria;

29. Calls on the IFRS Trustees, the IFRS Monitoring Board and the IASB to promote an appropriate gender balance within the respective forums;

30. Recalls its request made in the Goulard report for measures to enhance democratic legitimacy, transparency, accountability and integrity which, inter alia, concern public access to documents, open dialogue with diverse stakeholders, the establishment of mandatory transparency registers and rules on transparency of lobby meetings as well as internal rules, in particular prevention of conflict of interests;

31. Emphasises that the EFRAG reform must improve the European contribution to the development of the new IFRS and could participate in the reform of governance of the IFRS Foundation;

32. Deplores the fact that EFRAG has been operating for some time without a board president, given the key role he/she plays in reaching consensus and in ensuring a clear, strong European voice on accounting matters at international level; stresses the importance of appointing a new president as soon as possible; urges the Commission, therefore, to speed up the recruitment process, taking due account of the role of Parliament and its Committee on Economic and Monetary Affairs;

33. Welcomes the EFRAG reform which took effect on 31 October 2014 and acknowledges that significant efforts have been made in this regard; notes the improved transparency; deplores the fact that, with regard to the funding of EFRAG and, in particular, the possibility of establishing a system of compulsory levies paid by listed companies, the Commission has focused its efforts on implementing parts of the reform that are achievable in the short term; asks the Commission to take formal steps – as recommended in the Maystadt report – to encourage Member States that do not already have a National Funding Mechanism to establish one; notes the Commission proposal for the extension of the Union Programme for EFRAG for the period 2017-2020; calls on the Commission to conduct an annual comprehensive assessment of its agreed reform, as provided for in Article 9(3) and 9(6) of Regulation (EU) No 258/2014; calls on the Commission to assess the opportunity and possibility of transforming EFRAG into a public agency in the long term;

34. Deplores the fact that the requirement, suggested by Maystadt, that the functions of EFRAG CEO and EFRAG TEG Chairman should be combined has been turned into a possibility; notes that the composition of the new board deviates from Maystadt's

proposal as the European Supervisory Authorities and the European Central Bank declined to accept full membership of the board; calls on EFRAG to extend the number of users, currently only one, on the board and to ensure that all relevant stakeholders are represented in EFRAG;

35. Welcomes the fact that in 2014 PIOB diversified its funding; notes that the total funding provided by IFAC was 58 % which, while still accounting for a significant proportion of PIOB funding, is well below the two-thirds threshold and that there was therefore no need for the Commission to limit its annual contribution, as stipulated in Article 9(5) of Regulation (EU) No 258/2014; calls on PIOB to step up its efforts to ensure integrity in the auditing profession;

36. Instructs the President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

The International Accounting Standards Board (IASB) based in London, is developing a set of high-quality globally applicable accounting standards, and is therefore creating a common language for global financial reporting. The rapporteur acknowledges the importance of such globally applicable standards for improving competition and removing investment barriers on a global scale.

Since 2005, publicly traded EU companies are obliged to prepare their consolidated financial statements in accordance with these standards. The incorporation of the international accounting standards into EU law is governed by an endorsement mechanism as outlined in the IAS Regulation.

International accounting standards form an important part of the EU financial services regulation and supervisory framework. They interact with a multitude of other pieces of EU financial services regulation, inter alia in the area of prudential regulation. The rapporteur underlines therefore the important role of accounting standards for the development of a single capital market in the European Union, in particular in the context of the Capital Markets Union (CMU) project. He believes that the application of the international financial reporting standards in the EU has contributed to a strengthening of the single market and also strengthened the competitiveness of the European economy by allowing companies to attract capital and investments on global capital markets. The effects of applying IFRS in the European Union in the last ten years have therefore been overall positive.

However, the financial crisis has shown that financial reporting standards need by reviewed and improved. Especially ramifications of the use of 'fair value' on financial stability have triggered a still on-going debate.

The evaluation of the IAS Regulation offers further the opportunity to address issues regarding the endorsement process of IFRS in the European Union.

Development of IFRS
The European Union has delegated the development of the international financial accounting standards to the International Accounting Standards Board (IASB), an independent self-regulatory private body. The independence of this organisation has to be accompanied with proper accountability arrangements. The Review of Structure and Effectiveness of the IFRS Foundation offers the possibility to address issues like the European influence and proper accountability.

The increased complexity of financial reporting is also of concern for the rapporteur. Standard Setters have to strive for the right balance between the need to reflect complex financial markets and instruments in the accounting standards and the need of high-quality, transparent and comparable global standards understandable by a large group of various stakeholders. The principle of proportionality has to be applied to international accounting standards in particular to allow also smaller companies to become listed. The rapporteur welcomes the intention of the Commission in the context of the CMU project to assess with the IASB the possibility of developing accounting standards for companies admitted to trading on SME Growth Markets.

The rapporteur stresses the need for developing coherent financial reporting standards. Coherence and consistency has to be ensured within the existing body of international accounting standards but also with respect to other EU financial services regulation. Since the aim of IFRS is to create globally harmonised accounting standards applicable in a multitude of jurisdictions, 116 for the time being, already require the use of IFRS, with different legal, regulatory and economic structures the leeway for consideration of European specificities is limited. Consequently the endorsement procedure in the EU only leaves the options endorsing the full standard; partially endorse a standard (carve-outs) or not endorsing a standard. Therefore it is of utmost importance to ensure the European influence at all stages of the process of standard development.

The rapporteur calls for a further strengthening the European influence in early stages of the accounting standard development. Various European public and private sector entities at national and European level are involved in the process, sometimes with different views and interests. The formulation of a common European position is therefore an important but also difficult task. EFRAG has an important role to play in this regard.

Endorsement and Application of IFRS in the European Union
IFRS have to be endorsed in order to become part of the EU law. This endorsement procedure shall assure that the international accounting standards are in the interest of the European economy.

The European Reporting Advisory Group (EFRAG), a private organisation which provides technical expertise and advice to the Commission, plays an important role in strengthening the European influence already at an early stage in standard development. The rapporteur welcomes the implementation of the governance reform of EFRAG implementing recommendations of the Maystadt Report. These reforms will strengthen the capacity of EFRAG to deliver on its tasks. The rapporteur stresses that the capacity of EFRAG to conduct proper qualitative and quantitative impact assessment has to be strengthened. In addition, possibilities have to be explored in order to better involve the Parliament in early stages of the endorsement procedure. The ECON Committee created for this purpose the IFRS Permanent Team on IFRS.

The endorsement criteria play an important role in the endorsement process (conducive to the European Public Good, true and fair view and other qualitative criteria).

Another important aspect is the equivalence determination of third-country accounting standards. The US does not allow domestic companies to use IFRS. Therefore the work of IASB and FASB (the US standard setter) for a convergence of the standards is of high importance.

Compliance with and consistent application of financial reporting standards in order to ensure a level playing field within the single market has to be ensured. The rapporteur stresses to role of ESMA in ensuring supervisory convergence in Europe (see also ESMA guidelines on the enforcement of financial information).

Relevant abbreviations

ARC	Accounting Regulatory Committee
EFRAG	European Financial Reporting Advisory Group
ESMA	European Securities and Markets Authority
FASB	Financial Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS Foundation	The IFRS Foundation is the oversight body of the IASB
IFAC	International Federation of Accountants
PIOB	Public Interest Oversight Board
ISA	International Standards on Auditing

8.4.2016

OPINION OF THE COMMITTEE ON BUDGETARY CONTROL

for the Committee on Economic and Monetary Affairs

on International Accounting Standards (IAS) Evaluation and on Activities of the International Financial Reporting Standards (IFRS) Foundation, European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)
(2016/2006(INI))

Rapporteur: Ryszard Czarnecki

SUGGESTIONS

The Committee on Budgetary Control calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions into its motion for a resolution:

A. whereas the main purpose of the application of international accounting standards (IAS) is to harmonise the financial reporting of companies;

B. whereas the financial and economic crisis has necessitated reform of the international financial and reporting standards (IFRS) towards greater transparency, better governance of economic systems and increased comparability;

C. whereas it is fundamental for the Union to be present in the debate on the definition of international reporting standards, as well as in the governance structure of international accounting regulatory bodies;

D. whereas active participation and cooperation between actors in the setting-up and endorsement process allows for a better understanding of the potential costs of implementation of any new accounting and reporting standard;

E. whereas accounting policy choices impact the EU public sphere and Member States' public finance information systems;

1. Welcomes the evaluation by the Commission of ten years of implementation of the 'IAS regulation' in the Union[1];

2. Welcomes the objectives set by the IFRS, more specifically increased cross-border

[1] COM (2015)0301, adopted on 18 June 2015.

mobility for SMEs, reduced tax fraud and access to funding on the global capital markets;

3. Considers that reinforcing the reliability, comparability and transparency of financial information is an overarching objective;

4. Notes that the implementation of IFRS has contributed to enhancing the overall effectiveness, relevance and quality of financial data and statements, to the benefit of the single market and capital markets; notes the coordinating role of the European Securities and Market Authorities (ESMA) in enabling a consistent application of those standards across the Union;

5. Notes, however, that IFRS are not fully implemented and not fully endorsed by the Member States, which undermines the potential of the standards;

6. Calls on the Commission and the Member States to focus efforts on complete implementation since such a step is needed to enable the Capital Markets Union and to contribute to processes leading to a fully-fledged Single Market;

7. Recommends that Member States stick to the ESMA guidelines to ensure smooth and complete implementation of the IFRS;

8. Calls on the Commission to develop an EU-wide simplified accounting standard for SMEs listed on Multilateral Trading Facilities (MTFs), especially with regard to SME growth markets;

9. Notes that the high level of complexity of IFRS necessitates further cost/benefit analysis, pertinent impact assessment and communication of the existing capital market outcomes, and that a transparent and simplified IFRS would enable better understanding and use of financial information by its users; notes that a careful balance between required data disclosure and reduced red tape for SMEs must be maintained;

10. Emphasises that, in that context, democratic scrutiny is an important element and that Parliament, the Commission and the Council must be involved in the development of financial reporting standards and the endorsement process in order to guarantee the overall coherence and appropriateness of accounting and reporting principles; considers that an endorsement process remains necessary to ensure that the standards developed by the private body fulfil certain criteria and suit Europe’s economy before they become EU legislation;

11. Notes in this context that the European Parliament should play the role of an active promoter of IFRS, as evidence exists that the benefits outweigh the costs;

12. Supports in this context the advisory role of the European Financial Reporting Advisory Group (EFRAG) in ensuring a European presence and influence in the setting-up process of, and discussions on, global accounting standards, their development and review;

13. Points out that the implementation of standardised and simplified accounting and reporting standards in the Union is not only relevant for markets and enterprises but also

for the ‘public good’[1];

14. Is of the opinion that the impact of IAS and IFRS adoption on public-sector financial statements should be further considered in light of the reform of public and governmental accounting and reporting systems;

15. Points out that the lessons learnt from the implementation of the IAS and IFRS, particularly in relation to the strengthening of transparency and comparability principles, should be considered in the public sector and serve as a benchmark for EU Member States for the development of European Public Sector Accounting Standards (EPSAS); takes the view that a roadmap and/or an action plan should be envisaged by the Commission to that end;

16. Believes, furthermore, that the modernisation of Member States’ accounting systems at all levels of government through the promotion of accrual accounting based on commonly acceptable accounting standards is leading to enhanced transparency and comparability of public accounts in the Member States and reliable governmental financial reporting; encourages the Commission to further pursue and intensify its endeavours on European Public Sector Accounting Standards;

17. Considers that, in the wider context of financial and fiscal reforms, the setting-up of reinforced accounting and reporting instruments, through EPSAS, can facilitate political decision-making and economic governance;

18. Emphasises that improving the quality of primary accounting data and financial reporting provided by the public sector through EPSAS will contribute to the developing and assuming of public accountability, sustainable public finances with greater fiscal transparency and more stringent and transparent budgetary control.

[1] As per the Maystadt recommendations.

RESULT OF FINAL VOTE IN COMMITTEE ASKED FOR OPINION

Date adopted	4.4.2016
Result of final vote	+: 17 –: 2 0: 1
Members present for the final vote	Louis Aliot, Inés Ayala Sender, Dennis de Jong, Martina Dlabajová, Ingeborg Gräßle, Verónica Lope Fontagné, Monica Macovei, Dan Nica, Gilles Pargneaux, Georgi Pirinski, Petri Sarvamaa, Claudia Schmidt, Bart Staes, Marco Valli, Derek Vaughan, Anders Primdahl Vistisen, Tomáš Zdechovský
Substitutes present for the final vote	Marian-Jean Marinescu, Miroslav Poche
Substitutes under Rule 200(2) present for the final vote	Birgit Collin-Langen, Bodil Valero

RESULT OF FINAL VOTE IN COMMITTEE RESPONSIBLE

Date adopted	26.4.2016
Result of final vote	+: 52 –: 0 0: 5
Members present for the final vote	Gerolf Annemans, Hugues Bayet, Pervenche Berès, Esther de Lange, Markus Ferber, Jonás Fernández, Elisa Ferreira, Neena Gill, Roberto Gualtieri, Brian Hayes, Gunnar Hökmark, Danuta Maria Hübner, Cătălin Sorin Ivan, Othmar Karas, Georgios Kyrtsos, Alain Lamassoure, Philippe Lamberts, Werner Langen, Sander Loones, Bernd Lucke, Olle Ludvigsson, Ivana Maletić, Fulvio Martusciello, Bernard Monot, Luděk Niedermayer, Stanisław Ożóg, Dimitrios Papadimoulis, Sirpa Pietikäinen, Dariusz Rosati, Pirkko Ruohonen-Lerner, Alfred Sant, Molly Scott Cato, Peter Simon, Theodor Dumitru Stolojan, Paul Tang, Ramon Tremosa i Balcells, Ernest Urtasun, Marco Valli, Cora van Nieuwenhuizen, Jakob von Weizsäcker, Pablo Zalba Bidegain, Marco Zanni
Substitutes present for the final vote	Matt Carthy, Philippe De Backer, Mady Delvaux, Ashley Fox, Marian Harkin, Ian Hudghton, Sophia in 't Veld, Syed Kamall, Krišjānis Kariņš, Paloma López Bermejo, Emmanuel Maurel, Siôn Simon, Romana Tomc
Substitutes under Rule 200(2) present for the final vote	Daniela Aiuto, Virginie Rozière