At a Glance

Collection of publications

European Parliament

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

INFORMATION ON IFRS
INTERNATIONAL FINANCIAL REPORTING STANDARDS

BACKGROUND

International Financial Reporting Standards (IFRS) are issued by an international private organisation, the International Accounting Standards Board (IASB). The EU has to endorse IFRS 'as they are' in order to be fully compliant, i.e. no changes can be made. Non-endorsement or carve-outs are possible, but then EU firms have still to comply with the full IFRS if they want to benefit from IFRS' global acceptance, e.g. in the US, permitting a European company to use IFRS only without the need to adapt the accounting to national generally accepted accounting principles (national GAAP).

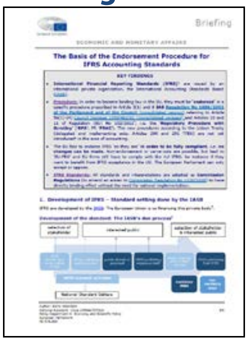
INSIDE

This leaflet contains an overview of papers prepared by the European Parliament's Policy Department A: Economic and Scientific Policy in the area of IFRS.

To access the publication, please scan the QR code or click on the hyperlink.

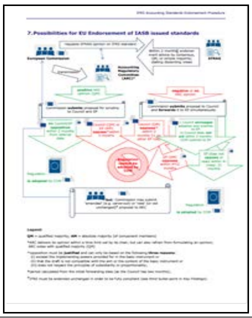
In order to become binding law in the EU, they must be 'endorsed' in a specific procedure prescribed in Article 3(1) and 6 Regulation No 1606/2002 of the Parliament and of the Council and Article 5a(1)-(4) and Article 10 and 11 Council Decision 1999/468/EC, i.e. the '**Regulatory Procedure with Scrutiny**'. The Commission intends to align in due course the pre-Lisbon-Treaty *Regulatory Procedure with Scrutiny* to the new delegated/implementing acts procedure according to Articles 290 and 291 TFEU. All standards are adopted as **Commission Regulations** amending an annex to Commission Regulation No 1126/2008 to have directly binding effect without the need for national implementation. One important draft standard under discussion is **IFRS 9**, the new standard laying down how **financial instruments** are accounted for. It shall replace the current standard (IAS 39) which was criticised for not taking declining values of financial assets during the financial crisis adequately into account.

Briefing: The Basis of the Endorsement Procedure for IFRS Accounting Standards



This detailed briefing on the endorsement procedure for IFRS accounting standards provides the background of IFRS as well as the legal basis - including links to and excerpts of the most relevant texts. It is accompanied by a visual overview of the relevant legal framework in the area of accounting supplemented by a flow diagram of the various possibilities in the process of (non-)endorsement of accounting standards.

At a Glance: IFRS Accounting Standards Endorsement Procedure



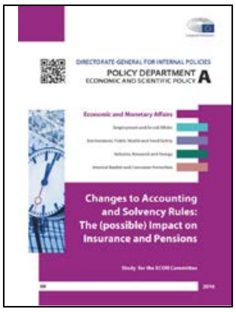
This At-a-Glance note provides on two pages a very concise visual overview of the endorsement procedure for International Financial Reporting Standards. It summarises the main points of the corresponding briefing (see first item) and is intended to be of help to a focussed reader who wants to access only the most relevant information.

Directorate General for Internal Policies

Policy Department A: Economy and Scientific Policy, Author: Doris KOLASSA

European Parliament, PE: 587.308

Study: Changes to Accounting & Solvency Rules: (possible) Impact on Insurance & Pensions



This study by Franck CHEVALIER, Maxime RENAUDIN, and Erika BENG (EY) describes the general accounting and solvency framework applicable to entities providing insurance and pensions, and presents recent changes to accounting and solvency rules and their potential effects on pension management, financing and provision. These effects on (life) insurance and pension products and employee benefits are analysed and put in context (e.g. Solvency II, IORP II, IFRS). The study clarifies basic questions that are key to understanding the impact of such rules on the provision of life insurance, pensions and employee benefits, and on the investment portfolios of the entities concerned.

Study: IFRS Endorsement Criteria in Relation to IFRS 9

This paper by Jannis BISCHOF and Holger DASKE provides a comprehensive examination of the IAS Regulation 1606/2002 which introduces three criteria for the endorsement of an international accounting standard:
a) a 'true and fair view' criterion, b) qualitative criteria, and c) a 'European public good' criterion. The study describes these criteria against the background of European accounting law and academic accounting research. Then, the paper evaluates whether the new IFRS 9 standard on accounting for financial instruments meets these criteria. The authors conclude that the standard cannot reasonably be rejected on grounds of the IAS Regulation.

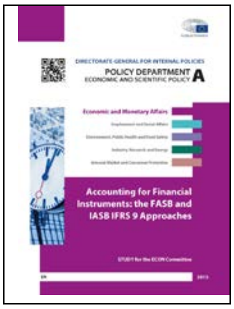
Study: The Significance of IFRS 9 for Financial Stability and Supervisory Rules

This study by Zoltán NOVOTNY-FARKAS examines the interaction of the IFRS 9 expected credit loss model with supervisory rules and discusses potential implications for financial stability. IFRS 9 is more closely aligned with bank supervision, incorporates earlier and larger impairment allowances, and thus, is likely to mitigate the procyclical tendencies of the current IAS 39 incurred loss approach. Combined with improved transparency, IFRS 9 might enhance financial stability. However, the potential benefits of the standard will crucially depend on its proper and consistent application.

Study: Impairments of Greek Government Bonds under IAS 39 and IFRS 9: A Case Study

IFRS 9 introduces new impairment rules responding to the G20 critique that IAS 39 results in the delayed and insufficient recognition of credit losses. In this case study of a Greek government bond for the period 2009 to 2011 when Greece's credit rating declined sharply, the author Günther GEBHARDT highlights the discretion that preparers have when estimating impairments. IFRS 9 relies more on management expectations and will lead to earlier impairments. However, these appear still delayed and low if compared to the fair value losses.

Study: Accounting for Financial Instruments: the FASB and IASB IFRS 9 Approaches



This study by John O'HANLON, N. HASHIM and W. LI outlines the work of the FASB and the IASB on the development of expected-loss methods for measuring the impairment of financial instruments arising from credit losses, and describes and compares key features of the different approaches developed by the two standard setters. It also provides information indicative of the possible effect of differences between the two approaches and summarises arguments for and against the main elements of the approaches proposed by the two standard setters.

This document is available at: www.europarl.europa.eu/supporting-analyses Contact: Poldep-Economy-Science@ep.europa.eu

ISBN: 978-92-823-7968-4 (paper)/978-92-823-7967-7 (pdf) doi: 10.2861/793404 (paper)/ 10.2861/620921(pdf) Catalogue: QA-04-15-626-EN-C/ QA-04-15-626-EN-N