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DRAFT REPORT

on IAS evaluation and the activities of the IFRS Foundation, EFRAG and the
PIOB
(2016/0000(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on IAS evaluation and the activities of the IFRS Foundation, EFRAG and the PIOB (2016/0000(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 standards¹,
- having regard to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013² on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC³ of the European Parliament and of the Council and repealing Council Directives 78/660/EEC⁴ and 83/349/EEC⁵,
- having regard to Regulation (EU) No 258/2014⁶ of the European Parliament 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/EC⁷,
- having regard to the October 2013 report by Philippe Maystadt entitled ‘Should IFRS 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 IASB (‘The European Union’s Role in International Economic Fora – paper 7: The IASB’) and the four studies on IFRS 9 (‘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 105, 8.4.2014, p. 1.

⁷ OJ L 253, 25.9.2009. p. 8.

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 Council¹,
 - having regard to the G20 Leaders Statement of 2 April 2009,
 - having regard to the comments of 14 January 2014 made by the Committee on Economic and Monetary Affairs on the discussion paper entitled ‘A Review of the Conceptual Framework for Financial Reporting’,
 - having regard to the 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 its resolution of 24 April 2008 on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standard Board (IASB)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 accounts³, amended by Directive 2014/56 of the European Parliament and of the Council of 16 April 2014⁴ 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 opinions of the ... (A8-0000/2016),
- A. whereas the International Financial Reporting Standards (IFRS) and the international standards on auditing (ISA) are essential for the efficient functioning of the internal market and of the capital markets; whereas the IFRS and ISA are a public good;
- B. whereas the IFRS strengthen accountability by reducing the information gap between investors and companies, protecting investment and bringing transparency through enhancing the international comparability and quality of financial information and enabling investors and other market participants to make informed economic decisions, and therefore influence the behaviour of actors in financial markets and impact the stability of these markets;

¹ OJ L 340, 22.12.2007, p. 66.

² OJ C 259E, 29.10.2009, p 94.

³ OJ L 157, 9.6.2006, p. 87.

⁴ OJ L 158, 27.5.2014, p. 196.

- C. whereas the International Accounting Standard Board (IASB) functions under the umbrella of the IFRS Foundation – a private not-for-profit corporation – and is the standard setter whose processes should be transparent, independent, democratic and subject to public accountability;
- D. whereas the free global movement of capital requires a global system of accounting standards; whereas the IFRS are applied in 116 jurisdictions, but not in the US for domestic issuers;
- E. whereas in the EU endorsement process the compliance of the IFRS with the criteria of the IAS Regulation is assessed, particularly through the requirement that financial statements must give a ‘true and fair’ view of a company’s assets and liabilities, financial position and profit or loss; 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;
- F. 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;
- G. whereas, within the EU, different stakeholders – particularly long-term investors — have raised the issue of the consistency of the IFRS with the principles of prudence and stewardship; whereas emphasis has also been put on strengthening Europe’s voice in order to ensure coherence in the standard-setting process;
- H. 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;
- I. whereas the IASB delivered the IFRS 9 financial instruments as a key response to the crisis; whereas EFRAG’s advice on IFRS 9 was positive;
- J. 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;
- K. 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;
- L. whereas the ISA are developed 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;
- M. 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. Welcomes 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; calls on the standard setter to ensure that the IFRS are coherent within the existing body of accounting standards; calls for a more coordinated approach in developing new standards, including coordinated timelines for application;
2. Calls on the Commission to put forward proposals on how the Maystadt recommendation regarding expanding the 'public good' criterion – i.e. that accounting standards should neither jeopardise financial stability in the EU nor hinder the EU's economic development – will be taken into account 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' in order to arrive at a common understanding of these endorsement criteria;
3. Welcomes the intention of the IASB to reintroduce the principle of 'prudence' and reinforce 'stewardship' in the new Conceptual Framework; calls on the Commission and EFRAG to cooperate with the IASB and national and third-country standard setters to obtain wider support for these principles;
4. 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 and to assess the specific needs of investors and companies; calls on the Commission to evaluate the situation and provide the resources needed in order to strengthen the capacity of EFRAG to conduct proper impact assessments;
5. Is concerned about the complexity of the IFRS; calls for this complexity to be reduced whenever appropriate and possible when developing new accounting standards;
6. Asks the Commission and EFRAG to involve the European Parliament and Council at an early stage when developing financial reporting standards in general and in the endorsement process in particular;
7. Believes that a healthy dialogue should continue between the IASB and the US accounting standards setter, despite the slow progress of the convergence process;
8. Welcomes the intention of the Commission to explore with the IASB the possibility of developing common high quality and simplified accounting standards for SMEs which could be used at EU level by SMEs listed on Multilateral Trading Facilities (MTFs), and more specifically SME growth markets;
9. Welcomes the fact that the Commission is encouraging Member States to follow the ESMA enforcement guidelines on IFRS; calls on the Commission to assess whether ESMA's powers make it possible to ensure consistent and coherent enforcement across the EU;

10. 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;
11. Welcomes the Commission's intention to examine the case for strengthening the EU rules relating to dividend distribution;

Activities of the IFRS Foundation, EFRAG and the PIOB

12. 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;
13. 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;
14. Emphasises that the EFRAG reform will improve the European contribution to the development of the new IFRS;
15. Is concerned that EFRAG has been operating for some time without a President given the key role he/she plays in reaching consensus;
16. Welcomes the EFRAG reform which took effect on 31 October 2014; calls on the Commission to propose the extension of the Union Programme for EFRAG for the period 2017-2020;
17. Welcomes the fact that in 2014 the PIOB diversified its funding and the IFAC funding contribution was less than two-thirds of the total annual PIOB funding; notes 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 of the European Parliament and of the Council;
18. 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 to be 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