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Effects of using International Financial Reporting Standards (IFRS) in the EU: public consultation

Fields marked with * are mandatory.

Impact of International Financial Reporting Standards (IFRS) in the EU: public consultation

Purpose of the consultation

The European Commission is holding a public consultation to seek views from all interested parties on their experience of Regulation 1606/2002 ("the IAS Regulation"). The results of this public consultation will feed into the European Commission's evaluation of the IAS Regulation.

Background

Applying internationally accepted standards - the International Financial Reporting Standards (IFRS) – means standardising companies' financial reporting to make financial statements more transparent and comparable. The ultimate aim is for the EU capital market and the single market to operate efficiently.

Scope of the IAS Regulation

The IAS Regulation states that the IFRS must be applied to the consolidated financial statements of EU companies whose securities are traded on a regulated EU market. EU countries may extend the application of IFRS to annual financial statements and non-listed companies (view an update on the use of options in the EU). The Transparency Directive (2004/109/EC), as subsequently amended, also stipulates that all issuers (including non-EU ones) whose securities are listed on a regulated market located or operating in an EU country must use IFRS.

Impact of the IAS Regulation

The implementation of IFRS in the EU has had an impact on cross-border transactions, trade, the cost of capital, investor protection, confidence in financial markets and stewardship by management. However, it is difficult to differentiate their impact from that of other significant factors, including other regulatory changes in the EU and internationally.

Developments since adoption

Over 100 countries now use IFRS. These accounting standards have been increasingly discussed at international level (e.g. G20, Basel Committee) and with various interested parties in the EU, especially in the wake of the financial crisis.

Several initiatives concerning technical issues and governance are under way at both international and EU level. In the EU, the Maystadt report's recommendations are being implemented. These are designed to strengthen the EU's contribution to achieving global and high quality accounting standards by beefing up the role of the European Financial Reporting Advisory Group (EFRAG), which advises the Commission on IFRS matters.

Current Commission evaluation

The Commission is evaluating the IAS Regulation to assess:

- IFRS's actual effects
- how far they have met the IAS Regulation's initial objectives
- whether these goals are still relevant
- any areas for improvement.

This consultation is part of the evaluation process. The questionnaire was drafted with the help of an informal expert group which is to assist the Commission throughout the process.

Target group(s)

Any interested party – commercial, public, academic or non-governmental, including private individuals.

Especially: capital market participants and companies preparing financial statements or using them for investment or lending purposes (whether or not they use IFRS).

Consultation period

7 August — 31 October 2014 (12 weeks).

How to submit your contribution

If possible, to reduce translation and processing time, please reply in one of the Commission's working languages (preferably English, otherwise French or German).

Contributions will be published on this website with your name (unless – in your response – you ask us not to).

N.B.: Please read the specific privacy statement to see how your personal data and contribution will be dealt with.

Reference documents and other, related consultations

- IAS/IFRS standards & interpretations
- IFRS Foundation
- European Financial Reporting Advisory Group (EFRAG)
- Commission reports on the operation of IFRS

Results of public consultation & next steps

The results will be summarised in a technical report and will feed into the evaluation report to be presented by the Commission in line with Article 9.2 of Regulation 258/2014.

Questions

Please note that some questions do not apply to all groups of respondents.

Who are you?

1. In what capacity are you completing this questionnaire?

If it's *not* on behalf of an organisation, please indicate that you are a "private individual".*

- Company preparing financial statements *[some specific questions for preparers marked with 'P']*
- Company using financial statements for investment or lending purposes *[some specific questions for users marked with 'U']*
- A company that both prepares financial statements and uses them for investment or lending purposes *[some specific questions for preparers and users marked with 'P' and 'U']*
- Association
- Accounting / audit firm
- Trade union / employee organisation
- Civil society organisation / non-governmental organisation
- Research institution / academic organisation
- Private individual
- Public authority *[one specific question for public authorities marked with 'PA']*
- (selected) Other

1.11. Other - please specify*

Global Professional Accountancy Organization

2. Where is your organisation/company registered, or where are you are located if you do not represent an organisation/company? Select a single option only.*

- ( ) EU-wide organisation
- (•) Global organisation
- ( ) Austria
- ( ) Belgium
- ( ) Bulgaria
- ( ) Croatia
- ( ) Cyprus
- ( ) Czech Republic
- ( ) Denmark
- ( ) Estonia
- ( ) Finland
- ( ) France
- ( ) Germany
- ( ) Greece
- ( ) Hungary
- ( ) Ireland
- ( ) Italy
- ( ) Latvia
- ( ) Lithuania
- ( ) Luxembourg
- ( ) Malta
- ( ) The Netherlands
- ( ) Poland
- ( ) Portugal
- ( ) Romania
- ( ) Slovakia
- ( ) Slovenia
- ( ) Spain
- ( ) Sweden
- ( ) United Kingdom
- ( ) Norway
- ( ) Iceland
- ( ) Liechtenstein
- ( ) Other European country
- ( ) Other

3. What is the name of the organisation or authority you represent? If you are part of a group, give the name of the holding company as well.*

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International Federation of Accountants (www.ifac.org)
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4. In the interests of transparency, we ask organisations to supply relevant information about themselves by registering in the Transparency Register (http://ec.europa.eu/transparencyregister). If your organisation is not registered, your submission will be published separately from those of registered organisations. Is your organisation registered in the European Parliament/Commission Transparency Register?*

- ○ Yes
- ◉ No

5. In the interests of transparency, your contribution will be published on the Commission's website. How do you want it to appear?*

- ◉ Under the name supplied? (*I consent to the publication of all the information in my contribution, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)
- ○ Anonymously? (*I consent to the publication of all the information in my contribution except my name/the name of my organisation, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)

Relevance of the IAS Regulation

Objective

6. The rationale for the IAS Regulation, imposing internationally accepted standards - the International Financial Reporting Standards (IFRS) - was to make companies use the same set of accounting standards, thus ensuring a high level of transparency and comparability of financial statements. The ultimate aim was to make the EU capital market and the single market operate efficiently.

In your view, are the Regulation's objectives still valid today?*

- ◉ Yes
- ○ No
- ○ No opinion

6.1. Comments.

IFAC promotes regulatory consistency and convergence, where appropriate, including the global adoption and implementation of high-quality, international standards. This includes—but is not limited to—International Financial Reporting Standards (IFRS).

IFRSs are used in over 110 jurisdictions and are included in the list of twelve sets of standards that the FSB has designated as deserving of priority implementation.

Research commissioned by the IFRS Foundation indicates that benefits accrue to those jurisdictions that have adopted IFRS, in particular with respect to matters such as transparency and comparability.

Therefore, globally accepted, high-quality financial reporting standards are arguably necessary for and of benefit to the EU; permitting the EU and organizations that use the standards to more readily access international capital markets, be competitive, attract foreign investment. Ultimately, this enhances confidence in European financial markets

7. The IAS Regulation refers to IFRS as a set of global accounting standards. Over 100 countries use or permit the use of these standards. The US, for instance, allows EU companies listed in the US to report under IFRS. However, it continues to rely on its "generally accepted accounting principles" (GAAPs) for its domestic companies' financial statements, while the EU requires IFRS to be used for the consolidated accounts of EU listed companies.

Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?*

- (●) Yes
- ( ) No
- ( ) No opinion

7.1. Please explain.

The decision by the European Union to adopt IFRS—and to introduce the IAS Regulation—was an important impetus for many other jurisdictions to follow suit.

Scope

8. The obligation to use IFRS as set out in the IAS Regulation applies to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU. There are about 7,000 such firms.
In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?*

- ( ) Yes
- (x) No
- ( ) No opinion

8.1. How would you propose it be changed?*

- [x] By making IFRS compulsory for the individual annual accounts of listed companies on regulated markets
- [ ] By making IFRS compulsory for the consolidated accounts of large non-listed companies
- [x] By allowing any company to opt for reporting under IFRS
- [ ] Other

8.2. Comments.

To require financial statements to be prepared using IFRS for individual financial reports of listed companies on regulated markets will ensure that those listed companies that do not currently prepare consolidated statements (as they may not have subsidiaries) are preparing financial statements in a manner consistent with all listed entities.

Making the preparation of financial statements using IFRS optional for entities other than those listed on regulated markets may assist entities that are seeking to go public in the future; allowing them to develop requisite expertise and to demonstrate a history of relevant reporting prior to listing.

9. National governments can decide to extend the application of IFRS to:
- individual annual financial statements of companies listed on regulated markets
- consolidated financial statements of companies that are not listed on regulated markets
- individual annual financial statements of companies that are not listed on regulated markets.

In your view, are the options open to national governments:*

- (x) Appropriate
- ( ) Too wide
- ( ) Too narrow
- ( ) No opinion

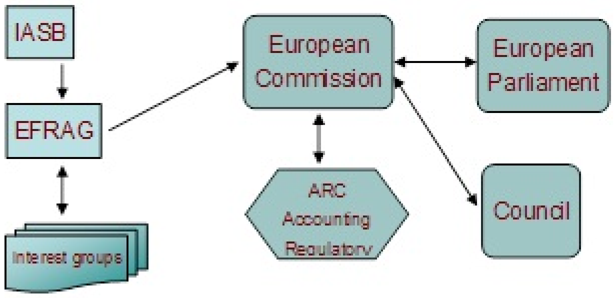
Cost-benefit analysis of the IAS Regulation

10. Do you have pre-IFRS experience/ experience of the transition process to IFRS?*

- ○ Yes
- ◉ No

Endorsement mechanism & criteria

The EU's IFRS endorsement process



In the EU, IFRS are adopted on a standard-by-standard basis. The procedure is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation.
- The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- The European Parliament and Council examine the standard.
- The Commission adopts the standard and publishes it in the Official Journal.

This process typically takes 8 months.

Endorsement criteria

Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's Accounting Directive
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

In his October 2013 report, Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good, namely that:

- any accounting standards adopted should not jeopardise financial stability
- they must not hinder the EU's economic development.

He also suggested that more thorough analysis of compliance with the criteria of prudence and respect for the public good was needed.

21. In the EU, IFRS are adopted on a standard-by-standard basis. The process, which typically takes 8 months, is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation.
- The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- The European Parliament and Council examine the standard.
- The Commission adopts the standard and publishes it in the Official Journal.

Do you have any comments on the way the endorsement process has been or is being conducted (e.g. in terms of the interaction of players, consistency, length, link with effective dates of standards, outcome, etc.)?*

IFAC is unclear with respect to why the EU needs to have an endorsement process that follows the issue of a standard by the IASB.

It believes that EFRAG should conduct its consultations, advisory processes, and examination of the potential impact concurrently with the IASB's process for developing and issuing a standard. This would allow for EFRAG—and Europe more generally—to be an integral part of the process of the development of the standard.

Other jurisdictions that adopt IFRS and yet still maintain a national standard-setting board have taken this approach.

Additionally, when examining the potential impact of a new or revised standard on the EU, it is important that a broader global perspective is taken. That is, for example, while a standard may include reporting requirements and practice that are not typical within Europe, they might be important in other jurisdictions and promote greater global consistency.

22. Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's Accounting Directive
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

Are the endorsement criteria appropriate (sufficient, relevant and robust)?*

- (●) Yes
- ( ) Yes, to some extent
- ( ) No
- ( ) No opinion

23. There is a necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs. This is why the IAS regulation limits the Commission's freedom to modify the content of the standards adopted by the IASB.

Does the IAS Regulation reflect this trade-off appropriately, in your view? *

- (●) Yes
- ( ) No
- ( ) No opinion

24. Have you experienced any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ("carve-out" for IAS 39 concerning macro-hedging allowing banks to reflect their risk-management practices in their financial statements)? *

- ( ) Yes
- ( ) No
- (●) No opinion

Quality of IFRS financial statements

25. What is your overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS?*

- [x] Very good
- [ ] Good
- [ ] Moderate
- [ ] Low
- [ ] Very low
- [ ] No opinion

25.1. Please provide any additional comments you think might be helpful.

IFAC has a strategic initiative aimed at focusing attention on the fact that the quality of financial reporting is dependent on the effectiveness of a complex set of arrangements, described as the financial reporting supply chain. There are many components (management, preparers, directors, auditors, standards, regulators, users) and complex interactions that need to be considered when assessing the quality of financial reporting. As such, it is important to recognize that any judgment about the quality of financial reporting using IFRS does not necessarily reflect only the quality, effectiveness, and usability of those standards.

Although IFAC has not had firsthand experience to evaluate the quality of financial reporting, it draws on the experience of FEE, which notes that it "considers the overall quality of IFRS financial statements prepared under IFRS in the EU as being "very good". However, FEE believes that there is still room for improvement in some areas of the set of the IFRS standards. FEE has already commented in the past on these to the IASB during prior consultations. For instance, the IASB still needs to work (and is doing work) on the disclosure overload and to complete some key projects, such as the standard on insurance contracts, the conceptual framework, the accounting for macro-hedging, etc."

26. Given that firms have complex business models and transactions, how would you rate financial statements prepared in accordance with IFRS in terms of complexity and understandability?*

- [ ] Very complex & difficult to understand
- [ ] Fairly complex & difficult to understand
- [x] Reasonable
- [ ] Not complex or difficult
- [ ] No opinion

26.1. Please provide any further comments you think might be helpful, specifying any particular areas of accounting concerned, if appropriate.

The complexity that is represented in financial reporting reflects the complexity of today’s business and economic transactions, especially with respect to transactions involving financial instruments and derivative products. It is important to recognize that financial reporting aims to faithfully present the economic substance of transactions in a transparent manner; and so given the complexity of these transactions, IFAC believes that reporting under any framework would be increasingly complex over time.

27. How would you rate financial statements prepared using IFRS in terms of complexity and understandability – compared with other sets of standards you use?

	IFRS information is easier to understand than...	IFRS information is neither easier nor more difficult to understand than …	IFRS information is more difficult to understand than …	No opinion
Information under your local GAAPs	○	○	○	●
Information under any other GAAPs	○	○	○	●

27.1. What are your local GAAPs?

Not applicable.

27.2. Please identify other GAAPs you are using as a basis for comparison.

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Not applicable
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28. How do IFRS compare with other GAAPs in terms of providing a true and fair view of a company's (group's) performance and financial position?

	IFRS are better than...	IFRS are equivalent to...	IFRS are worse than...	No opinion
Your local GAAPs (as identified under question 27)	○	○	○	●
Any other GAAPs (as identified under question 27)	○	○	○	●

29. How often is it necessary to depart from IFRS under “extremely rare circumstances” (as allowed by IFRS), to reflect the reality of a company’s financial performance and position in a fairer way?*

- ○ Often
- ○ Sometimes
- ○ Hardly ever
- ○ Never
- ● No opinion

30. How would you rate the extent to which IFRS allows you to reflect your company's business model in your financial statements?*

- ○ This is not an issue
- ○ IFRS are flexible enough
- ○ IFRS should be more flexible, so different business models can be reflected
- ● No opinion

Enforcement

Since 2011, the European Securities and Markets Authority (ESMA) has been coordinating national enforcers' operational activities concerning compliance with IFRS in the EU. ESMA has taken over where the Committee of European Securities Regulators (CESR) left off.

Enforcement activities regarding companies listed on regulated markets are defined in the Transparency Directive (2004/109/EC , as subsequently amended).

31. Are the IFRS adequately enforced in your country?*

- ○ Yes
- ○ Yes, to some extent
- ○ No
- ◉ Not applicable
- ○ No opinion

32. Does ESMA coordinate enforcers at EU level satisfactorily? *

- ○ Yes
- ○ Yes, to some extent
- ○ No
- ○ Not applicable
- ◉ No opinion

33. Has enforcement of accounting standards in your country changed with the introduction of IFRS?*

- ○ Enforcement is now more difficult
- ○ Enforcement has not changed
- ○ Enforcement is now easier
- ◉ Not applicable
- ○ No opinion

34. In your experience, have national law requirements influenced the application of IFRS in the EU country or countries in which you are active? *

- ○ Yes, significant influence
- ○ Yes, slight influence
- ○ No
- ◉ No opinion
- ○ Not applicable

35. If you are aware of any significant differences in enforcement between EU countries or with other jurisdictions, do they affect your practice in applying IFRS or analysing financial statements? *

- ( ) Yes, significantly
- ( ) Yes, but the impact is limited
- ( ) No
- ( ) No opinion
- (•) Not applicable

36. The recitals of the IAS Regulation stress that a system of rigorous enforcement is key to investor confidence in financial markets. However, the Regulation contains no specific rules on penalties or enforcement activities, or their coordination by the EU.

Should the IAS Regulation be clarified as regards penalties and enforcement activities?*

- (•) Yes
- ( ) No
- ( ) No opinion

36.1. Please explain.*

IFAC believes in transparency of regulatory arrangements, and as such, believes that there should be clarity about penalties and enforcement activities with respect to mandated regulatory requirements.

37. Should more guidance be provided on how to apply the IFRS? *

- ( ) Yes
- (•) No
- ( ) No opinion

Consistency of EU law

There are different types of reporting requirements in the EU (e.g. prudential requirements, company law, tax, etc.)

38. How would you assess the combined effects of, and interaction between, different reporting requirements, including prudential ones? *

IFAC considers it important for various regulators to carefully consider the objectives of financial reporting and their own regulatory requirements. Financial statements are not prepared for prudential reporting and regulatory purposes, and it is imperative for prudential regulators to recognize this point; although financial statements can be useful inputs into the broader assessments of the position of financial institutions. Also refer to the response to question 22.2.

39. Do you see any tensions in interaction between the IAS Regulation and EU law, in particular:

	No	Yes	To some extent	No opinion
Prudential regulations (banks, insurance companies)	○	○	●	○
Company law	○	○	○	●
Other	○	○	○	●

39.2. If you answered "yes" or "to some extent", please give details and state what the main effects of these tensions are.*

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Refer to response to question 38. Financial statements are not prepared
for prudential reporting and regulatory purposes, and it is imperative
for prudential regulators to recognize this point; although financial
statements can be useful inputs into the broader assessments of the
position of financial institutions.
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User-friendliness of legislation

All standards are translated into the official EU languages before they are adopted. The Commission also regularly draws up a consolidated version of the current standards enacted by the EU (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02008R1126-20130331:EN:NOT). The consolidated version does not include any standards that are not yet in force, but can be applied before the date of entry into force.

40. Are you satisfied with the **consolidated version** of *IFRS standards adopted by the EU*, which is not legally binding, or would you like to see improvements?

- ○ Satisfied
- ○ Need for improvements
- ○ I wasn't aware of it
- ○ I don't use it
- ● No opinion

41. Are you satisfied with the quality of **translation** of IFRS into your language *provided by the EU* ?*

- ○ Yes
- ○ Yes, to some extent
- ○ No
- ● No opinion
- ○ Not applicable

General

42. Do you have any other comments on or suggestions about the IAS Regulation?

Additional Comments in Relation to Question 9:

IFAC believes that it is appropriate to permit national governments to extend the application of IFRS as noted above, in line with the relevant circumstances of each individual jurisdiction. Different jurisdictions have different perspectives on the extent to which IFRS—written primarily with the interest of investors and potential investors in capital markets in mind—is applicable for other companies.

While an important consideration for jurisdictions to exercise this discretion might be the extent to which companies included in the above categories operate internationally, IFAC is of the view that the application of IFRS to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU would potentially cover the majority of financial statements for those companies/structures that operate internationally.

Additional Comments in Relation to Question 13:

IFAC notes that the extent to which this statement is true depends on the financial reporting arrangements that were in place in each individual jurisdiction prior to mandatory adoption of IFRS. Importantly, however, the mandatory adoption of IFRS has promoted greater consistency and comparability across jurisdictions; and from that perspective has made it easier to understand financial statements across the breadth of the EU.

Additional Comments in Relation to Question 17:

The application of IFRS in the EU improved protection for investors by providing them with financial information that is more comparable and transparent.

Additional Comments in Relation to Question 18:

The application of IFRSs allows European organizations to prepare and present financial statements that are comparable to financial statements prepared in other parts of the globe; and hence many other multi-national entities. The enhanced transparency and comparability arguably enhances and maintains the confidence in European financial markets.

Comments on Question 19 - other benefits from applying IFRS as required under the IAS Regulation:

- Improved ability to trade/expand internationally
- Improved group reporting in terms of process
- Robust accounting framework for preparing financial statements

Administrative savings

Additional Comments in Relation to Question 20:

Refer to comments on questions 17, 18, and 19 regarding the perceived benefits of applying IFRS in the EU. These benefits are, of course, very difficult to quality; and so it is also difficult to judge the relative benefits and costs.

Nevertheless, it is important to recognize that there are costs involved in transitioning to new arrangements and implementing reporting arrangements that did not previously exist. Much of that cost, however, should not be ongoing. But with any reporting framework that needs to be constantly reviewed and updated, there will be ongoing costs associated with implementing new and revised reporting standards.

Also, IFAC believes it is important to recognize that the increasing complexity of business and economic transactions—especially those involving financial instruments and derivative products—has significantly increased the complexity of financial reporting, which aims to reflect the economic reality of transactions. These costs would be evident for all types of financial reporting frameworks, and so should not be seen as a relative cost of IFRS vis-à-vis other reporting frameworks.

Additional Comments in Relation to Question 22:

In determining the appropriateness of the adding the two criteria detailed in Question 21.1, it is important to consider the primary objectives of financial reporting applying IFRS. The objectives do not relate to satisfying prudential supervisory and oversight requirements, and hence it is not clear how financial reporting standards can “jeopardize” financial stability. As a rule, financial stability is jeopardized by poor risk management and prudential oversight, which is merely reflected by the financial reporting.

Additional Comments in Relation to Question 23:

IFAC considers that it is unnecessary for the Commission to modify standards issued by the IASB. In the name of global regulatory consistency and to retain the advantages of using globally-accepted high-quality standards, IFAC’s view is that there is no trade-off required, as high-quality international standards should, by definition, meet EU needs. Also refer to response to question 21.

GENERAL COMMENTS

IFAC reiterates the points made in response to earlier questions. That is, IFAC promotes regulatory consistency and convergence, where appropriate, including the global adoption and implementation of high-quality, international standards. This includes—but is not limited to—International Financial Reporting Standards (IFRS).

IFRSs are used in over 110 jurisdictions and are included in the list of twelve sets of standards that the FSB has designated as deserving of priority implementation. For European companies operating internationally, it is important that they can prepare financial statements using high-quality internationally accepted standards.

Research commissioned by the IFRS Foundation indicates that benefits accrue to those jurisdictions that have adopted IFRS, in particular with respect to matters such as transparency and comparability.

Additionally, it is important for regulators to understand the objectives of financial reporting to ensure that they do not over-estimate the benefits to be derived from financial statements using IFRS; and to ensure that they do not blame the financial reporting for their own shortcomings as regulators.

Finally, while it is important for key European stakeholders and voices to be heard during the development of international standards (e.g., through EFRAG), it is equally important that political interference and undue political pressure is removed from the independent standard-setting process. A heavily politicized process will ensure that standards are not fit for purpose as global standards.

Thank you for your valuable contribution.

Contact

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