

Capital market: International Financial Reporting Standards (IFRS) and the governance of the IASB

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The European Parliament adopted, by 373 votes to 21 with 13 abstentions, a resolution on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB). The own-initiative report was tabled for consideration in plenary by Alexander **RADWAN** (EPP-ED, DE) on behalf of the Committee on Economic and Monetary Affairs. Members are convinced that the aim must be to develop high-quality global accounting standards. In this perspective, they have drawn up the following recommendations:

Transparent, responsible international organisations: Parliament underlines that the IASCF/IASB lack transparency, legitimacy, accountability and are not under the control of any democratically elected parliament or government. MEPs therefore consider that a debate should be launched on the conditions for integrating the IASCF/IASB into the system of international governance e.g. the International Monetary Fund, the Organisation for Economic Co-operation and Development, the World Bank. In particular, governance and accountability must be improved through the following measures:

- (a) setting up a public oversight body involving all IASCF/ IASB public stakeholders, and setting up a body allowing representative market participants to deliver annually a report on the functioning of international accounting standard setting to the governing bodies of the IASCF/IASB;
- (b) such a body could be responsible for selecting and appointing the trustees in a transparent procedure;
- (c) guarantee that, in terms of the composition of the IASB, the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC), the trustees ensure that the appointment procedure is transparent and due account is taken of the interests of various interest groups;
- (d) increased involvement of the trustees in supervising the IASB and its work plan;
- (e) ensure, in the constitution of the IASCF, that the IASB develops accounting solutions that are not only technically correct but also reflect what is necessary and possible from the point of view of all users and preparers;
- (f) impact assessments for all projects, so as to check the costs and benefits of draft texts and, in particular, to highlight the implications for financial stability.

Improvements to accountability of the IASCF/IASB must not create excessive bureaucracy and must ensure that technical issues are not unnecessarily politicised.

In terms of funding, the IASCF/IASB are called upon to examine how the funding system can be amended to ensure that: (1) all user groups are adequately involved in funding; (2) no conflict of interests arises between financiers and users and; (3) there is better and easier access to the accounting standards.

It is essential that the Community express itself more coherently to ensure it has maximum influence at all stages of the process of drafting, interpreting and implementing accounting standards. They call on the Commission to put forward a proposal to establish an EU structure constituting a legitimate international partner and guaranteeing uniform interpretation and application of standards.

Members note that there are a variety of problems with the **use of IFRS for SME's**. They call on the Commission to arrange a thorough consultation procedure concerning an accounting framework for SMEs in the EU along the lines of ordinary legislative proposals, and to withdraw its commitment to implementing and adopting an IFRS for SMEs, thus preventing parallel application of standards in the EU, for so long as the EU internal process has not been concluded.

Road map for convergence and equivalence: Parliament supports the idea of convergence and equivalence, but emphasises that convergence with certain third-country standards must be based on a prior assessment of the merits and impact of such a change on EU preparers and users of financial statements and especially on SMEs, and calls on the IASB to bear this in mind when proceeding. The outstanding issue concerns the competence of the different jurisdictions applying the IFRS for establishing the definitive interpretation thereof, which entails the risk that conflicting interpretations will result. Only European authorities and courts are competent definitively to interpret an EU-specific IFRS. The Commission must develop a system that will guarantee that the IFRS is interpreted and applied uniformly throughout the European Union.