Capital market, financial services: application of international accounting standards

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In accordance with specifications set out in Regulation (EC) No 1606/2002 - the IAS Regulation, the Commission is required to review and report upon the Regulation's operation.

To recall, the IAS Regulation places an obligation on European companies, whose securities are admitted to trading on a regulated market in the EU, to prepare their consolidated accounts in conformity with IAS /IFRS and SIC/IFRIC international accounting standards. The main findings of the report are as follows**:**

Effective use of the IFRS in the EU: in 2005 the number of IFRS adopters, whose securities were admitted to trading on a regulated market in the EU, stood at 7 365, of which 5 534 were equity issuers. By 31 December 2005 the following standards and interpretations had been endorsed: IAS 1 to 41, IFRS 1 to 6, SIC 7 to 32 and IFRIC 1 to 5, excluding those superseded or abolished before or after that date. Additional standards and interpretations were endorsed in 2006 (IFRS 7 and IFRIC 6 to 9) and 2007 (IFRS 8 and IFRIC 10 and 11), along with amendments to previously endorsed standards. Some standards (IFRS 6), amendments to standards (on IAS 39) and interpretations (IFRIC 4 and 5) endorsed in 2005 could be applied as from 1 January 2006. It was also possible to apply IFRS 7, IFRIC 6 and amendments to some standards endorsed on 11 January 2006 to 2005 financial statements. CESR's members have undertaken a full review of 1 410 companies' 2005 IFRS financial statements and a thematic review of an additional 920 companies' 2005 IFRS financial statements. They have set up a database in which 85 enforcement decisions had been entered by the end of August 2007.

Application of IFRS in the EU: the overall application of the IFRS has been challenging for all stakeholders. Nevertheless it has been achieved without disrupting markets or reporting cycles. This is a major achievement. Overall, stakeholders report that applying IFRS has improved the comparability and quality of financial reporting and has led to greater transparency. The flexible approach to IFRS implementation has tailored the application of the Regulation to the individual accounting environment of each Member State. Understanding of the financial statements has generally improved – other than in certain areas such as financial instruments, business combinations and share-based payments, where there seems to be room for improvement. IFRS accounts remain influenced by national accounting traditions. One reason for this is a lack of experience and accounting doctrine. IFRS recognition and measurement provisions appear to have been applied more consistently and clearly than certain disclosure requirements. Options allowed by IFRS, including those related to employee benefits, borrowing and costs and joint ventures, have been widely used. However, use of the carve-out in IAS 39 is limited to very few banks. Specific concerns have been identified by the CESR in certain areas, such as business combinations, financial instruments, non-current assets, disclosure on accounting policies, estimates and assumptions. Enforcers recommend improving disclosure relating to pension schemes and share-based payments plus further streamlining of the balance sheet and income statement formats Few technical accounting issues have been referred to the Roundtable for the consistent application of IFRS in the EU. On a final point, academics have started to analyse the impact of IFRS on securities markets but it is still too early to report on any findings.

Conclusions: the report notes that the first year of IFRS mandatory application in the EU has been generally positive albeit that regulatory changes and lack of experience have posed a challenge for first-time users. The IFRS has been applied consistently across the EU and the level of consistency between IFRS accounts is likely to increase over time as preparers and auditors gain greater experience in applying the new accounting framework.

The EU endorsement process ensures technical quality and political legitimacy. The endorsement system is flexible. Thus, for example, it has already been amended to include SARG, new working methods in EFRAG and new committee procedures. In order to maintain this momentum it is important that stakeholders feel the right issues are being prioritised. As a result, the report urges the EU institutions, the Member States and interested parties to become involved in the standard setting process as early as possible.