Capital market, financial services: application of international accounting standards

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The Commission presents a report on the evaluation of Regulation (EC) N° 1606/2002 on the application of international accounting standards (IAS Regulation) as part of the Regulatory Fitness and Performance Programme (REFIT). The objective of adopting International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for use in the EU was to improve the efficient functioning of the EU capital markets and the internal market.

The objective of the IAS Regulation was to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The Regulation attached importance to IFRS becoming globally accepted.

Method: the Commission conducted the evaluation by seeking the views of stakeholders through a public consultation, an informal expert group and the Accounting Regulatory Committee (ARC) which comprises representatives of all Member States. The evaluation sought to compare the situation under the IAS Regulation with what would have been the case if IFRS had not been adopted. The evaluation was generally from the perspective of the EU as a whole, without systematic analysis of the interaction of the Regulation with national legislation. The evaluation does not touch upon auditing.

Findings and next steps: the Commission is **satisfied with the overall quality of the evaluation** and in that context finds the overall results adequately supported by the evidence despite limited availability of quantitative data. The key findings showed that the **objectives of the Regulation have been met**. The Commission services and the European Financial Reporting Advisory Group (EFRAG) assess the effects of a standard at EU level. It appears that **the reform of EFRAG** in the period under review is perceived as important in strengthening the EU voice in the development of IFRS. The reform took effect on 31 October 2014 when the amended EFRAG Statutes and Internal Rules came into force. It involved establishing a new Board of EFRAG, its new decision-making body, with balanced representation of public and private interests, with a view to strengthening the legitimacy of its positions and contributing to the objective of Europe speaking with one voice.

Nevertheless, the Commission feels that there are **opportunities to improve the way in which the provisions of the IAS Regulation are applied** and has identified a number of practical steps which could be taken.

1) Functioning of the IAS Regulation

- the **existing scope** of the Regulation and the options given to Member State are appropriate. The Commission recalls that as part of the Green Paper on Building a Capital Markets Union, it asked whether there is value in developing **a common EU level, high quality and simplified accounting standard for SMEs listed on Multilateral Trading facilities (MTFs);**
- the Commission **supports IFRS as global standards** and continues to urge the United States SEC to adopt IFRS for use by its domestic companies. It considers that commitment to IFRS should be evidenced by establishing **permanent financial contributions** to fund the IFRS Foundation, proportionate to a contributor country's GDP;
- the effectiveness of the Regulation depend on the **quality of the standards** themselves which should continue to be appropriately assessed during their development and endorsement. In

particular, any interaction between the IAS Regulation and other EU law should be considered. The Commission will examine the case for strengthening EU rules relating to **dividend distribution;**

- the Commission encourages Member States to apply ESMA **enforcement guidelines**. It will look at whether the powers of the European Supervisory Authorities, including ESMA, are sufficient and whether more efficient approaches towards supervisory and market reporting could be helpful for market participants;
- to ensure **simplification of legislation and coherence**, the Commission will consider a codification exercise of the legislation endorsing IFRS in the medium term, after adoption of some major pending standards.

2) Endorsement process

- the Commission will ensure that its **requests to EFRAG for endorsement advice** include specific concerns, including matters of public good, on a case by case basis. The involvement of Member States at an earlier stage of the process will help to inform the Commission staff of any concerns and EFRAG's reformed governance structure will enhance its ability to address the matters raised.
- the Commission encourages EFRAG to **develop its capacities with respect to the analysis** of the effects of standards including macro-economic effects.

3) Governance arrangements for the relevant organisations

- the Commission calls on the **IFRS Foundation** to refocus its attention from issues of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation.
- **the IASB** is urged to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.

In order to ensure that the objective of **strengthening the EU's influence** on the development of international accounting standards is met, the Commission will continue to closely monitor the follow-up of the reform and will report yearly.