Capital market, financial services: application of international accounting standards

2001/0044(COD) - 18/06/2015 - Follow-up document

This Commission staff working document **evaluates, in detail,** Regulation (EC) N° 1606/2002 on the application of International Accounting Standards (IAS).

It draws conclusions on the findings of the evaluation, on the Regulation's endorsement criteria and on governance aspects, and maps out a way forward. The working document is organised by topics covered in the IAS Regulation.

It main findings were as follows:

Possible extension of the scope: while stakeholders do not see an immediate need for change, about a third acknowledged that extension of the use of IFRS beyond the present mandatory scope could be explored in certain areas to achieve greater harmonisation where possible, to inform investors but also to save costs. However, practical issues that Member States could have difficulties in overcoming were highlighted. These concerned taxation, company law, capital maintenance and variable remuneration. Also, there was an increased need for Member States to assess the impact of IASB developments at national level. A potential need to align certain European directives was also stressed.

Enforcement: feedback from the public consultation suggested that there is generally little appetite for EU legislation on penalties and enforcement activities. Some experts thought that ESMA's role could be strengthened through 'soft law' leaving Member States some discretion as to how they achieve enforcement, especially now that the system is more mature. The feedback revealed no critical difference in enforcement among Member States.

Global standards: the IAS Regulation envisaged **IFRS becoming global standards** which would benefit EU companies. Stakeholders believed that the EU's decision to adopt IFRS provided a major impetus to the credibility and acceptance of IFRS globally.

Simplification and codification: within the IAS Regulation, IFRS adopted by the EU have been codified in a legally-binding Commission Regulation amended for each new standard and amendment. Twice yearly, the Commission draws up a non-binding consolidated version of current standards in all EU languages. Evidence shows a **need for improved translations** for certain languages, practical difficulties in the consolidation of the standards and some discrepancies between IASB and the EU consolidated texts. An **official codification** of all IFRS by the Commission could therefore represent a useful exercise. As regards **coherence**, the document noted that the IAS Regulation interacts with other EU regulations and directives. The Commission is committed to help address any points of friction in the interactions between the IAS Regulation and the Accounting Directive. Thus far, **adequate interpretation and transposition** methods by the Member States have enabled such points to be overcome.

Endorsement criteria: the document suggested that **two other criteria could be added** as components of public good: that the standards should not endanger financial stability and must not hinder the economic development of the Union. Alternatively it suggested issuing a Communication giving guidelines for the interpretation of the public good criterion. The Commission, together with EFRAG, should produce guidance for improving the understanding of the endorsement criteria.

Governance: to recall, the IFRS Foundation is an independent organisation setting accounting standards for more than 100 countries. Hence, it needs strong governance arrangements to ensure public accountability. In response to demand from stakeholders, including European concerns, the IASB is developing its Conceptual Framework which will improve financial reporting by providing a complete and updated set of concepts to use in their future work. The **IFRS Foundation** is bound by its Constitution to review its organisational structure every five years. Past reviews significantly improved its governance. The next review will present an opportunity to tackle the issue of the Foundation's funding and decision-making process, including the role of the Monitoring Board.

Overall cost/benefit assessment: there seems to be broad agreement among stakeholders responding to the public consultation and the expert group that, on the whole, the benefits of IFRS outweigh the costs. From that perspective, the IAS Regulation appears to be an effective contribution to its stated objectives of greater transparency, comparability and better-functioning capital markets.