# International Accounting Standards (IAS) evaluation and activities of the International Financial Reporting Standards (IFRS) Foundation, European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Theodor Dumitru STOLOJAN (EPP, RO) on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB).

Members recalled that the International Financial Reporting Standards (IFRS) and the international standards on auditing (ISA) are one essential component needed for the efficient functioning of the internal market and of the capital markets. The purpose of the IFRS is to strengthen accountability by reducing the information gap between investors and companies, to protect investment, to bring transparency through enhancing the international comparability and quality of financial information, to enable investors and other market participants to make informed economic decisions.

The European Union has delegated the development of the international financial accounting standards to the International Accounting Standards Board (IASB), an independent self-regulatory private body.

**Evaluation of the application of IFRS in the EU ten years since their application**: Members noted the Commission’s IAS evaluation report on the application of the IFRS in the EU and its assessment that the objectives of the IAS Regulation have been met. They regretted that the Commission has **not yet proposed the legal changes that are required** to solve the shortcomings identified in its evaluation.

With regard to the **endorsement criteria**, Members recalled that an IFRS should not be contrary to the true and fair view principle as included in the Accounting Directive, which requires that financial statements must give a ‘true and fair’ view of a company’s assets and liabilities, financial position and profit or loss.

The Commission is asked to:

- comply with the Maystadt recommendation regarding **expansion of the ‘public good’ criterion**, i. e. that accounting standards should neither jeopardise financial stability in the EU nor hinder the EU’s economic development, and to ensure that this criterion will be fully respected during the endorsement process;
- together with EFRAG, **issue clear guidelines on the meaning of the ‘public good’ and the ‘true and fair view’ principle** in order to arrive at a common understanding of these endorsement criteria;
- put forward a **proposal** to incorporate Maystadt's definition of the 'public good' criterion into the IAS Regulation.

The report called on the standard setter to **ensure that the IFRS are coherent** within the existing body of accounting standards and to promote convergence at international level. It called for a **more coordinated approach** in developing new standards, including coordinated timelines for application, and urged the Commission to put forward diligently legal proposals to this end.

Members noted that the **effects of an accounting standard must be fully understood**: accordingly, it should be a priority for the IASB and EFRAG to strengthen their impact analyses, notably in the field of macroeconomics, and to assess the different needs of the wide variety of stakeholders, including long-term investors and companies, as well as the general public. They believed that a **less complex accounting standards system** would contribute to more uniform implementation so that company financial data are comparable between Member States.

The report asked the IASB, the Commission and EFRAG to **involve Parliament and the Council at an early stage** when developing financial reporting standards in general and in the endorsement process in particular. It called on the Commission to create a space for stakeholders to discuss fundamental principles of accounting in Europe and to grant Parliament the possibility of receiving a short list of EFRAG board president candidates. **Parliament should play the role of an active promoter of IFRS.**

The committee noted the Commission's intention to explore with the IASB the possibility of developing **common high-quality and simplified accounting standards for SMEs** which could be used, on a voluntary basis, at EU level by SMEs listed on Multilateral Trading Facilities (MTFs), and more specifically SME growth markets. It believed that, as a condition for work to continue in this field, IFRS have to be less complex, and that SME interests should be sufficiently represented on the IASB.

The report welcomed the Commission's intention to examine the case for coordinating the EU rules relating to **dividend distribution**. It also called on EFRAG and the Commission to examine whether accounting standards allow **tax fraud and tax avoidance** and to make all the necessary changes to prevent potential abuse.

**Activities of the IFRS Foundation, EFRAG and the PIOB**: the report supported the Commission recommendations that the Monitoring Board of the IFRS Foundation should shift the focus of its attention from the issue of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation.

Members believed, however that further progress should be made as regards **the governance of the IFRS Foundation and the IASB,** in particular in terms of transparency, prevention of conflicts of interest and diversity of hired experts. They were particularly in favour of:

- the Commission's proposal to consider the reporting needs of investors with different investment time horizons and to provide specific solutions, in particular for **long-term investors,** when developing their standards;
- **better integration** of the IASB into the system of international financial institutions;
- steps to ensure **broad representation** (such as consumer representation agencies and finance ministries) of interests and public accountability that will guarantee high-quality accounting standards.

Noting the dominance of private actors on the IASB, Members called on the Commission to urge the IFRS Foundation to aim for a **more diversified and balanced financing structure**, including on the basis of fees and public sources, thus preventing conflicts of interests.

Lastly, the report stressed that the EFRAG reform must improve the European contribution to the development of the new IFRS and could participate in the reform of governance of the IFRS Foundation.