

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

2006/2248(INI) - 29/01/2008

The Committee on Economic and Monetary Affairs adopted an own-initiative report by Alexander RADWAN (EPP-ED, DE) on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB).

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: the report 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.

The report emphasises that improvements to accountability and governance of the IASCF/IASB must not create excessive bureaucracy and that the IASB, before adopting a new standard, should carry out impact studies among all interested parties, taking account of regional diversity and market structures.

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.

In addition, MEPs consider it 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 develop and put forward a proposal, in consultation with the Parliament, the Member States and Committee of European Securities Regulators (CESR) to establish an EU structure constituting a legitimate international partner and guaranteeing uniform interpretation and application of standards.

Members consider that the EU should carefully assess the respective benefits of committing to an **IFRS standard for SMEs** or developing its own independent and comprehensive solution for SMEs. They advise, against this background, that user needs be analysed in detail once again.

Road map for convergence and equivalence: the report Notes the importance of the establishment of global standards and convergence. However, it 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.

Members welcome the progress made in the EU-US Accounting Roadmap and recall that on 30 April 2007 the President of the United States of America, the President-in-Office of the European Council and the President of the European Commission signed a Joint EU-US statement following the annual summit which on the issue of financial reporting contains the following: “Financial markets. Promote and seek to ensure conditions for the US Generally Accepted Accounting Principles and International Financial Reporting Standards to be recognised in both jurisdictions without the need for reconciliation by 2009 or possibly sooner”.