

# Effects of using International Financial Reporting Standards (IFRS) in the EU: public consultation

Fields marked with \* are mandatory.

## Impact of International Financial Reporting Standards (IFRS) in the EU: public consultation

### Purpose of the consultation

The European Commission is holding a public consultation to seek views from all interested parties on their experience of Regulation 1606/2002 ("the IAS Regulation"). The results of this public consultation will feed into the European Commission's evaluation of the IAS Regulation.

### Background

Applying internationally accepted standards - the International Financial Reporting Standards (IFRS) - means standardising companies' financial reporting to make financial statements more transparent and comparable. The ultimate aim is for the EU capital market and the single market to operate efficiently.

### Scope of the IAS Regulation

The IAS Regulation states that the IFRS must be applied to the consolidated financial statements of EU companies whose securities are traded on a regulated EU market. EU countries may extend the application of IFRS to annual financial statements and non-listed companies (view an update on the use of options in the EU). The Transparency Directive (2004/109/EC), as subsequently amended, also stipulates that all issuers (including non-EU ones) whose securities are listed on a regulated market located or operating in an EU country must use IFRS.

### Impact of the IAS Regulation

The implementation of IFRS in the EU has had an impact on cross-border transactions, trade, the cost of capital, investor protection, confidence in financial markets and stewardship by management. However, it is difficult to differentiate their impact from that of other significant factors, including other regulatory changes in the EU and internationally.

### Developments since adoption

Over 100 countries now use IFRS. These accounting standards have been increasingly discussed at international level (e.g. G20, Basel Committee) and with various interested parties in the EU, especially in the wake of the financial crisis. Several initiatives concerning technical issues and governance are under way at both international and EU level. In the EU, the Maystadt report's recommendations are being implemented. These are designed to strengthen the EU's contribution to achieving global and high quality accounting standards by beefing up the role of the European Financial Reporting Advisory Group (EFRAG), which advises the Commission on IFRS matters.

### Current Commission evaluation

The Commission is evaluating the IAS Regulation to assess:

- IFRS's actual effects
- how far they have met the IAS Regulation's initial objectives

- whether these goals are still relevant
- any areas for improvement.

This consultation is part of the evaluation process. The questionnaire was drafted with the help of an informal expert group which is to assist the Commission throughout the process.

#### **Target group(s)**

Any interested party - commercial, public, academic or non-governmental, including private individuals.

Especially: capital market participants and companies preparing financial statements or using them for investment or lending purposes (whether or not they use IFRS).

#### **Consultation period**

7 August – 31 October 2014 (12 weeks).

#### **How to submit your contribution**

If possible, to reduce translation and processing time, please reply in one of the Commission's working languages (preferably English, otherwise French or German).

Contributions will be published on this website with your name (unless - in your response - you ask us not to).

N.B.: Please read the specific privacy statement to see how your personal data and contribution will be dealt with.

#### **Reference documents and other, related consultations**

IAS/IFRS standards & interpretations

IFRS Foundation

European Financial Reporting Advisory Group (EFRAG)

Commission reports on the operation of IFRS

#### **Results of public consultation & next steps**

The results will be summarised in a technical report and will feed into the evaluation report to be presented by the Commission in line with Article 9.2 of Regulation 258/2014.

## Questions

### Who are you?

1. In what capacity are you completing this questionnaire? If it's not on behalf of an organisation, please indicate that you are a "private individual".\*

	Company preparing financial statements <i>[some specific questions for preparers marked with 'P']</i>
	Company using financial statements for investment or lending purposes <i>[some specific questions for users marked with 'U']</i>
	A company that both prepares financial statements and uses them for investment or lending purposes <i>[some specific questions for preparers and users marked with 'P' and 'U']</i>
	Association
	Accounting/audit firm
	Trade union/employee organisation
	Civil society organisation/non-governmental organisation
	Research institution/academic organisation
	Private individual
X	Public authority <i>[one specific question for public authorities marked with 'PA']</i>
	Other

- 1.10. Public authority - please specify (you can tick more than 1 choice below if you are replying on behalf of more than 1 type of organisation)\*

	International organisation
	EU institution
	EU agency
X	National standard-setter
	National supervisory authority/ regulator
	Other

2. Where is your organisation/company registered, or where are you are located if you do not represent an organisation/company? Select a single option only.\*

	EU-wide organisation
	Global organisation
	Austria
	Belgium
	Bulgaria
	Croatia
	Cyprus
	Czech Republic
	Denmark
	Estonia
	Finland
	France

	Germany
	Greece
	Hungary
	Ireland
X	Italy
	Latvia
	Lithuania
	Luxembourg
	Malta
	The Netherlands
	Poland
	Portugal
	Romania
	Slovakia
	Slovenia
	Spain
	Sweden
	United Kingdom
	Norway
	Iceland
	Liechtenstein
	Other European country
	Other

3. What is the name of the organisation or authority you represent? If you are part of a group, give the name of the holding company as well.\*

*Organismo Italiano di Contabilità (OIC) - Italian Standard Setter*

3. Please indicate your full name.\*

*Angelo Casò - Chairman OIC*

4. In the interests of transparency, we ask organisations to supply relevant information about themselves by registering in the Transparency Register (<http://ec.europa.eu/transparencyregister>). If your organisation is not registered, your submission will be published separately from those of registered organisations. Is your organisation registered in the European Parliament/Commission Transparency Register?\*

X	Yes
	No

5. In the interests of transparency, your contribution will be published on the Commission's website. How do you want it to appear?\*

X	<i>Under the name supplied? (I consent to the publication of all the information in my contribution, and I declare that none of it is subject to copyright restrictions that would prevent publication.)</i>
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	<i>Anonymously? (I consent to the publication of all the information in my contribution except my name/the name of my organisation, and I declare that none of it is subject to copyright restrictions that would prevent publication.)</i>
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## Relevance of the IAS Regulation

### Objective

6. The rationale for the IAS Regulation, imposing internationally accepted standards - the International Financial Reporting Standards (IFRS) - was to make companies use the same set of accounting standards, thus ensuring a high level of transparency and comparability of financial statements. The ultimate aim was to make the EU capital market and the single market operate efficiently. In your view, are the Regulation's objectives still valid today?\*

In your view, are the Regulation's objectives still valid today?\*

X	Yes
	No
	No opinion

- 6.1. Comments.

*The objectives of comparability, transparency of financial statements and, ultimately, market efficiency are objectives that are still valid today. Market integration, not only within Europe but also at international level, is a goal worth striving for, and a single set of globally accepted accounting standards is vital to that being achieved.*

- 6.2. If you think the IAS Regulation should pursue new goals in future, what should they be?\*

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7. The IAS Regulation refers to IFRS as a set of global accounting standards. Over 100 countries use or permit the use of these standards. The US, for instance, allows EU companies listed in the US to report under IFRS. However, it continues to rely on its "generally accepted accounting principles" (GAAPs) for its domestic companies' financial statements, while the EU requires IFRS to be used for the consolidated accounts of EU listed companies.

Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?\*

X	Yes
	No
	No opinion

- 7.1. Please explain.

*Europe's adoption of the IFRS has had a positive influence in bringing other jurisdictions to consider the IFRS as the internationally recognized standards to refer to. Thus, it has fostered, as called for in the IAS Regulation, that greater convergence in accounting standards at international level, with the ultimate aim of achieving a single set of accounting standards at global level.*

*The quality of the international standards is recognized in the Regulation, which states that the reporting requirements set out in the accounting directives "cannot ensure the high level of transparency and comparability of financial reporting from all publicly traded Community companies which is a necessary condition for building an integrated capital market which operates effectively, smoothly and efficiently. "*

## Scope

8. The obligation to use IFRS as set out in the IAS Regulation applies to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU. There are about 7,000 such firms. In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?\*

In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?\*

	Yes
X	No
	No opinion

8.1. How would you propose it be changed?\*

	By making IFRS compulsory for the individual accounts of listed companies on regulated markets
	By making IFRS compulsory for the consolidated accounts of large non-listed companies
	By allowing any company to opt for reporting under IFRS
X	Other

8.1.1. Other - please specify

*The current scope of the Regulation could be extended to all companies belonging to regulated sectors as well as to the annual accounts of listed companies and those belonging to regulated sectors. Moreover, large companies, other than those above, and not the member States, could be given the option to adopt the IFRS. This extension would be warranted by the desire to guarantee the same degree of competitiveness at European level with a view to ensuring a level playing field.*

9. National governments can decide to extend the application of IFRS to:

- individual annual financial statements of companies listed on regulated markets
- consolidated financial statements of companies that are not listed on regulated markets
- individual annual financial statements of companies that are not listed on regulated markets.

In your view, are the options open to national governments:\*

	Appropriate
X	Too wide
	Too narrow
	No opinion

9.1. Please give details

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## Cost-benefit analysis of the IAS Regulation

11. In your experience, has applying IFRS in the EU made companies' financial statements more transparent (e.g. in terms of quantity, quality and the usefulness of accounts and disclosures) than they were before mandatory adoption?\*

X	Significantly more transparent
	Slightly more transparent
	No change
	Slightly less transparent
	Significantly less transparent
	No opinion

11.1. Please elaborate

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12. In your experience, has applying IFRS in the EU altered the comparability of companies' financial statements, compared with the situation before mandatory adoption?

	Significantly increased	Slightly increased	No change	Slightly reduced	Significantly reduced	No opinion
In your country	X					
EU-wide	X					
Compared with non-EU countries		X				

12.1. Please elaborate

*At European level, comparability has been fostered and improved by the adoption of a single set of accounting standards.*

*At country level, with regard to capital markets, comparability has increased significantly. However, the application of IFRS to the financial statements of public interest entities has resulted in, within the country, reduced comparability with companies preparing their financial statements in accordance with the local GAAP. Some national stakeholders hope that the adoption of the accounting directive will enable convergence between the two accounting frameworks.*

*With regard to the non-EU countries, one may presume that the level of comparability has increased given the fact that many jurisdictions have adopted IFRS, albeit with different systems of endorsement.*

13. Have financial statements become easier to understand since the introduction of IFRS, compared with the situation before mandatory adoption?\*

X	Yes, in general
	Yes, but only in certain areas
	No, in general
	No, except in certain areas
	No opinion



13.1 In which area?\*

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13.2. Please elaborate

*They have become easier to understand in terms of the quality of information provided. However, the ease of understanding needs to be seen in terms of the recipients of the information, that is, professional investors.*

14. Has the application of IFRS in the EU helped create a level playing field for European companies using IFRS, compared with the situation before mandatory adoption? \*

	Yes
X	Yes, to some extent
	No
	No opinion

14.1. Please elaborate

*The application of a single set of accounting standards and the consequent increased comparability have helped to create a level playing field among European companies. This could be further enhanced if there were a forum, at European level, for discussion on the application of IFRS, thereby ensuring more uniform application and helping to make relations with the IASB/IFRS Interpretation Committee more incisive and efficient.*

15. Based on your experience, to what extent has the application of IFRS in the EU affected access to capital (listed debt or equity) for issuers in domestic and non-domestic markets that are IFRS reporters?

	Made it a lot easier	Made it easier	No effect	Made it more difficult	Made it a lot more difficult	No opinion
Domestic capital			X			
EU capital other than domestic		X				
Non-EU capital	X					

15.1. Please provide data/examples if available

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17. In your view, has the application of IFRS in the EU improved protection for investors (compared with the situation before mandatory adoption), through better information and stewardship by management?\*

X	Yes, to a great extent
	Yes, to a small extent
	It had no impact
	No, protection for investors has worsened
	No opinion

17.1 Please provide data/examples if available

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18. In your view, has the application of IFRS in the EU helped maintain confidence in financial markets, compared with the likely situation if it had not been introduced?

(N.B.: the "enforcement" section of this questionnaire deals with how IFRS are/were applied.)"

<input checked="" type="checkbox"/>	Yes, to a great extent
<input type="checkbox"/>	Yes, to a small extent
<input type="checkbox"/>	It had no impact
<input type="checkbox"/>	No, confidence in financial markets has decreased
<input type="checkbox"/>	No opinion

18.1 Please provide data/examples if available

*The application of high-quality standards has helped to maintain confidence in financial markets thanks to the availability of accounting information that is both more transparent and comparable.*

19. Do you see other benefits from applying IFRS as required under the IAS Regulation?\*

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No
<input type="checkbox"/>	No opinion

19.1. Yes - please specify (you may select more than 1 option). \*

<input checked="" type="checkbox"/>	Improved ability to trade/expand internationally (facilita la quotazione all'estero/partecipazione a gare internazionali)
<input checked="" type="checkbox"/>	Improved group reporting in terms of process (per omogeneità processi/procedure)
<input type="checkbox"/>	Robust accounting framework for preparing financial statements Administrative savings
<input checked="" type="checkbox"/>	Group audit savings
<input type="checkbox"/>	Other

19.2. If yes, please give details, with examples/data if possible

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20. In your experience, on balance and at global level, how do the benefits of applying IFRS compare to any additional costs incurred - compared with the situation before mandatory adoption, bearing in mind the increasing complexity of businesses that accounting needs to portray?\*

<input checked="" type="checkbox"/>	Benefits significantly exceed the costs
<input type="checkbox"/>	Benefits slightly exceed the costs
<input type="checkbox"/>	Benefits and costs are broadly equal
<input type="checkbox"/>	Costs slightly exceed the benefits
<input type="checkbox"/>	Costs significantly exceed the benefits
<input type="checkbox"/>	No opinion

20.1 Please provide any additional comments you think might be helpful

*Here, it is necessary to stress the need for greater stability in accounting standards. Continual changes to existing standards only lead to additional burdens for preparers, especially where, at global level, the need for such amendments is felt by a limited number of adopters. However, one would welcome the introduction of new standards/guidance for issues that are not covered or that are covered in an unclear way.*

PA.1. How would you rate the administrative and regulatory burden for your authority (e.g. reporting, enforcement) arising from the ongoing application of IFRS (excluding costs relating to the initial transition to IFRS)?

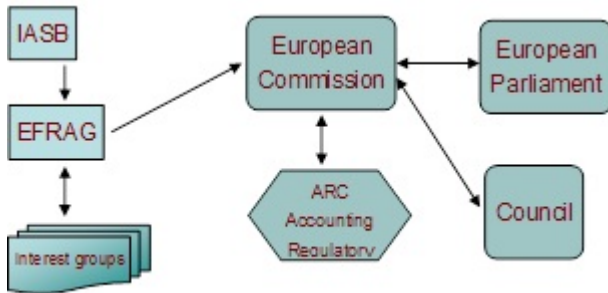
If you are an EU agency, please give only a consolidated EU-level response on behalf of the authorities whose responses you are coordinating. \*

	No significant impact
	Some impact
X	Heavy burden
	No opinion

*The adoption of the IFRS and the consequent involvement in the standard-setting process has had an impact on the costs and work of the OIC in terms of the organization of the technical structures to support international activities, coordination activity at both national and international level, and real involvement in international fora.*

## Endorsement mechanism & criteria

### *The EU's IFRS endorsement process*



In the EU, IFRS are adopted on a standard-by-standard basis. The procedure is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation.
- The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- The European Parliament and Council examine the standard.
- The Commission adopts the standard and publishes it in the Official Journal.

This process typically takes 8 months.

### *Endorsement criteria*

Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's [Accounting Directive](#)
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

In his October 2013 [report](#), Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good, namely that:

- any accounting standards adopted should not jeopardise financial stability
- they must not hinder the EU's economic development.

He also suggested that more thorough analysis of compliance with the criteria of prudence and respect for the public good was needed.

21. In the EU, IFRS are adopted on a standard-by-standard basis. The process, which typically takes 8 months, is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation
- The Accounting Regulatory Committee (ARC) votes and gives an opinion

- The European Parliament and Council examine the standard
- The Commission adopts the standard and publishes it in the Official Journal.

Do you have any comments on the way the endorsement process has been or is being conducted (e.g. in terms of the interaction of players, consistency, length, link with effective dates of standards, outcome, etc.)?\*

*The endorsement process followed to date could be retained provided that action by Europe becomes more incisive during the standard-setting process so that standards issued by the IASB take account of European considerations and, thus, do not present any major problems in terms of endorsement. Indeed, the reform of EFRAG in accordance with the Maystadt guidelines strives to achieve just such a goal, through an EFRAG that is more active and incisive in both proactive and reactive phases.*

22. Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:
- be consistent with the "true and fair" view set out in the EU's Accounting Directive
  - be favourable to the public good in Europe
  - meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

Are the endorsement criteria appropriate (sufficient, relevant and robust)?\*

X	Yes
	Yes, to some extent
	No
	No opinion

- 22.1. In his October 2013 report, Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good:
- that any accounting standards adopted should not jeopardise financial stability
  - that they must not hinder the EU's economic development

Please give any suggestion(s) you may have for additional criteria.

	Not jeopardising the EU's financial stability
	Not hindering economic development in the EU
	Not impeding the provision of long-term finance
	More explicit reference to the concept of prudence
	Consistency with other adopted IFRS
	Criterion concerning simplicity/proportionality
	Other

22.1.1 Other - please specify

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22.2 Comments

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23. There is a necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs. This is why the IAS regulation limits the Commission's freedom to modify the content of the standards adopted by the IASB.

Does the IAS Regulation reflect this trade-off appropriately, in your view?\*

X	Yes
	No
	No opinion

*We favour retaining the current endorsement mechanism. The "carve out/carve in" mechanism should be viewed as an extreme solution as it does not favour comparability of financial statements at international level or market integration. As already mentioned in the response to question 21, the need to introduce a "carve out/carve in" would be considerably reduced if Europe's actions could manage to be more incisive at the stage of IFRS development.*

23.1. If not, do you think the IAS Regulation should allow the Commission more leeway to modify standards adopted by the IASB? What conditions should be stipulated?\*

24. Have you experienced any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ("carve-out" for IAS 39 concerning macro-hedging allowing banks to reflect their risk-management practices in their financial statements)? \*

	Yes
X	No
	No opinion

## Quality of IFRS financial statements

25. What is your overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS?\*

	Very good
X	Good
	Moderate
	Low
	Very low
	No opinion

25.1. Please provide any additional comments you think might be helpful.

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26. Given that firms have complex business models and transactions, how would you rate financial statements prepared in accordance with IFRS in terms of complexity and understandability?\*

	Very complex & difficult to understand
	Fairly complex & difficult to understand
X	Reasonable
	Not complex or difficult
	No opinion

26.1. Please provide any further comments you think might be helpful, specifying any particular areas of accounting concerned, if appropriate.

*The level of complexity and understandability of financial statements prepared in accordance with IFRS can be rated as reasonable in consideration of the business models and transactions they have to cover. The measurement criteria pertaining to the various items are indeed complex but they are appropriate for the matters that need to be described.*

*As already said, the quality of the information provided makes the financial statements more understandable. However, a simplification in terms of disclosure would be appropriate in order to prevent relevant information being obscured by an excessive amount of information on matters that are not material. The hope is that the "Disclosure Initiative" project launched by the IASB can help to achieve this objective.*

29. How often is it necessary to depart from IFRS under "extremely rare circumstances" (as allowed by IFRS), to reflect the reality of a company's financial performance and position in a fairer way?\*

	Often
	Sometimes
X	Hardly ever
	Never

	No opinion
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29.1. Please provide additional comments and examples of departures from IFRS that you have seen

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## Enforcement

34. In your experience, have national law requirements influenced the application of IFRS in the EU country or countries in which you are active?\*

	Yes, significant influence
X	Yes, slight influence
	No
	No opinion
	Not applicable

*For oversight purposes, the national regulators can require more information than that provided for in the IFRS, and, in conformity with IFRS standards, give instructions concerning the format of the financial statements.*

## Consistency of EU law

There are different types of reporting requirements in the EU (e.g. prudential requirements, company law, tax, etc.)

38. How would you assess the combined effects of, and interaction between, different reporting requirements, including prudential ones?

*The main aim of the accounting regulator is to improve the quality of the information used for taking decisions. Other regulations pursue different goals, for example, ensuring financial stability or capital protection. Granted that each regulator is responsible for its sphere of operations, in order to ensure an efficient regulatory environment, efforts should be made to achieve greater coordination among regulators; this in order to understand the potential impact of introducing a given measure and, where possible, to foster convergence among the various regulations.*

39. Do you see any tensions in interaction between the IAS Regulation and EU law, in particular:

	No	Yes	To some extent	No opinion
Prudential regulations (banks, insurance companies)			X	
Company law				
Other				

39.2. If you answered "yes" or "to some extent", please give details and state what the main effects of these tensions are.\*

*Tensions between the IAS Regulation and other regulations may exist, particularly in regard to the prudential regulations of the banking and insurance sector.*