Case Id: fbf96110-1a32-4bca-b601-ddebc97ad00c

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

Please note that some questions do not apply to all groups of respondents.

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

1.4.1. How many organisations do you represent?*

IMA represents the asset management industry in the UK. Our some 220 members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of approximately £4.5 trillion of assets globally. We give an approximate allocation of their investments in U2 and U3.

1.4.2. What type of business do you represent?*

- [ ] Industry
- [ ] Banking
- [ ] Insurance
- [x] Other

1.4.2.1. Other - please specify*

Asset managers as institutional investors.

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
- ( ) Italy
- ( ) Latvia
- ( ) Lithuania
- ( ) Luxembourg
- ( ) Malta
- ( ) The Netherlands
- ( ) Poland
- ( ) Portugal
- ( ) Romania
- ( ) Slovakia
- ( ) Slovenia
- ( ) Spain
- ( ) Sweden
- (x) 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.*

Investment Management Association

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?*

- (•) Yes
- ( ) No

4.1. Please give your registration number.*

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

- (•) 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.*)
- ( ) 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.*)

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?*

- (selected) Yes
- No
- No opinion

6.1. Comments.

IMA members invest in listed companies and as the ultimate owners of companies, i.e. the shareholders; are the main users of the information in the annual report and accounts. They value accounts that are transparent and comparable, and prepared under high quality accounting standards which are applied consistently internationally. Companies have become more international; financial markets more global; the restrictions on cross-border investment have been relaxed; and institutions increasingly seek to diversify their portfolios. Our members do not just invest in UK companies but invest globally. The latest annual IMA Asset Management Survey shows that 33 per cent of UK asset managers' holdings were in UK equities, 22 per cent in other EU countries and 45 per cent in equities of companies listed outside the EU.

This globalisation led to calls for greater comparability in financial reports and we welcome the fact that over 100 jurisdictions internationally have mandated the use of IFRS for publicly listed companies. It is important that the EU is part of this. Thus we support the objectives of the IAS Regulation in requiring the consolidated accounts of EU listed companies to be prepared under IFRS in order to ensure the transparency and comparability of accounts across the EU. This is important not only in ensuring that the EU capital markets operate efficiently but that they can be effective internationally and attract international investment. This ultimately will impact EU companies' cost of capital
On the whole IMA considers the current goals of the IAS Regulation are appropriate and does not see the need to pursue new goals. In this context, whilst we support the aims of the IAS Regulation in adopting IFRS, we do not necessarily agree with the approach taken by the IASB to every IFRS and indeed raised a number of concerns in our response to the IASB's Discussion Paper on its Conceptual Framework - http://www.investmentuk.org/assets/files/research/20061103-imaresponsetoiasbdponconceptualframework.pdf

In particular, we considered the Framework should address the primacy of the shareholders as the main users, the concept of prudence, which was removed in 2010 in favour of neutrality, and the concept of stewardship. We understand that the IASB is considering introducing prudence and stewardship in the framework. We welcome this. We would prefer to continue to work with the IASB to ensure its standards meet our needs rather than encourage a separate set of EU standards.

That said, a significant minority of our members remain concerned and believe the IAS Regulation has not provided protection for investors or improved confidence in the financial markets. They wish to see prudence and stewardship introduced as separate objectives in the Regulation. They also believe that capital maintenance should be a goal of the Regulation and consider this has been side-lined in the interests of achieving harmonisation internationally. These members want to know whether a company's capital is maintained, and consider accounts should provide a breakdown of distributable and non-distributable reserves as well as realised and unrealised income. They consider that unless this is made clear, then the application of IFRS within the EU or outside could be damaging. (In this context, the matter of realised and unrealisable income and distributable profits is currently dealt with in national laws and parent company accounts as opposed to IFRS and consolidated accounts.)

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?*

- (•) Yes
- ( ) No
- ( ) No opinion

7.1. Please explain.

We believe that the IAS Regulation made a significant contribution to the increased adoption of IFRS by countries outside the EU. However, IFRS has yet to be permitted in the US markets for US registrants (as noted it is permitted for dual registered companies) and we are aware that there is some way to go before this is likely to happen. Nevertheless EU acceptance of IFRS continues to provide encouragement for those countries that have not yet adopted to do so in the future.

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)?*

- (x) Yes
- ( ) No
- ( ) No opinion

8.2. Comments.

We believe that the current scope of the IAS Regulation (i.e. consolidated accounts of EU companies listed on regulated markets) continues to be right. It would be appropriate for the Commission to consult with stakeholders as to whether there need to be widening of the scope in specific circumstances

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
- ( ) Too wide
- ( ) Too narrow
- ( ) No opinion

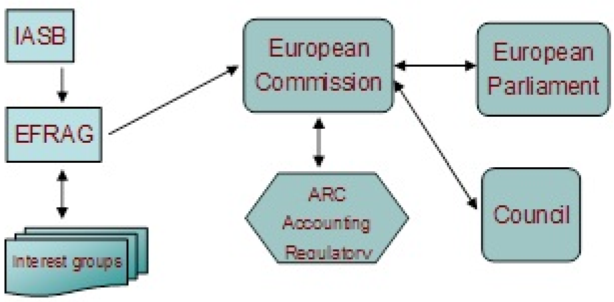
Cost-benefit analysis of the IAS Regulation

10. Do you have pre-IFRS experience/ experience of the transition process to IFRS?*

- ( ) Yes
- (•) No

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.)?*

We appreciate that the process of endorsement has to be thorough and that it has worked well in establishing the concept of 'IFRS as endorsed by the EU'. There is always a challenge in relation to timing between the final endorsement and the adoption date. This will be particularly evident in the case of IFRS9 which has been finalized in stages.

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)?*

- ( ) 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
- [x] Other

22.1.1 Other - please specify.*

> We believe that the existing endorsement criteria continue to be appropriate in that accounts should serve users (i.e. they must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).
> We are skeptical about adding to the adoption criteria as suggested by Mr Maystadt "not endangering financial stability", or "not hindering the economic development of the region". As regards financial stability, accounting requirements operate to count the beans and report them to the markets. It is the role of regulators to determine capital adequacy requirements from the reported numbers. These requirements should operate to smooth cycles – tighten requirements when conditions appear benign and credit in the system has grown and ease them when the pain has been taken. Otherwise, regulatory requirements can force financial institutions to have "adequate capital" at the trough of the cycle and lead to them to be over-capitalized as soon as there is any recovery.
> In summary, investors and regulators have different requirements – the former want to know what a company is worth today and value transparency. That said, given the need for IFRS to be in the public interest, we believe that "endangering financial stability" should form part of the impact assessment to help inform the endorsement decision as opposed to being an adoption criteria per se.

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

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.

We consider that the quality (transparency, understandability, relevance, reliability and comparability) of accounts prepared by companies using IFRS is good. Although there are challenges relating to perceived accounting issues, these usually relate to problem areas that existed before IFRS reporting, for example, accelerated revenue recognition and deferred costs. These are not attributable solely to the application of IFRSs.

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
- [x] Fairly complex & difficult to understand
- [ ] 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 complexity is mainly a product of increasingly complex transactions and models. Most complexity is in the banking and insurance industry where the transactions provide more of a challenge in terms of understandability. We do not consider that the IASB's standards have necessarily helped with this in that more emphasis should be given to understandability. The increased volume of disclosures exacerbate this but although this is a concern to preparers and the IASB, many analysts and users see some value in increased information where there are complex transactions to be explained. These are issues that we will continue to address with the IASB.

27. How would you rate financial statements prepared using IFRS in terms of complexity and understandability – compared with other sets of standards you use?

	IFRS information is easier to understand than...	IFRS information is neither easier nor more difficult to understand than …	IFRS information is more difficult to understand than …	No opinion
Information under your local GAAPs	○	○	○	○
Information under any other GAAPs	●	○	○	○

27.2. Please identify other GAAPs you are using as a basis for comparison.

We have not compared IFRS with local GAAP in the UK as the two are, since IFRS adoption in the EU, designed for different types of company.

We are aware that US GAAP reporting is different in certain respects from IFRS reporting with the perception that the latter is more complex.

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

Familiarity with IFRS is key to the perception of complexity.

28. How do IFRS compare with other GAAPs in terms of providing a true and fair view of a company's (group's) performance and financial position?

	IFRS are better than...	IFRS are equivalent to...	IFRS are worse than...	No opinion
Your local GAAPs (as identified under question 27)	○	●	○	○
Any other GAAPs (as identified under question 27)	○	○	○	●

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

Given that we have always focused on true and fair in the context of UK GAAP and IFRS reporting, we cannot comment whether use of other GAAPs can provide this view.

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

29.1. Please provide additional comments and examples of departures from IFRS that you have seen.

We are not aware of any recent examples. As expected departure should be very rare.

30. How would you rate the extent to which IFRS allows you to reflect your company's business model in your financial statements?*

- ( ) This is not an issue
- ( ) IFRS are flexible enough
- ( ) IFRS should be more flexible, so different business models can be reflected
- (•) No opinion

Enforcement

Since 2011, the European Securities and Markets Authority (ESMA) has been coordinating national enforcers' operational activities concerning compliance with IFRS in the EU. ESMA has taken over where the Committee of European Securities Regulators (CESR) left off.

Enforcement activities regarding companies listed on regulated markets are defined in the Transparency Directive (2004/109/EC , as subsequently amended).

31. Are the IFRS adequately enforced in your country?*

- (•) Yes
- ( ) Yes, to some extent
- ( ) No
- ( ) Not applicable
- ( ) No opinion

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

We believe that enforcement in the UK is sufficiently robust to instill confidence in investors.

32. Does ESMA coordinate enforcers at EU level satisfactorily? *

- Yes
- (selected) Yes, to some extent
- No
- Not applicable
- No opinion

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

ESMA has produced useful reports in some areas of accounting and the guidance provided in its reports is welcome where it encourages consistency. However, we do not believe there is a sufficiently strong case for enhancement of its powers.

33. Has enforcement of accounting standards in your country changed with the introduction of IFRS?*

- Enforcement is now more difficult
- (selected) Enforcement has not changed
- Enforcement is now easier
- Not applicable
- No opinion

33.1. Please provide any specific relevant examples.

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
- (•) Yes, slight influence
- ( ) No
- ( ) No opinion
- ( ) Not applicable

34.1. If you have identified differences in the way IFRS are applied in different EU countries, to what extent does this limit the transparency and comparability of company financial statements? *

- ( ) Much less transparent & comparable
- (•) Slightly less transparent & comparable
- ( ) No impact on transparency or comparability
- ( ) No opinion

34.1.1. Please detail.

Differences have arisen as a result of legacy reporting on the transition from local GAAP to IFRS but these should reduce over time and on adoption of new IFRS. Inevitably some differences may remain because of the different level of enforcement between Member States.

35. If you are aware of any significant differences in enforcement between EU countries or with other jurisdictions, do they affect your practice in applying IFRS or analysing financial statements? *

- ( ) Yes, significantly
- ( ) Yes, but the impact is limited
- (x) No
- ( ) No opinion
- ( ) Not applicable

35.1. Please provide specific details.

We are not aware of any significant differences outside the UK

36. The recitals of the IAS Regulation stress that a system of rigorous enforcement is key to investor confidence in financial markets. However, the Regulation contains no specific rules on penalties or enforcement activities, or their coordination by the EU.

Should the IAS Regulation be clarified as regards penalties and enforcement activities?*

- Yes
- (x) No
- No opinion

37. Should more guidance be provided on how to apply the IFRS? *

- Yes
- (x) No
- No opinion

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? *

We see no problem between company's legislation and IFRS in providing a true and fair view. As noted in question 6, a significant minority consider an area that may require attention in the UK is the question of distributable reserves. However, IFRS applies to consolidated accounts and distributable reserves in the UK are calculated at entity level according to local law.
As to different reporting requirements, accounting requirements operate to count the beans and report them to the markets. It is the role of regulators to determine capital adequacy requirements from the reported numbers. These requirements should operate to smooth cycles - tighten requirements when conditions appear benign and credit in the system has grown and ease them when the pain has been taken. Otherwise, regulatory requirements can force financial institutions to have "adequate capital" at the trough of the cycle and lead to them to be over-capitalized as soon as there is any recovery. In summary, investors and regulators have different requirements - the former want to know what a company is worth today and value transparency. Prudential supervisors may start with the published accounts and can ask for further information to meet their needs. Users do not have that option.

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)	◉	○	○	○
Company law	○	○	◉	○
Other	◉	○	○	○

39.1. Other - please specify.*

See question 38 above.

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

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See question 38 above
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User-friendliness of legislation

All standards are translated into the official EU languages before they are adopted. The Commission also regularly draws up a consolidated version of the current standards enacted by the EU (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02008R1126-20130331:EN:NOT). The consolidated version does not include any standards that are not yet in force, but can be applied before the date of entry into force.

40. Are you satisfied with the **consolidated version** of *IFRS standards adopted by the EU*, which is not legally binding, or would you like to see improvements?

- ○ Satisfied
- ○ Need for improvements
- ○ I wasn't aware of it
- ○ I don't use it
- ◉ No opinion

41. Are you satisfied with the quality of **translation** of IFRS into your language *provided by the EU* ?*

- ○ Yes
- ○ Yes, to some extent
- ○ No
- ○ No opinion
- ◉ Not applicable

General

42. Do you have any other comments on or suggestions about the IAS Regulation?

We believe the IAS Regulation should play its part in delivering better IFRS rather than ECFRS and in doing so we want it use its best endeavours to ensure, inter alia, that stewardship and prudence are upheld in the IFRSs adopted in the EU and other relevant jurisdictions and meet the needs of long term shareholders, albeit we do not see the need to amend the Regulation or the endorsement criteria.

U5 – Stewardship. Investors have concerns as to whether IFRS accounts provide sufficient information on management's stewardship. Investors support the use of fair value and a mixed attribute model as currently prescribed by the IASB where mark to market or mark to model are applied to financial instruments that are not held for the long term. But in allowing all changes in fair value to be taken to the profit and loss, as happens at present, can result in the imprudent recognition of profits as part of performance.

Investors want to know what the management of its investee companies has generated from its operations and the resources allocated to it, i.e. management's stewardship. We particularly have concerns when fair value is applied to holdings that are so large that they could not be realised at the screen price or when extraneous factors exaggerate the volatility of the market price and impinge on the concept of prudence. In the absence of a clear definition of what is meant by performance, it results in changes in net assets that do not represent business activity or result in cash flows, being recorded as part of performance. In this context, for many balance sheet instruments, there is no satisfactory alternative to marking to market in that recording values at historical cost reflects an arbitrary moment in time when the assets were initially recognised and makes accounts less comparable. However, this reporting of temporary value changes as income potentially misrepresents information when those changes have to be reversed in subsequent periods– as has been illustrated by the problems with the banks.

Investors want management to be accountable for what it has done. This includes but is by no means limited to the link between executive remuneration and how the reporting entity creates, delivers, and captures value. These are issues that we will continue to take forward with the IASB. As noted in question 6.2 a significant minority of investors want to go further than this and consider that capital maintenance should be a primary goal of IFRS accounts.

Q23. We do not believe that more leeway should be given to the Commission to modify standards. From a user perspective, this could compromise comparability. In addition the development of a single set of global accounting standards should not be affected by local variants and inconsistencies of application. Users have come to rely on accounts that are prepared in accordance with IFRS that are endorsed by the EU on the basis that the standards are those issued by the IASB without change in the endorsement process.

Thank you for your valuable contribution.

Contact

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