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?*

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70
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1.4.2. What type of business do you represent?*

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

1.4.2.1. Other - please specify*

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Asset managers
Pension funds
Insurance companies
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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
- 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.*

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Corporate Governance Forum 'Eumedion'.
Eumedion is the dedicated representative of the interests of 70
institutional investors, all committed to a long-term investment
horizon. The combined holdings of our participants invested in The
Netherlands amount to an aggregated ownership of 20%-25% of the Dutch
market capitalisation. Eumedion aims to promote good corporate
governance and sustainability in the companies our participants invest
in. We regard accounting standards as a critical part of a global
financial infrastructure, especially since investors are dependent on
the quality of accounting standards for allocating their own and
entrusted capital.
www.eumedion.nl
For questions regarding these answers please contact:
Martijn Bos
Policy Advisor Reporting & Audit
Eumedion
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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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65641341034-11
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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?*

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

6.1. Comments.

Yes, these objectives are still valid. We see no need to introduce new goals. We would like to note that there are risks to in introducing new goals, as new goals can jeopardise the progress to the valid original goals.

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.

Yes, the IAS Regulation gave critical mass to the adoption of IFRS around the globe. The option for non-US companies to apply IFRS in the US helped global acceptance of IFRS as well.

Eumedion regards IFRS as a financial reporting framework of very high quality, especially when compared to many of the national GAAP alternatives.

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)?*

- (•) Yes
- ( ) No
- ( ) No opinion

8.2. Comments.

The current scope of companies whose securities are traded on a regulated market in the EU is right. For investors, there would be formidable disadvantages if the scope were to exempt smaller listed companies on regulated markets as it would take a lot of, and often too much effort to understand additional national accounting frameworks.

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:*

- (selected) 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?*

- (selected) Yes
- No

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?*

- (selected) Significantly more transparent
- Slightly more transparent
- No change
- Slightly less transparent
- Significantly less transparent
- No opinion

11.1. Please elaborate.

Even though there is room for improvements to IFRS, Eumedion regards the quality, usefulness of financial accounts and disclosures of IFRS superior to any local GAAP in Europe.

Given the significant effort it takes for investors to understand any accounting framework, the fact that IFRS is so widely applied allows investors to focus their efforts to understanding more about this single framework, instead of having only a basic knowledge of all the local frameworks in Europe.

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	◉	○	○	○	○	○
EU-wide	◉	○	○	○	○	○
Compared with non-EU countries	◉	○	○	○	○	○

12.1. Please elaborate.

The arguments mentioned under 11.1 are valid for each geographic region mentioned in question 12.

Answer Question 11.1:
Even though there is room for improvements to IFRS, Eumedion regards the quality, usefulness of financial accounts and disclosures of IFRS superior to any local GAAP in Europe.

Given the significant effort it takes for investors to understand any accounting framework, the fact that IFRS is so widely applied allows investors to focus their efforts to understanding more about this single framework, instead of having only a basic knowledge of all the local frameworks in Europe.

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

- ◉ Yes, in general
- ○ Yes, but only in certain areas
- ○ No, in general
- ○ No, except in certain areas
- ○ No opinion

13.2. Please elaborate.

A key benefit for investors of IFRS over many local GAAPs is that IFRS has very few accounting options. The introduction of IFRS therefore resulted in, not only, improved comparability over time for a single company, but also improved comparability between companies.

There are many differences between IFRS and national frameworks, for example accounting for pension assets and liabilities, accounting for accounting errors, hedge accounting, share based payments, non-controlling interests, joint ventures. An IFRS standard may not be perfect (for example it fails to take fully into account the hybrid pension obligation system we have in The Netherlands), but even an imperfect IFRS does serve investors by providing a single startpoint for their analysis, across many jurisdictions around the globe.

Even though financial statements under IFRS sometimes still are difficult to understand, the answer remains yes, in general, financial statements have become easier to understand. Foremost because of the two reasons mentioned in 11.1.

Also, some local accounting frameworks are known for allowing often different (optional) accounting treatments, whereas IFRS only has a rather few optional accounting treatments. Optional accounting treatments tend to make interpretation more complex and tends to result in more uncertainty for 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? *

- (x) Yes
- ( ) Yes, to some extent
- ( ) No
- ( ) No opinion

14.1. Please elaborate.

IFRS helped companies getting access to the capital of investors beyond national boundaries. This also helped to create a bouyant European corporate bond market, where spreads for risk are often comparable to for example the US corporate bond market.

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	◉	○	○	○	○	○
EU capital other than domestic	◉	○	○	○	○	○
Non-EU capital	◉	○	○	○	○	○

15.1. Please provide data / examples if available.

There are academic studies available that indicate that IFRS resulted in lower cost of capital for companies:
– 'Does Mandatory Adoption of International Accounting Standards Reduce the Cost of Equity Capital?' by Siqi Li, January 2008.
– 'The Impact of Mandatory IFRS Adoption on IPOs in Global Capital Markets' by Hyun A Hong, Mingyi Hung & Gerald Lobo in December 2013.

The first study finds evidence that the mandatory introduction of IAS, on average, significantly reduces the cost of equity for mandatory adopters by 48 basispoints for those countries that have strong enforcement systems. Key causes of the reduction in cost of capital are identified as: increased disclosure and enhanced information comparability.

The second study shows, amongst other findings, an increase in the relative amount of IPO capital raised in foreign markets, following mandatory IFRS adoption.

16. In your experience, has the application of IFRS in the EU had a direct effect on the overall cost of capital for your company or the companies you are concerned with? (Please distinguish - as far as possible – the impact of IFRS from other influences, e.g. other regulatory changes in the EU and the international credit crunch and crisis.)*

- (x) Cost has fallen significantly
- ( ) Cost has fallen slightly
- ( ) No effect
- ( ) Cost has risen slightly
- ( ) Cost has risen significantly
- ( ) No opinion

16.1. Please provide data/ examples if available.

We refer to the data included in the studies mentioned in our answer to question 15.1.:

There are academic studies available that indicate that IFRS resulted in lower cost of capital for companies:
- 'Does Mandatory Adoption of International Accounting Standards Reduce the Cost of Equity Capital?' by Siqi Li, January 2008.
- 'The Impact of Mandatory IFRS Adoption on IPOs in Global Capital Markets' by Hyun A Hong, Mingyi Hung & Gerald Lobo in December 2013.

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The second study shows, amongst other findings, an increase in the relative amount of IPO capital raised in foreign markets, following mandatory IFRS adoption.

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.

Investors benefitted from improved transparancy and understandability. These factors are beneficial for the protection of investor interests as it allows improved capital allocation decisions and form a basis for engagement with management of companies. Other factors that contributed to improved protection for investors are the systematic and rigorous enforcement of IFRS within the individual EU countries.

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.)*

- (x) Yes, to a great extent
- ( ) Yes, to a small extent
- ( ) It had no impact
- ( ) No, confidence in financial markets has decreased
- ( ) No opinion

18.1. Please provide data/ examples if available.

Confidence in financial markets was primarily negatively affected by financial institutions that took too much risk, and not by a reporting framework that makes risks more transparent. If a reporting framework would enable management to hide risks, hide losses, overstate equity, or understate debt, this may actually incite management to take more risks. We see the completed reform, earlier this year, of the impairment model for financial instruments in IFRS 9 to further enhance financial reporting under IFRS.

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

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

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

- [x] Improved ability to trade/expand internationally
- [x] Improved group reporting in terms of process
- [x] Robust accounting framework for preparing financial statements Administrative savings
- [x] Group audit savings
- [x] Other

19.1.1. Other - please specify.*

Lowering the cost of making an analysis of a company for investors.
Improved capital allocation decisions as investors became more informed.
Access to financing directly from investors, in addition to the traditional dependence on bank financing.
Lowering the cost of capital for companies.

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

Ability to trade internationally: the uniform language of IFRS helps making better assessments of the financial health of counterparties.

Improved group reporting: if the group consists of less accounting frameworks, there will be less reconcilliations from one GAAP to another.

Robust framework: Eumedion regards IFRS as the leading framework for financial reporting in the world, not only by the quality of the issued standards but also by the transparency in the standard setting process and the focus on providing relevant information for investors. 114 jurisdictions require IFRS for all or most domestic publicly accountable entities in their capital markets.

Group audit savings: if the group consists of less accounting frameworks, there will be less reconcilliations from one GAAP to another.

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?*

- (selected) Benefits significantly exceed the costs
- Benefits slightly exceed the costs
- Benefits and costs are broadly equal
- Costs slightly exceed the benefits
- Costs significantly exceed the benefits
- No opinion

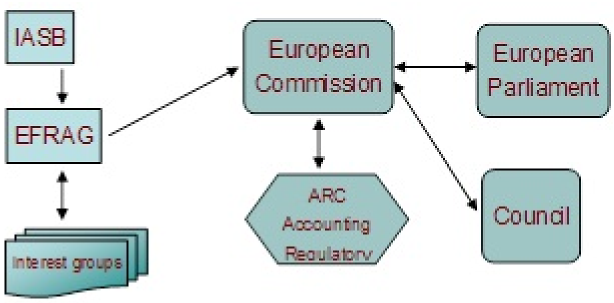
20.1. Please provide any additional comments you think might be helpful.

It is a major intellectual, political and financial effort to make sure that an accounting framework keeps pace with the mentioned increasing complexity. It is not realistic that sufficient resources (both financial, political and intellectual), also from stakeholders, would be available to organise anything of comparable quality within each individual country.

Please note that often the costs / benefit evaluations are limited to the perspective of the costs / benefits incurred by the reporting entity. The costs / benefit evaluations should be expanded to include the costs / benefits of less costly and improved capital allocation decisions by the tens of thousands of analysts and investors that need to evaluate companies and engage with them.

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 is an understandable requirement of the EC, and also in other jurisdictions. However, it does take time and sometimes results in later effective dates of new standards. Although investors tend to benefit from earlier effective dates as new standards tend to result in improved transparency, such delay is understandable.

It is paramount for investors that standards are adopted in full, and that any difference between IFRS as applied in the EU and IFRS as applied in the rest of the world are rather temporary. There are a number of reasons why the EC should be very hesitant to make any amendments to proposed IFRSs as part of the endorsement process:
1) This would significantly weaken the benefits of a global IFRS standard.
2) It would allow special interest groups to continue to hunt for certain changes, largely away from the public eye. The IFRS consultations and board discussions stand out in transparency and are the appropriate arena for exchanging arguments for and against certain elements of standards.
3) Considering small amendments would significantly lengthen the endorsement process, resulting in longer lasting, or even permanent differences between IFRS as applied in Europe versus IFRS as applied in the rest of the world.

We are aware that this requires an IASB that is sensitive to the valid needs of it stakeholders.

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

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)? *

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

24.1. If so, please explain the nature of the problem and how it has (or has not) been resolved. *

Any carve-out (or even carve-in) damages the benefits of IFRS. Valid comparisons between banks add to trust of investors. The carve out makes it more difficult to make such valid comparisons and make it more difficult to have sufficient trust to invest.

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
- ○ Good
- ● Moderate
- ○ Low
- ○ Very low
- ○ No opinion

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

Even though there are many very good financial statements, we see many companies struggle with applying materiality properly within their financial statements. Some information can be described as 'overload', for example most of the significant accounting policy paragraphs are predominantly filled with irrelevant information; but there are also disclosures that could be more granular, for example on operating segments. This is not necessarily caused by the standard setter, but the standard setter may provide a strong signal that can by picked up by regulators, auditors, and the preparers.

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
- ○ 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 identified complexity underlines the need for as few accounting frameworks as possible around the globe, preferably one.

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	◉	○	○	○

27.1. What are your local GAAPs?

Eumedion is based in the Netherlands, where the Dutch Accounting Standards Board sets local standards, within the context provided by Dutch and European law.

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

The local GAAPs of other European countries.

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

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)	X			
Any other GAAPs (as identified under question 27)	X			

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

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
- ( ) Hardly ever
- ( ) Never
- (x) No opinion

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

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

Although the dialogue model does seem to work, the enforcement would be more adequate if the enforcers would every now and then successfully take a company to court for a sub-par annual report.

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

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

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

Coordination of European efforts on enforcement may not be enough. In the future, a true European enforcement, instead of a European coordination, is likely to better safeguard consistent enforcement of high quality across the EU. We would regard entrusting this responsibility to the European Securities and Markets Authority (ESMA) as a logical next step.

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

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

33.1. Please provide any specific relevant examples.

A major benefit of the IAS Regulation is that it resulted in systematic and rigorous enforcement in each EU country.

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
- (selected) No
- No opinion
- Not applicable

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
- ( ) No
- ( ) No opinion
- (x) Not applicable

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?*

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

36.1. Please explain.*

We see room for enforcement, instead of coordination of enforcement, at the European level. See our answer on question 32.

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

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

37.1. If so, by whom? Please detail.*

IFRIC is the appropriate body to provide guidance on IFRS.

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? *

There should be no interaction between these reporting requirements. Each of the reporting requirements has its own audience. The primary audience of IFRS financial statements are investors.

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	○	○	○	◉

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?

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General remark:
Eumedion regards the introduction of IFRS as the reporting framework for
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financial reporting in the EU, resulting from the IAS regulation, as having had a very beneficial effect on the ability to make improved capital allocation decisions by investors investing in Europe. We regard IFRS as the highest quality financial reporting framework available. Europe can help strenghten IFRS and the global benefits of IFRS by minimizing any differences (carve-outs) between IFRS as applied in Europe versus IFRS as applied in the rest of the world. We welcome the continued support of the EC to the IFRS Foundation.

Please find below specific remarks that we could somehow not add to textboxes at some relevant questions.

On question 22 we would like to add the following comment:
<Q22 start>
As investors, we deeply care about financial stability and the public good. However, we strongly believe that the IFRS accounting framework has its own unique place in its contribution to making capital markets operate efficiently. This is by providing a single set of accounting standards that ensure a high degree of transparency and comparability by providing decision useful information for investors.

We are convinced that investors should remain the prime target audience for financial statements. Prudential regulation authorities already have sufficient means to request information needed for financial stability. Unlike investors, prudential regulation authorities are not dependent on the financial statements for their information needs.

If standards were to incorporate a higher goal of financial stability, this could actually reduce faith in the standards and the companies reporting under IFRS by investors. Standards that allow a few banks to appear solid, where they in fact are not, reduces faith in all banks. But the real danger of allowing standards to mask bad performance for the greater good of 'financial stability' and 'economic development' is that management will take into account that bad performance can be masked. This will invite unaccounted risk taking and may actually endanger stability and economic development, again.

We therefore strongly disagree with Mr. Maystadt's suggestion to add two additional criteria.

We do urge prudential regulation authorities and those charged with financial stability to align their reporting requests, if possible, to the decision useful information already produced by reporting entities under IFRS as this may reduce the administrative burden for reporting entities.
<Q22 end>

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Other comments:
We would like to answer the some 'User specific' questions in the
consultation as well, as our organisation represents users of financial
statements. These questions were grayed out on selection 'organisation':
U4: no change
U4.1.: We are not aware of such influences.
U.5.: significantly improved
U.6.:significantly improved
U.7.: Reduced by a large amount
U.7.1.: Either the analyses of companies would have been less thourough,
or the time (and costs) analyses would take would have been higher. In
some cases, the expected required time or the expected lack of required
thouroughness would result in the decision not to pursue an investment
due to lack of a reasonable basis for investment.
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Thank you for your valuable contribution.

Contact

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