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Dear Mr. Millerot,

**Re: FEE comments on the European Commission's IAS Regulation Review Questionnaire**

The Federation of European Accountants (FEE)<sup>1</sup> with number 4713568401-181 of the European Commission's (EC) Register of Interest Representatives is pleased to provide you with its main comments on the EC's IAS Regulation Review Questionnaire.

In representing the European accountancy profession, FEE recognises the public interest. In this regard, we are supportive of public consultations as they enhance the public confidence in the EU. However, we feel compelled to address to you some further important comments in relation to the recent EC Consultation on the IAS Regulation Review. These comments complement the on-line version of the questionnaire<sup>2</sup>. Indeed, for some key questions FEE would have liked to add details but for some of our responses a comment box was not available. In particular in relation to the endorsement and the enforcement of IFRSs in the EU.

***Main comments***

FEE broadly supports international standards as they enhance Europe's access to global markets which necessitates comparability, reliability, relevance, understandability and transparency in financial reporting. The IFRSs are a robust, complete and broadly accepted set of financial reporting standards that can effectively serve this role of global standards. Therefore, FEE cannot envisage any other alternative to the IFRSs for use in the European Union.

We also support the current endorsement process and criteria and we believe that enforcement of IFRS in the EU is of an adequate level.

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<sup>1</sup> FEE's represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy.

<sup>2</sup> Please refer to the [FEE's response](#).

It appears that IFRSs have enhanced the transparency, comparability and usefulness of financial statements. However, in certain instances this may also come at the expense of increased complexity and costs. Having IFRSs endorsed in the EU has in certain cases increased the complexity of financial statements and therefore the cost of financial reporting might have increased for preparers. However, in FEE's opinion, a costs analysis should be performed in conjunction with a benefits analysis which, we believe, would be expected to indicate that the benefits outweigh the increase of such costs.

The use of the international standards at a large scale (with Europe leading the path) has only taken place over less than ten years. It is acknowledged that the set of standards, whilst enabling the production of high quality information, can still be improved in certain areas. The IASB is aware and working on these areas. Europe contributes significantly to the debates that are taking place. The implementation of the EFRAG reform should normally lead to an even increased consideration by the IASB of European views.

### ***Endorsement***

#### **Endorsement Criteria**

FEE strongly believes that financial reporting is first and foremost aimed at providing a faithful representation of existing economic realities of companies according to the framework for financial reporting that has been agreed globally. With reference to the additional criteria proposed by Mr Maystadt in the EFRAG reform, we believe that financial reporting standards and the presentation of economic realities should not be influenced or distorted for financial stability or economic development reasons.

Therefore the endorsement of the IFRSs for use in the European Union should be based on the endorsement criteria of the 2002 IAS Regulation which do not need to be altered as this may further complicate matters and potentially dismiss the purpose of having global standards.

If however considered necessary, it could be helpful to clarify by means of additional guidance the existing criteria set forth by the IAS Regulation without changing the Regulation. This would preserve flexibility and maximise the potential effectiveness of the current endorsement mechanism, while avoiding a protracted legislative procedure to amend the IAS Regulation.

#### ***IAS 39 - Carve out***

The current endorsement mechanism has resulted in a single carve out of IFRS (the so called "IAS 39 carve-out"). This difference with the IFRSs as issued by the IASB is very limited in scope as it only affects banks that hedge their interest rate risk exposure on a net portfolio basis. The number of entities using this carve out is limited to about 20.

We believe this indicates that all the other entities that are within the scope of the IAS Regulation did not see a need to use this carve out. Therefore, FEE is confident that the current endorsement mechanism has achieved its main objectives.

### *Flexible Endorsement*

There has been much debate on the endorsement criteria including the harmful effects of flexible endorsement. In his report, Mr Maystadt clearly stated the potential negative effects of such a flexible endorsement. However, he seemed to suggest that these negative effects could perhaps be alleviated by 'precise and restrictive criteria and conditions'. As stated below, FEE fundamentally disagrees with 'opening a door' towards more requirements for the EU in endorsing IFRSs as this would not bring flexibility, but would defeat the very purpose of having global standards.

Moving towards flexible endorsement of IFRS would be detrimental to Europe. In order to retain the advantages of global standards, the EU should avoid increasing such "flexibility" in the current endorsement process and thus moving directly or implicitly toward specific European standards. Mr Maystadt's final report rightly recognises many of the risks associated with such an approach (including the risks of isolating Europe and damaging its credibility) and we believe the logical conclusion should be to avoid this potential trap.

It should be possible to take adequate account of EU Member States' reservations to the adoption of certain IFRSs in a more proactive, constructive and effective way. Therefore, the EU should seek to increase its engagement with the international standard setter, resulting in standards that harmonise the global approach in a way conducive to European businesses and economies.

In our responses to the questionnaire, we referred to the enhanced role that both the EC and EFRAG should play in this regard. In this respect, it should be underlined that the transformed EFRAG considers both the political and technical aspects of a standard which:

- a. Fosters consensus building in an early stage and facilitates an inclusive and informative debate based on the merits of the respective arguments.
- b. Creates a level playing field for stakeholders and diminishes the potential for purely political manipulation and conflicts at a later stage.
- c. Can prevent shortcomings such as a standard reducing transparency or increasing undue volatility.
- d. Mitigates risks of non- or partial endorsement of a standard.

Furthermore, flexible endorsement could actually decrease instead of increase the EU's influence on the IASB. In his report, Mr Maystadt noted: 'A binary yes or no endorsement seems to bring more powerful dissuasion than opening the possibility of modifying a standard: the IASB might be less inclined to take Europe's concerns into account if Europe can freely modify the standard itself'.

We believe that the primary objective of the IAS Regulation (article 1) is still fully valid: *adopting international standards to harmonise financial information in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the EU capital market and of the Internal Market.* In addition, on the basis of experience, it is clear that there is a lack of consensus in Europe on accounting matters and therefore the EU greatly benefits from relying on an independent standard setter whose aim, according to its Handbooks, *is to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles.*

The fact that all requirements of the standards are to be endorsed means that the advantages of truly global standards are retained. Regarding specific EU needs, the

existing deviations accepted within this framework suffice (although they can already endanger the objective of having global standards), namely:

- a. Delays as far as timing of the first-time application of individual standards is acceptable as long as early adoption is possible.
- b. Deletion of options or limitation of the choice of options in the individual standards is acceptable as this encourages more (rather than less) harmonisation and consistent application, one of the very aims of using global standards like IFRS.

### **Enforcement**

The enforcement of the IAS Regulation falls within the responsibilities of National Competent Authorities (NCAs). At European level, the European Securities and Markets Authority (ESMA) exercises its role of coordination and cooperation but cannot impose any penalties.

ESMA's terms of reference include issuing best practice guidelines to NCAs. It is within ESMA's powers to issue publicly available reports which list those NCAs that do not comply with its guidelines, and why.

Many observe that the quality of the national enforcement has improved in many EU countries which in its turn has helped to improve the quality of financial statements. However there is still room for further improvement in order to achieve consistently high quality enforcement across Europe. Therefore FEE supports ESMA's efforts to drive a common approach to enforcement of financial reporting in Europe in cooperation with local regulators, and always within the boundaries of its remit as a European Supervisory Authority.

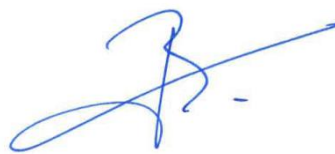
Finally, FEE believes that any implementation guidance on IFRSs should only come from the IASB and not from the EU or the national level in order to be authoritative and achieve consistency.

For further information on this letter, please contact Olivier Boutellis-Taft, the FEE Chief Executive, on +32 2 285 40 81 or via e-mail at [obt@fee.be](mailto:obt@fee.be), or Pantelis Pavlou, Manager from the FEE Team, on +32 2 285 40 74 or via e-mail at [pantelis.pavlou@fee.be](mailto:pantelis.pavlou@fee.be).

Yours sincerely,



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