

Speech of Pervenche Berès, Chairwoman of the Economics and monetary affairs in the European Parliament at the FEE Seminar on

IFRS Convergence and Consistency

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The need for better involvement of the European Union in the IFRS process

Ladies and Gentlemen,

I am very pleased to take part at the FEE Seminar on IFRS Convergence and Consistency with such a group of distinguished people.

The European Federation of Accountants, acting as the voice of accounting professionals of the entire European Union and being a genuine forum of practitioners, has got a long track of distinct contributions to the debate on the European agenda in the accounting area.

As a European politician, as a Member of the European Parliament, as an advocate of highly competitive European companies at global level, and of strong, well-capitalized and attractive European capital markets, I very much support the idea behind the ambitious project aiming to establish a single set of accounting rules throughout the European Union.

However, as the title of my contribution suggests, I want to use this opportunity to share with you some of concerns that, as guardians of European interests and European legislators, we have in the European Parliament.

The debate we hold today is of paramount importance for all European companies, because the accounting standards, their quality, legal certainty, the way they are enforced, directly affect the European economy, and any shortcomings could put European companies at a competitive disadvantage.

The courageous decision to remove the co-existing plethora of national standards and to replace it with worldwide valid rules is a laudable one. So is the idea that European companies, armed with financial statements of great transparency, comparability, understandability, will enjoy better conditions for raising capital at global level. The IAS adoption was one of

the leading FSAP initiatives aiming to upgrade the competitiveness of European companies at worldwide level.

The package of international accounting standards has been adopted; the European Parliament, as a co-legislator, and later exercising the right of scrutiny, has been involved in the adoption process and will certainly remain deeply involved in future.

The 2005 represent a landmark in the accounting history; it will be the first time that European listed companies will have to present their annual accounts in line with IAS/IFRS standards adopted in the EU. Therefore the degree of completeness, consistency and stability of the IFRS framework applicable in 2005 are of the essence.

Despite an important progress achieved in solving certain issues like the IAS 39 fair value carve-out, several issues still need to be addressed in order to achieve a complete and consistent IAS/IFRS framework, i.e. business combination, performance reporting, etc. This fact, together with frequent changes undertaken by IASB, results in difficulties in implementation, raises practical difficulties for the EU endorsement process; and consequently undermines the consistency of the framework in the EU.

Furthermore, every change to IFRS at IASB level must be subject to a close scrutiny by European institutions and their advisory bodies before it becomes an enforceable, binding European law.

The turmoil provoked by constant changes to IFRS standards at IASB level and the perpetual catching up at the European level above all undermine the legal certainty of IFRS platform in the EU.

Changes introduced by IASB in various standards, in particular a reconsideration of measurement techniques which in fact lead to a wider application of measurement at fair value, may not result in a conceptual change without an appropriate in-depth debate.

As I have stated before, the removal of disparities at national level and the cardinal move towards single accounting platform at European level is of great importance to the European economy.

But, European companies, which made important investments in order to comply with a brand new approach - principle-based accounting standards- need above all reliable, comparable, understandable,

transparent and stable financial reporting standards. Therefore a call for a regulatory pause and a greater accent on enforcement is useful. At least in this case it would be completely in line with the policy of better law making pioneered by the Commission.

I can assure you that the European Parliament has dealt with the problems accompanying the adoption of the standards since the very beginning. Concerned by the pace of change of standards, the Economic and Monetary Affairs Committee urged the Commission to carry on an evaluation after the first year of implementation of IFRS and to report on this to the Parliament.

Debates on the constitutional review of the IASB and on the (future) role of European Financial Reporting Advisory Group (EFRAG) represent an outstanding opportunity to strengthen the voice and the role of Europe, to improve the IASB corporate governance, and to make the decision-making process at IASB level more balanced. We should fully take advantage of this momentum!

One of the European Parliament's very important concerns relates to the manner in which the EU is present and represented in the IASB, namely on the trustees and on the Board side. A greater transparency towards the European Parliament, especially when it comes to Commission's intended steps in this area, would be a clear asset in ensuring that the EU is represented in the IASB structures in an appropriate way.

EFRAG's role and operation should be enhanced in order to respond to current challenges at European and at worldwide level. This group should function as the European Accounting Board and the Commission and CESR should be more involved in its work.

Nevertheless, this cannot be achieved without finding a balanced solution to EFRAG's composition, financing, and its capacity to contribute to a coordinated European interpretation of accounting standards. The experience shows that an enhanced cooperation between private sector and bodies representing public interests, be it at national or at European level, can deliver a substantial positive contribution in defending European interests. We therefore encourage the Commission to find a speedy and appropriate solution. I know the legal arguments that have recently been used by the Commission. But, being a French socialist legislator, my feeling is that the Commission perfectly knows how to work closely with the private sector if it is willing to do so. Let me mention as an example the cooperation of the Commission with the automobile sector in the CAR 21 structure.

We should be also very careful and fully aware of far reaching implications when considering some of IASB initiatives; most notably when it comes to SMEs that form the very heart of the European economy. So far, the IASB has not proven to have the required expertise relevant for the SME area.

We pay close attention to developments in the Transatlantic Dialogue, in particular to the issues that put European companies at a competitive disadvantage such as the requirement to reconcile financial statements, which are fully in line with IFRS, also with US GAAP.

We also carefully follow the progress in the field of mutual recognition between IAS and US GAAP, and in the IASB-FASB convergence project. The Parliament has already expressed its concerns about the calendar of the convergence process. I believe that the transitory period set up by the SEC Roadmap should be shortened in order to minimize turbulences and disturbances aggravating the competitive position of European companies in the US capital market.

Many fundamental issues that require thorough reflexions are still left open. Let me cite a few of them. How can we ensure a uniform interpretation and enforcement of IFRS standards at the EU level? How can we ensure a consistent interpretation and enforcement of accounting platforms at the worldwide level?

This is a focal issue that requires appropriate attention, in particular with regard to the precedent caused by the Basel II project, where rules created by an international standard-setter and deemed to constitute a common risk-based platform for management of financial institutions applicable at the worldwide level, have, up to now, failed to deliver the desired goal.

Ladies and Gentlemen, let me conclude.

The project of single accounting platform valid throughout the European Union and the project of creating a truly international financial reporting are of tremendous importance for European companies and for the European economy.

However, ahead of us we have three crucial tasks:

Firstly, we need a balanced decision-making mechanism for setting IFRS; and its structures need to be revisited with a due regard to the interests of European stakeholders.

Secondly, consistent interpretation and enforcement still need to be addressed in an appropriate manner.

Thirdly, several issues within the Transatlantic Dialogue, which could in future result in major imbalances, call for in-depth reflexions. Today's architecture of public bodies at the worldwide level (IMF, WTO) has up to now not been designed to cope with global challenges arising from the process of setting of the IFRS standards, nor with the issues brought by the convergence project, where consistent mutual implementation and interpretation are of major concern. This is the case for the accounting standards; it is also more and more the case for integration of the whole financial market. For the future, my belief is that we will need a democratic, transparent and accountable forum where these subjects will be discussed, where rules will be written and interpreted; a forum with transparent structures capable of making sure that once all partners have approved the setting of the rules, they all apply them on an equal basis. At the European level, to watch over this process we should maybe think of using the spirit of the Lamfalussy system, where, before entering into the details, politicians are involve right in the beginning in order to define the principles under which the rules should be written, with a right for review.

I will be pleased to discuss further in the future all these subjects with those of you who are willing to do so. Let me end by assuring you that it is of great importance for the European Parliament to make sure that the right balance between all stakeholders is being preserved when these issues are on the table.