FEE SEMINAR IFRS CONVERGENCE AND CONSISTENCY

1 DECEMBER 2005 – BRUSSELS

SUMMARY DOCUMENT

A full transcript of the presentations, question and answer sessions and panel discussions is expected to be available at the end of January 2006. At present the following are available on the FEE website:

- *Text of the keynote speech of Commissioner Charlie McCreevy, European Commission, DG Internal Market: "EC Strategy on Financial Reporting: progress on convergence and consistency".*
- *Text of the speech of Ethiopis Tafara, Director Office of International Affairs, US SEC: "Remarks Before the Federation of European Accountants: International Financial Reporting Standards and the US Capital Market".*
- *Text of the speech of Pervenche Berès, Chair of the Economic and Monetary Affairs Committee in the European Parliament: "The need for better involvement of the European Union in the IFRS process".*
- *Text of the closing remarks of FEE President David Devlin.*
- *PowerPoint presentation of Jon Symonds, CFO AstraZeneca: "Convergence – the future of international financial reporting worldwide".*
- *PowerPoint presentation of Philippe Danjou, Chair of the CESR Audit Task Force, Member of IASB's SAC: "Securities Regulators and Consistent Application and Enforcement of IFRS".*
- *Link to CFA Institute report.*

SUMMARY

This is not an official record of the proceedings, and specific remarks are not necessarily attributable. Speakers spoke on their own behalf, not necessarily committing the organisations they represent.

Keynote speech: EC Strategy on Financial Reporting: progress on convergence and consistency

Commissioner McCreevy explained the reasons why the EU decided for true global accounting standards. In order to benefit fully from IFRS it needs to be ensured that they are applied in a consistent manner. This is a challenge and there will be "teething problems". The idea for a temporary, informal Roundtable involving relevant stakeholders is gaining ground, gathering diverging national and local interpretations or guidance and grasping together issues of common concern and recommending that these should be taken up by IFRIC. The Roundtable will not be making any interpretations. It will be an informal body, to be launched sometime in the New Year.

The Roadmap between the EC and SEC means that IFRS could be accepted in the US no later than 2009, or even sooner.

The EU might defer its equivalence decision under the Transparency and Prospectus Directives covering foreign issuer's GAAP in Europe and prolong the status quo whereby they do not reconcile to IFRS. It would align the equivalence agenda on both sides of the Atlantic and allow time for consolidating experiences of working with IFRS in practice.

The objective of convergence is to have an effective process up and running which will reach a sufficient level of convergence within a reasonable timeframe. Convergence is a tool, not an end in itself. The convergence exercise must be a two way street and it must not be allowed to destabilise the IFRS platform in Europe. It must be a practical exercise firmly anchored in business reality. The Commissioner stated that he will not take on board any revolutionary new standards.

A question was raised as to how to narrow the gap between endorsed IFRS and IFRS. The Commissioner responded that there will be less of a gap in future, if any gap at all: lessons have been learnt from the past.

Roadmap to elimination of the SEC's reconciliation statement requirement

Ethiopis Tafara, Director Office of International Affairs indicated that the SEC fully recognises the enormous possibilities that a truly global set of high quality accounting standards offer capital markets around the world. A single set of global accounting standards would improve investor confidence in the market, so long as they are high quality, sufficiently comprehensive and rigorously applied.

Accounting standards in the US have a long and unique history. The strength of US GAAP, derives, at least partially, from the fact that it has been stress-tested, developed and leavened for many decades. When measured in market capitalisation, today, US GAAP is used by more than half of the world's companies. US GAAP today is widely used, comprehensive, well understood and well regarded both at home and internationally. IFRS has only existed as a truly comprehensive set of accounting standards for just a few years: it has little or no history of application or interpretation. In the "Roadmap" SEC staff are asking for some time to assess the consistency and faithfulness of IFRS interpretation and application.

What is the role of convergence in eliminating the reconciliation requirement? The SEC does not expect full or even a finite degree of convergence. What is important is that investors in the US be able to understand financial statements prepared under IFRS. Before eliminating the requirement, the SEC is likely to be keen to see that a robust process for convergence is in place and active. SEC staff plan to review the US GAAP reconciled financial statements of some of the European companies listed in the US.

In the short-term, IFRS and US GAAP will not be the same. The “Roadmap” is predicated on a handful of expectations:

1. The overarching philosophy behind the development of IFRS remain the best interest of current and potential investors.

2. The standard setting process of the IASB be fully transparent: in finalising its standards the IASB should make clear what substantive views it has adopted, which it has rejected and why.

3. The IASB be an independent professional accounting standard setter: politically independent, not subject to undue funding pressures; and IASB members chosen on the basis of professional competence.

4. IFRS-US GAAP convergence to continue apace.

5. The current dialogue among financial regulators over IFRS development continues. Things that would undermine this dialogue, such as a finding by the European Commission that US GAAP and IFRS cannot co-exist in Europe, or the introduction of significant additional disclosure requirements for the use of US GAAP in the EU, could also easily cause the public and others to ask for the SEC to re-examine whether it can eliminate its own reconciliation requirement.

For regulators to make it happen, the “Roadmap” will require a new degree of coordination. Actual consistency in application of IFRS, to a great extent, will fall on the shoulders of accounting firms and their clients.

A question was raised concerning the SEC analysis of reconciliation statements of European companies listed in the US as to how the same legislative SEC approach can be used for principles-based IFRS as for US GAAP. Principles-based standards allow for judgement. A dialogue will be entered into with the regulators in the EU, but it cannot be avoided that the background will influence the review. Another question addressed the prospect of US GAAP moving towards a principles-based approach.

Panel Discussion: Convergence

- **How to ensure success?**
- **What are the costs and benefits of convergence?**
- **Mutual recognition and equivalence – How this is underpinned by a robust convergence process**
- **Securing widespread understanding and support**

Sir David Tweedie, Chairman of the IASB, underlined that the support of the SEC and FASB predated the Roadmap. He recalled the benefits of truly global standards in particular at the macro-economic level. For these broad purposes, the EU chose to adopt international standards instead of having 26 sets of standards.

The IASB working process was for the last years dominated by getting ready for “2005”. The IASB integrated 34 standards of the IASC of which 14 were criticised by IOSCO, including IAS 39 (on which the IASC worked for 12 years). Addressing IOSCO’s concerns, the IASB completed the stable platform in March 2004 with 17 of the 34 standards changed and 6 new standards (3 out of the convergence project with FASB). Further amendments resulting from difficulties and implementation experience with the standards were made at the request of many involved in the adoption of IFRSs, including IAS 19 amendments and IFRS 7.

With that phase complete the Roadmap agreed between the EC and SEC gave clear direction. For the IASB’s and FASB’s purposes the important issue is that the SEC’s willingness to consider mutual recognition of IFRS for the purpose of registering in the US is dependent on a robust convergence process being in place and would continue following the removal of the reconciliation request.

The Roadmap work is predicated on two distinct tracks: firstly: by 2008 the goal is to reach a conclusion on whether major differences in few focused areas should be eliminated through short-term adjustments (IASB: 6, FASB: 6, and two of them jointly). For the IASB they include borrowing costs: joint ventures: government grants: segment reporting. Jointly IASB and FASB are going to look at impairment and income taxes.

Secondly and more substantially, significant progress needs to be made on eleven areas identified by both Boards, where current accounting practices of both US and IASB are outdated and candidates for improvement. This does not mean completed standards by 2008. Out of that 11 only two would be final or amended standards. The other nine would either only be agenda decisions or discussion papers. The majority of the work is after 2008, after the reconciliation has been removed. For the projects that will be finished before 2008, it needs to be assessed what effective dates to put in, to spread them.

It is the intention following the completion of ongoing consultation to publish the priorities in a public document.

The IFRIC has been reinforced. Staff is increased to 6 in 2006. The IASB does not provide questions and answers to standards with the exception of those inherited with IAS 39 (some of which were amended). It does not intend to do that again in the future. Every interpretation is a rule. If standards are ambiguous, then the standard needs to be changed and clarified. If there is a principle and two ways of getting to the principle, with slightly different answers, both need to be accepted. If one method only were to be selected, that will become the rule. The IASB wants principles-based standards, but it depends on how you operate them. Preparers and the profession ultimately get the standards they deserve.

Michael Crooch, FASB Board member recognised the benefits of convergence with IFRS but warned that these benefits may not arise in the nearby future. The educational benefits of no longer having two sets of standards (local GAAP and IFRS) is often overlooked. The use of high quality financial information should lead to better management decisions. There are some projects on which the FASB works commonly with the IASB, one of them being the Framework. There is a need for a common framework for standards. It took 20 years to get the FASB Framework in place with different people working on it with different ideas: people tend not to look at the Framework to find the answers to questions. He alluded to the FASB codification process. If an issue is not in the codification, it is not in US GAAP.

FASB is dedicated to convergence, the convergence process is not an easy process. US GAAP is principles-based, but there is the legal regulatory regime in the US, with a lot of litigation. Furthermore there is opposition to change: why should something be changed that is not justified? Adding volatility is not favoured, people always refer to "unnecessary volatility", but volatility in the economic transaction needs to be disclosed.

The Sarbanes-Oxley Act puts pressure on since the CEO and CFO have to sign that accounts are properly prepared and in accordance with GAAP and the PCAOB inspects auditors. This leads to a tendency to look for detailed standards because of the US environment. FASB gets many questions that it perhaps wrongly decides to answer: it is currently working on 17 staff positions.

It is a great opportunity that the Roadmap is possible, and that SEC is ready to allow both sets of standards before they are fully converged.

Jon Symonds, CFO of AstraZeneca, provided the preparers point of view. He expressed strong support for a single, comprehensive set of globally accepted accounting standards which are compatible with (as opposed to equivalent to) US GAAP. Local CFOs need to report under for example their local GAAP, for example UK standards, differences between UK GAAP and US GAAP and need to confirm that the report under UK GAAP is not materially different from IFRS. This is an expectation too far. The quality implications of the transition to IFRS are very substantial. But the support for IFRS converged with US GAAP should not be at any cost. Clear, principles-based accounting standards facilitate communication to shareholders and stakeholders. It is about responsibility and accountability.

Preparers internationally have a common agenda. There is a need to resolve practical difficulties and to avoid inconsistencies in application. But there is judgement involved. Not everything can be passed on to IFRIC to be resolved. Greater responsibility needs to be assumed in finding implementation and interpretation solutions. The SEC model of detailed interpretations should not be followed.

The debate has now rapidly moved from convergence to the debate around more conceptual issues: preparers are not looking for a theoretical debate about the Conceptual Framework, but need to understand better where the priorities are around guidance on business combinations, performance reporting (at the heart of communication) and need to understand what is the ultimate role of fair values.

There is a need for a pause. The implications of the Roadmap need to be understood, across some of the key conceptual issues. Conclusions in the long term may be better than simply removing the reconciliation in the short term.

Accounts should not be too complex in that they impair the communication process, so that companies in communication with their shareholders have to go to alternative formats.

The Roadmap needs to be agreed with all shareholders. The Roadmap may be a price too high, it needs discussion in steps. All preparers are committed to make the first step work.

Christian Dreyer, President of the Swiss CFA Society (www.scfas.org) gave his point of view as a user/analyst. What is the meaning of convergence? Short term, users can live with (mutually recognised) equivalence of converging sets of financial reporting standards, but in the long term, there is no rationale for competing sets of reporting standards. He underlined that the purpose of financial reporting is a faithful representation of economic reality. While competition between sets of standards is therefore not reasonable, a competition of ideas for top quality standards is necessary. This, among other things, is the purpose of the Constitution.

Generally speaking, convergence is broadly supported by the user community.

Investors have a home bias. They feel more comfortable with what they know and will therefore invest a higher share of assets in their home markets than technically justified, thus creating suboptimal portfolios. Convergence will help to reduce this home bias in investments, which in turn will create more efficient portfolios and higher returns. A single set of standards will streamline the research process more and analysts can come to better conclusions.

Why is there not a better representation of users in the standard setting process? Why are users reluctant to share their views? There is a “free rider” problem, generated by the fact that all competitors are subject to the same conditions. It does not pay to be more than half a step ahead of the crowd. Nonetheless, there are many users who have strong interest in the subject. The challenge for standard setters will be to kindle their intrinsic motivation. Psychological economics and motivation theory present inexpensive means.

The key risk in the convergence process is a consequence of its success: A single set of financial reporting standards will be very influential. This will tempt politicians to meddle with the standard setting process, which should be technical and apolitical.

Financial markets are watchful observers and will withdraw their confidence in the standards' representativeness of economic reality if the political content should become too high.

The CFA Institute recently produced a report on " A Comprehensive Business Reporting Model". It includes twelve principles:

1. The company must be viewed from the perspective of a current investor in the company's common equity.
2. Fair value information is the only information relevant for financial decision-making.
3. Recognition and disclosure must be determined by the relevance of the information to investment decision-making and not based upon measurement reliability alone.
4. All economic transactions and event should be completely and accurately recognised as they occur in the financial statements.
5. Investors' wealth assessments must determine the materiality threshold.
6. Financial reporting must be neutral.
7. All changes in net assets must be recorded in a single financial statement, the Statement of Changes in Net Assets Available to Common Shareowners.
8. The Statement of Changes in Net Assets Available to Common Shareowners should include timely recognition of all changes in *fair values* of assets and liabilities.
9. The Cash Flow Statement provides information essential to the analyst of a company and should be prepared using the direct method only.
10. Changes affecting the financial statements must be reported and explained on a disaggregated basis.
11. Individual line items should be reported based upon the *nature* of the items rather than the *functions* for which they are used.
12. Disclosures must provide all the additional information investors require to understand the items recognised in the financial statements, their measurement properties, and risk exposures.

This report is an update of an influential paper from the early 1990's. It should be seen as a visionary piece, laying the tracks on which the standard setting train might roll towards the future.

Questions and Answers, Discussion with the floor

A question was raised what will happen with convergence in the area of pension accounting and its impact on the use of defined benefit plans. Michael Crooch indicated that FASB staff are asked to prepare a document with as an aim to get a better representation of the over-funding or under-funding on the balance sheet. In addition the FASB will add a comprehensive (long-term) project on pensions accounting to its agenda. Sir David Tweedie underlined that deficits on pensions should be on the balance sheet and accounted for. They cannot be just mentioned in the MD&A. A bizarre element of FASB and optional under IAS 19 is that in the profit and loss account one can offset costs with estimated future returns whereby estimates are often heroic. The project is of high priority and it is part of the Roadmap. Accounting standards need to reflect economic reality. Christian Dreyer confirmed that analysts want to see the volatility. There is a risk of politicians interfering in standard setting. Jon Symonds supported the view that accounting will lack credibility if the pensions liability is not included in the balance sheet. There will be consequences for rating and dividend policy reflecting one of the biggest social and economic issues that need to be dealt with.

Another question concerned the measurement of fair value. Christian Dreyer indicated that transparency is key where there is no market: estimates need to be transparent and visible, with clear assumptions that can be evaluated and replaced by analysts own estimates. A further question concerned the users: how does this fit with the SEC approach where the main users are investors only? Are investors more important than a stewardship approach?

It was indicated that most of the European stakeholders have strong concerns about the business combinations project. Will it not form a "hurdle" for the "Roadmap"? Sir David Tweedie responded that a final standard can never be tougher than the exposure draft. The responses will be carefully considered. Also the process will be considered. Michael Crooch confirmed that all quality input will be considered and that a full dialogue will be held. Jon Symonds underlined the need for a full debate with all involved and is looking forward to a second exposure draft: it cannot be issued immediately as a standard given that it is highly controversial.

Hans van Damme, FEE Vice-President Financial Reporting, Chairman of the Panel, concluded that the IASB work programme is largely directed by convergence. The steps needed for elimination of the reconciliation statement need to be made public and priorities in the work programme need to be decided. Consistency is a crucial part of the convergence process as is due process.

Panel Discussion: Consistent Application of IFRS

- **What is the meaning of consistency?**
- **What are the conditions for achieving consistent application?**
- **What are the limitations and benefits of preclearance?**
- **What is the role of enforcement?**

The Chairman of the Panel, **Pierre Delsaux**, Acting Director DG Internal Market, underlined that consistent application of IFRS in the EU is a fundamental issue. However consistent application does <u>not</u> mean having European interpretations. Application, implementation and enforcement need to be consistent. IFRIC should not be substituted by a European system. The Commission has some ideas on the question.

Paul Ebling, EFRAG Technical Director referred to the EFRAG discussion paper on the consistent application of IFRS issued this summer. The paper did not discuss in great detail what was meant by consistency. The type of financial reporting framework has impact on the types of accounts. High-level principles-based frameworks are the best, but the resulting financial statements will not be as consistent as financial statements prepared under more detailed frameworks. IFRS are high level principles-based standards.

Europe at that time, by selecting IFRS accepted a certain level of inconsistency which is inherent in high-level principles-based standards. The standards allow some flexibility. Preparers want help, they do not understand IFRS fully, which is perfectly reasonable since they are complex standards and they want to know how to use the flexibility in IFRS without upsetting the regulators. The regulators would have to clarify the implicit level of flexibility and inconsistency they will accept in financial statements. The Chairman of the FASB acknowledged that at present IFRS will not work in the US environment since there is no principles-based enforcement or litigation system. One challenge for the SEC will be to enforce IFRS in a principles-based way.

He mentioned several reasons why inconsistencies could arise in IFRS (for example two treatments possible, transitional provisions applied, early adoption of a standard), implicit options translation issues, carve-out and the endorsement process. What degree of inconsistency is implicit in IFRS? There is a need to reach agreement on explicit options. He concluded by calling on all parties to be committed to implement IFRS in Europe in a consistent way.

Gilbert Gélard, IASB Board Member, states that it is also the responsibility of standard setters to ensure that standards are enforceable. But standard setters are not in charge of enforcement this is the role of auditors and regulators. He mentioned that translation may be a weak link in the enforcement chain as it might create deviations in application. The concept of consistency has two meanings: the consistency over time (permanence), and the consistency between entities during the same period (comparability). It should be clear to what concept we refer to in the debate.

Consistency means applying the same accounting treatment to similar events and transactions: recognition, measurement and disclosure. Debatable is what “similarity” means and implies. Are there strictly identical facts? Do different legal frameworks matter? Is substance over form a sufficiently robust principle? If strictly identical facts need to be treated in the same way, would this not lead to a lot of detailed rules? Rules will never be detailed enough to accommodate all the fact patterns possible. Adherence to detailed rules may not lead to a fair representation.

Are clear principles enough to exercise sound professional judgment? Users need to be able to compare between entities to make economic decisions. Principles-based standards may lead to different solutions on the same fact pattern. Disclosure of the accounting policies may be a solution for comparability. Principles-based systems need interpretations. Interpretations must be short and must add value, by clarifying a principle and not adding rules. Interpretations must be few in number to avoid going to a rules-based system. IFRIC should be selective and give the reasons why it does not take an interpretation on board. He called for caution to use US UITF pronouncements in relation to IFRS. He concluded by questioning the readiness of US markets to go for a more principles-based system and mentioned the fear of SEC becoming defacto interpreter of IFRS, using US interpretations.

Philippe Danjou, Chairman CESRfin Audit Task Force, discussed what degree of consistency is desirable and achievable in the EU and what consistency means for regulators. The ideal benchmark is a direct comparability of financial information published by different issuers but it is not always possible because of the judgment is inevitable in making economic assumptions and different industries cannot be comparable. However direct comparability within a sector is highly desirable. Similar transactions should be treated in the same way in same circumstances. He expressed his disagreement that judgments could lead to different solutions. He exposed some of the risks of inconsistency: the many options available, the areas not covered by IFRS, formats, conflicting standards, the economic assumptions underlying estimates, the degree of judgment involved, and the understanding by preparers and auditors. Many questions arise due to the complexity of the standards and the fact that they are new to many people.

Non GAAP measures are not the solution. There are no reliable definitions and they are not audited. It will be confusing to use two ways to explain the performance. It is important to provide help at the preparers level. IFRIC should be responsive to the evolving needs. IFRIC should not take a too narrow view of its job. A European Roundtable could be useful but should not result in EU interpretations. Auditors are also expected to have consistent positions. It is clear that the role of regulators is crucial to ensure consistent enforcement. He highlighted some measures taken by CESR in this area. They have prepared guidelines for selection methods to determine which issues to examine. CESR has put in place a web-based database of enforcement decisions. CESR will publish enforcement decisions. He concluded by highlighting that the transition of IFRS needs to be closely monitored and that achieving consistency is the responsibility of all parties (preparers, analysts, auditors, regulators, government). There is a need to get it right the first time in order to avoid an expectation gap. Issuers should not be overloaded by new standards and need a pause. It needs to be clarified with the SEC what the SEC is expecting from Europe notably of CESR and European regulators. What are the SEC’s criteria for consistent application?

Mark Vaessen, Head KPMG IFRS desk, highlighted that consistency does not mean identical interpretation and application in all cases. Different interpretations are possible for the same issue, as long as they are an acceptable answer to the application of the standard. Not many cases generally are the same: the factual circumstances are often different. The drive for consistency should be guided by identifying those interpretations that are not acceptable under the standards rather than saying there is only one possible answer. Implicit options cannot be limited if they are based on sound arguments. Nuance is needed.

Secondly one should be realistic in what can be expected because it is new material to deal with. Every standard takes time to settle. Time is necessary to allow proper consistency to happen. One should not lose sight that a huge step forward has been made in terms of comparability. Markets will get better information than they had in the past. Auditors realise they have an important role to play. Proper measures are put in place within audit firms to fulfil this task: global training, peer review at national and international level, discussions between audit firms, preparation of guidance books, etc. Cultural bias is also an important factor in application of standards. Audit firms exchange arguments to understand each other's positions and use that information to make decisions. Consensus is not the objective of those discussions. Some times there are valid differences of opinion, and if that is the case they are referred to IFRIC. Formation of industry groups would help.

He concluded that consistent application of IFRS will take time but it is important to avoid developing national or European interpretations.

Bill Knight, Chairman of the UK FRRP, reinforced the crucial role of enforcement in this debate. A true standard is not the one written down but the one that is enforced. Every time we apply a standard we interpret it. Every standard needs interpretation. By using a principles-based system, the degree of interpretation is made wider. Provided that interpretations remain within the boundaries of the principles they can be considered as being consistent with the standard. Consistency does not necessarily mean identical application. Every time an enforcer considers a case, he makes an interpretation. CESR's database is crucial. He expressed himself against pre-clearance. The responsibility of preparation of accounts under IFRS lies with the preparers. FRRP is not accepting the transfer of that responsibility. He mentioned the crucial role of auditors

Questions and Answers, Discussion with the floor

Responding to the fear in first time application of some that international regulators demand for more rules and take inconsistent decisions, Philippe Danjou informed the participants that IOSCO has the intention to have a mechanism to coordinate decisions. He agrees that regulators should make sure they avoid European enforcement decisions different from other international enforcers. International coherence in enforcement is very important. He pointed out that enforcement has to stay within the boundaries of the standards. Pierre Delsaux added that even in a rules based system there is margin for interpretation, the approach is not necessarily different. Enforcing the standards does not mean making rules or interpretations.

Some recognised the time needed to adapt to IFRS. Mark Vaessen agreed that consensus between audit firms is the objective but will not always happen. He also noted that different views will appear within regulators as well. Gilbert Gélard added that these difficulties would be reduced by the elimination of options in the standards which leaves a diversity of possible solutions.

Some questioned whether this will not result in the court being the final referee. Bill Knight commented that the final solution in case of disputes will be in the court but this has such major consequences for the company that it will probably rarely happen. Others pointed out that IASB/IFRIC have to be ready to react quickly to change the standards to avoid getting court decisions as a basis for consistent application. Interpretations should not be created at court level but be referred to IFRIC. When you have a practical case, a regulator when vetting a prospectus is offering application in one particular case. Pierre Delsaux, from the European Commission, specified that the idea of a EU Roundtable would be to identify sensible issues and act as a filter for consideration by IFRIC. The European Commission does not want to create interpretations at EU level, the Roundtable will not supplement or replace IFRIC. He concluded that there is no firm decision at the Commission on this idea of a Roundtable, with all stakeholders forming part of it.

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

Ms. Pervenche Berès, Chair of the Economic and Monetary Affairs Committee of the European Parliament expressed her support for a single set of accounting standards throughout the EU. Despite progress made to achieve a complete and consistent IFRS framework several issues still need to be addressed such as business combinations and performance reporting. The turmoil provoked by constant changes to IFRS at IASB level and the perpetual catching up at European level undermines the legal certainty of the stable IFRS platform in the EU. Fair value is a conceptual change, it should not be introduced through the side door during the negotiations on the next standards. A call for a regulatory pause and a greater accent on enforcement is useful. Concerned by the pace of change, the Economic and Monetary Affairs Committee urged the European Commission to carry out an evaluation after the first year of implementation of IFRS and report to the European 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. EFRAG's role and operation should be enhanced in order to respond to current challenges at European and at worldwide level. The 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 as has recently demonstrated the experience of the Commission in the car industry with the high level group CARS. The European Parliament therefore encourages the Commission to find a speedy and appropriate solution.

Ms. Berès called on the IASB to carefully consider accounting for SMEs.

The European Parliament has expressed its concern about the calendar of the convergence process. The transitory period in the Roadmap should be shortened in order to minimise turbulence and disturbances aggravating the competitive position of European companies in the US capital market.

Ms. Berès concluded by referring to three crucial tasks:

1. A balanced decision-making mechanism for setting IFRS: its structures needs to be revisited with due regard to the interests of European stakeholders.

2. Consistent interpretation and enforcement still needs to be addressed in an appropriate manner.

3. Need for a democratic, transparent and accountable forum as part of the Transatlantic Dialogue where to discuss these subjects, where to write the rules, to interpret them and to make sure once all partners have approved the setting of the rules they apply them on an equal base.

She responded to a question about the evaluation after one year that this could be an interim evaluation followed by a wider evaluation at a later stage when more experience with IFRS has been gained. The evaluation would cover implementation, new standards of IASB, and convergence with US GAAP. The current speed of demands for endorsement cannot continue, but the European Parliament wants to play its proper role in comitology, a better procedure with involvement of the European Parliament needs to be worked out. Another question concerned the possible simplification of the endorsement process. Ms. Berès confirmed that the current way is not the best to deal with technical problems.

It was suggested that there would be a role for the European Parliament in the Transatlantic Dialogue with the US Congress. This will be done when convergence is at a further stage and is of more interest to the Congress. It is important to oversee the process in a global strategy.

Wrap up session

Alain Joly, Chairman Supervisory Board Air Liquide, Vice-Chairman ERT and Chairman EALIC summarised his views on the day. The preparers strongly supported the move of the European Commission a few years ago to introduce IFRS as the common European language with a view that it would go hand in hand with mutual recognition with the US, and be done in a realistic way producing useable standards. Today however the preparers view has somewhat changed. The priorities of industry are as follows:

1. To have an integrated financial market within the EU which involves a common accounting language: IFRS.

2. Mutual recognition with the US, but not at any cost: standards need to be understandable both by preparers and investors and can be used as a management

system. Standards need to be consistent over time and reliable. Mutual recognition needs to be achieved in a balanced fashion, with mutually agreed timetable and milestones in the convergence process.

3. Convergence needs to be based on existing best standards rather than using the convergence for introducing new standards. Companies need to have stability: a pause is needed. The complex discussion on consistency itself shows the reason for the need for a pause. Systems need to be consistent over time and the enforcement process and interpretation process should produce consistent results. It is not possible to manage a company when financial statements change all the time.

Industry is not against changes, it is understood that changes are needed, but they need to be done in an orderly way. Convergence should not be used to prevent a proper discussion and dialogue.

Solid fact based accounting is needed. Industry is prepared to continue to work very actively in a constructive manner with IASB, the European Commission, the European Parliament, EFRAG, national standard setters and users in order to achieve objectives in a realistic and down to earth manner.

FEE President **David Devlin** provided the closing remarks. He emphasised that the discussion focused on questions of political importance with social implications rather than solely on the technical nature. He emphasised that the European Parliament needs to be kept better informed about the developments in financial reporting. He concluded:

- There is strong support for global standards and clear recognition of their benefits.
- There is a need for a stable platform of standards: any adjustments to existing IFRS should be very well justified. This does not mean that one should stop thinking about the route to better standards: accounting should not fall behind economic developments.
- IFRIC has a critical function and should be well staffed to perform efficiently recognising that its due process does take time.
- For removal of the reconciliation requirement the SEC does not expect complete or even a particular degree of convergence: a robust process needs to be in place.
- There is appetite to revisit the Conceptual Framework to get some sense of what the rules of the game are.
- Due process needs to be reflected in the outcome: IASB may consider introducing a form of feedback statement modelled on the CESR one.
- Consistency means acceptable within the boundaries of IFRS standards and IFRIC interpretations.
- Europe needs to perform on the consistency question: what is good enough in Europe should be good enough in the US.
- No interpretations at European level.