

2 of December 2013

## ***Ensuring EU influence over***

## ***Global financial reporting standards***

### **The role of the private investors with regard to IFRS and its further development**

You might be surprised to see a representative of retail investors sitting here to comment on financial reporting standards.

You might even think it is none of their business.

But I can explain to you our role if you take a closer look at our daily work which might not been as known to you. I represent EuroFinuse- the European Federation of retail investors. Our organization represents more than 50 associations standing for roughly 4 million individual investors. I come from the German organization DSW. In Germany we go to 650 meetings and ask questions to challenge the directors with regard to major Corporate Governance issues and the annual report. Our daily business in order to prepare the General meetings is to analyze both the agendas for the general meetings of listed companies and to check the financial accounts of those companies. For our members, more than 28.000 retail investors, we have to study and understand 650 annual reports. To prepare our work we train our 80 speakers each year on IFRS and the newest developments of these standards. This is only for Germany –my 30 colleagues from other countries do the same in each of their country.

So, we act as the **translator for all individual investors** who do not have the time nor the know how to study annual reports and learn IFRS.

Therefore we believe that financial reporting serves principally to inform the shareholders to enable them to take a reasonable investment decision.

Next to the institutional investors we are the core user group since we depend on the financial information which is being published. For us it is essential that these financial statements are based on a high quality, economically neutral and consistently applied. And we look for standards which deliver reliable financial information.

## **Maystadt Report**

### **Recommendation 1**

#### **Raise the possibility of carve-ins, does it bring more flexibility?**

The current adoption procedure does not allow taking adequate account of certain reservations, as the IAS Regulation grants the EU the possibility to adopt certain provisions of a standard or the standard as a whole- the so called **carve-out**.

But so far it does not authorize the EU to change the text published by the IASB- the so called **carve-in** or even to draft an alternative standard.

More flexibility sounds good on first sight but what would this mean for the investor in practice?

A flexible endorsement procedure could also mean that it will be even more difficult to reach global standards therefore I am skeptical towards more flexibility.

Carve-ins applied regionally across Europe or as options within the European Union will reduce global comparability and even comparability between European company reports. Therefore I as an investor representative am not in favor of national or regional modifications to IFRS standards, since it goes completely against the idea of IFRS as a common international standard.

## **Maystadt Report**

### **Recommendation 2:**

#### **Extending the endorsement criteria to include financial stability and economic development?**

I come from the world of German GAAP which was known for its **principle of caution**. In the old days we discussed at the general meetings extensively about hidden reserves or silent reserves as we called them. Then at the end of the 1990es IFRS came into play and everyone including the Big Four told us that the world will improve completely:

- financial statements would become comparable all over the world
- and we would reach a standard of transparency which we had never seen before.

So of course we were very supportive of IFRS and started the training programs for our speakers. Today we see things a bit differently. We

feel skeptical towards the fair and true value approach. We saw partly an excessive resorting to market value for the accounting of financial instruments we observed problems with market values where no market value existed or in the case of valuation of non liquid assets. We believe that these valuations were not responsible for the crisis but agree that it helped speeding up the crisis. Accounting standards might in our view have an influence on the stability of the financial markets, e.g. by influencing the behavior of some actors. And to be honest sometimes I would love to see the principle of prudence to be taken more into consideration. We might see an improvement in transparency but we also see accounting rules which allow a lot of discretion- which again decreases comparability.

Therefore I believe that the current system could benefit from some improvements. Namely I think 2 criteria could be added such as:

The accounting standards should not endanger financial stability and they must not hinder the economic development of the European Union. I am also in favor of asking EFRAG to analyze more thoroughly the compliance with criteria regarding prudence and respect for the public good- as I mentioned before.

### **Recommendation 7: New Board.**

As far as I understand the credibility of EFRAG is weakened by its lack of representativeness

A new structure of EFRAG and a new composition of the board would help to strengthen its representativeness in the future.

Therefore I am supportive of the proposal to replace the current Supervisory board with a high level board, which would approve the

comment letters addressed to the IASB and the adoption opinions relying on the excellent work of a technical group.

Mr. Maystadt proposes that the composition of the board shall be based on 3 pillars:

1. The European public institutions
2. The national standards bodies
3. And the stakeholders with 4 members representing
  - industrial and trading companies,
  - Financial institutions,
  - accounting professionals
  - and finally users.

**One member of the users shall jointly represent institutional investors, other private investors (end-users) and financial analysts.**

In my opinion it seems almost impossible to find a representative standing for all 3 user groups- it seems like a mission impossible. It might be possible that one representative stands for the institutional investors and the financial analysts but you will in any case need a second representative of the end-users to be part of the board. Of course investor experts are not accounting professionals and we do have very limited resources for our representation. This is the reason why we do not belong to the TEG Technical Expert group. But as I said before, we are the translators for millions of retail investors and therefore we should be part of the board. Also as investor representatives we could play an important role in the process of impact assessments corresponding to the needs of users wherever

EFRAG will check whether a standard improves the quality of financial information. If not you will lack a well balanced board and you will miss the objective to take the end-users view also into consideration.

All user groups should also be member of the monitoring board of the IASB to ensure that the final users 'voice is included.

**Final Comment on the future role of EFRAG:**

Yes, we do believe that Europe should have an equal say in the direction of accounting standards such as any other region which uses IFRS. And it is good to see that more and more countries in the world such as Japan, China India and Asia go for IFRS. This will help the investors to go for a global standard even if the US will not be part of it- at least it looks like it. IFRS is the best choice we have at the moment. And the more these countries apply IFRS the more they should be well represented in the IASB. The current composition of this board does not sufficiently reflect this recent development therefore there is also need for a major change. If we want a strong European voice in the standardization process EFRAG should aim for more influence in the IASB.

Brussels

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