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Fédération Européenne des Usagers des Services Financiers



EuroFinUse's Reaction to the Draft Report by Philippe Maystadt: "Should IFRS Standards Be More European?"

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Executive Summary

The European Federation of Financial Services Users welcomes this draft report into International Financial Reporting Standards (IFRS) and their application in the EU. We are thankful to Mr Maystadt for having met with the representatives of European financial services users and for having taken into account the input EuroFinUse provided for his Draft Report¹.

Overall, we believe the Draft provides a good analysis of the current situation and offers a good and realistic range of options to address the current problems of representation of European interests into the IFRS setting. However, in our opinion the suggestions of Mr Maystadt fail by far to recognise the importance of financial reporting standards for investors: they (institutional and individual) are the main users of financial statements, as it is their money that is at stake.

Therefore, they should be put at the centre of the debate and be recognised as the most important voice amongst all stakeholders in this reform of the input process of the EU into the IFRS setting. Currently, the established EU-funded body EFRAG still does not include any investors in its governing body, and, in particular, individual investors, i.e. the EU citizens.

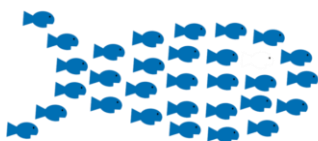
On the other side, we praise Mr Maystadt for clearly stating that the principle of prudence is essential, following the demands of EuroFinUse and of several other stakeholders²; and according to the opinion of renowned experts³. We also believe the future proposal for reform should consider the promotion of prudence at international level as another one of its key objectives.

EuroFinUse notes that the present criteria for approval of IFRS for use in the EU are that they shall, according to Regulation 1606/2002:

¹ [EuroFinUse's Recommendations to Mr Philippe Maystadt, Adviser to enhance EU's role in promoting high quality accounting standards, 5 July 2013](#)

² Concerns with IFRS in the EU - a long term shareholder position paper <http://www.uss.co.uk/Documents/IFRS-GroupPositionPaperEU18June2013.pdf>

³ Bompas' Opinion into the legality of IFRS under both EU and UK law <http://www.uss.co.uk/Documents/BompasQConIFRSMar2013.pdf>



- comply with the principle of true and fair view
- comply with the European public interest and
- fulfil the criteria of intelligibility, relevance, reliability and comparability.

In this context, EuroFinUse assumes that the "political factors" are those which are needed to ensure the European public interest.

EuroFinUse is very concerned about the current adoption process of the IFRS, as we believe – agreeing with several other stakeholders- that the public interest has not been served by certain IFRS already adopted by the EU, especially as regards to the fact they do not adequately reflect the concept of prudence. This has been shown by, for example, the fact that the accounts of banks clearly were prepared on an inadequately prudent basis, resulting in no warning of the financial crisis which has done enormous damage to the European public interest. Mr Maystadt refers to "excessive resorting to market value for the accounting of financial instruments" as one of the criticisms of IFRS and that this can be "risky in terms of data reliability". Eurofinuse sees that as another aspect of the failure to account on a fully prudent basis as is required by the 4th Directive, as we stated in our Position Paper dating back from 30 April 2013⁴, where we argued that eliminating prudence from the so-called "underlying concepts" of the IFRS - has seriously weakened the implementation of prudent accounting as required by EU law.

1. Recommendations

1.1. *Commitment to global quality standards*

EuroFinUse strongly supports the concept of global standards so long as they fully reflect the EU criteria. Our Federation is concerned that, at present, some do not do so.

1.2. *Standard by standard adoption procedure*

EuroFinUse recognises the problems of the present position whereby, under EU law, an IFRS has to be either accepted or rejected as a whole. If greater emphasis is to be placed on criteria for acceptance which are not purely accountancy based; these problems are actually likely to increase. However EuroFinUse believes that if certain basic criteria can be agreed and clearly stated to the IASB then it should be possible to continue with the present procedure suitably modified. EuroFinUse believes that the advantages to the EU economy of global standards and

⁴ ["Comments on the state-of-the-art: International Financial Reporting Standards \(IFRS\) versus EU Company Law"](#)



the establishment of strong criteria will be of benefit to the public interest and will minimise the likelihood of overtly political interference in standards.

In his conclusion to this section Mr Maystadt states that “prudence is essential”. It is not clear to Eurofinuse whether this refers to the approach which is taken bearing in mind the noted risks of changing the structure or to the use of this concept in IFRS- perhaps both. Maintenance of global standards should be an over-riding aim and Mr Maystadt’s suggestions as to procedure may well be a way of minimising any overtly political interference.

He suggests in the paragraph numbered 1 in his conclusion that two additional criteria should be added to those needed for approval, namely not endangering financial stability and not hindering economic development. Eurofinuse, whilst not objecting to this idea, wonders if these two criteria are not in fact a part of the “public interest”.

Eurofinuse strongly supports Mr Maystadt’s opinion on the need to review the IFRS which have been already approved. This would be to ensure that they comply fully with the requirement for a true and fair view prudently expressed and in fact fully take account of the public interest.

1.3. Influencing the IASB, Advice to the Commission and comments to the IASB

EuroFinUse would agree that there should ideally be a single European voice. However we agree with Mr Maystadt on the fact that national interests are strong and therefore it is necessary to make sure the EU comes with a single voice to the IFRS debates.

As Mr Maystadt very appropriately states in his report, the users (especially “end-users” e.g. investors) feel completely unheard in the Technical Expert Group but also – and more importantly- in the Supervisory Board. EuroFinUse agrees that this lack of representativeness of EFRAG undermines its credibility. We are aware that the European Commission committed to contribute up to the 50% of the yearly budget of EFRAG, which is currently around euro 6 million. The rest of the budget is provided by European member Organisations (1 million euros) and requested contributions from national founding mechanisms (2 million euros). Contribution in kind of staff assigned to the Technical Expert Group is also provided by members⁵.

⁵ <http://www.efrag.org/files/EFRAG%20public%20letters/EFRAG%20enhancement/EFRAG%20Enhancement-Public%20Consultation%20080723.pdf>



Private investor experts are not professionals, and have very limited resources for their representation in EU policymaking. In particular – unlike professionals and trade associations - they cannot hire experts from audit firms on these matters. This is why the right level for the involvement of private investors as key “users” of financial reporting is obviously at the EFRAG Board level. The reason is that this Board is indeed in charge of officially recommending the endorsement of every single standard. The participation of investors in this Board would ensure that the approved standards contribute to economic stability and to promote the real economy as a whole.

At this extent, we would like to refer to the good practice by the European Supervisory Agencies (EBA, ESMA, EIOPA) which provides “adequate compensation in order to allow persons that are neither well-funded nor industry representatives to take part fully in the debate on financial regulation” for “Stakeholder Group representing non-profit organizations or academics”. Detailed information can be found in [EuroFinUse's Position Paper to the Review of the ESFS](#).

1.4. Possible options:

Option 1: Transforming EFRAG

A. EuroFinUse agrees that EFRAG should restrict its activities to the adoption of IFRS in the EU as required by the IAS regulation.

B. Funding:

EuroFinUse is not in a position to comment on the legality of levies etc. EuroFinUse appreciates the value of accounting standards for its members and would not oppose the principle that they, as ultimate owners of the businesses in question, should, via those companies, substantially pay for those standards. EuroFinUse strongly believes that the funding should be such as to enable end-users, as well as institutional investors, to positively contribute and providing adequate compensation to these non-industry stakeholders that count with scarce resources for the representation of their interests. They should be exempted from providing any contributions to EFRAG as the companies in which they hold shares would already be financing EFRAG, and otherwise they would be paying twice. In addition of this, and as recognised by several EU Authorities (concretely, by the European Banking Authority, the European Securities and Markets Authority and the European Insurances and Occupational Pensions Authority) non-industry stakeholders should be adequately remunerated when dedicating time and efforts to comment and participate in the work of EU institutions, due to the very scarce resources they have available.



C. Structure:

EuroFinUse is not happy with the suggestion that end-users, along with other “users” of accounts should jointly have only a single representative out of 13. These users are collectively the owners of these companies and are those who decide what to invest in i.e. how to “allocate capital”. They are also the ones who have the job of holding the management of companies to account and therefore require reliable accounts of the stewardship of that management. EuroFinUse recognises that there are a number of “stakeholders” (ill defined) who also have valid interests in accounts but believes that investors i.e. “end-users” should, for the reasons given have a strong, if not majority, voice in how their money is accounted for.

Option 2: Transferring EFRAG’s responsibilities

EuroFinUse would be concerned by the transfer of responsibility for accounting standards to a central authority. Whilst EuroFinUse recognises that ESMA has a valid interest in accounting standards it does not believe that handing over this responsibility. Mr Maystadt comments that such a structure would be similar to the American SEC which he suggests “is known to be superior”. We would appreciate additional clarifications on Mr Maystadt’s report on which grounds he believes the structure of the SEC superior to ESMA.

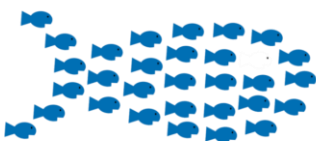
Option 3: Replacing EFRAG with an EU agency

EuroFinUse agrees that a new agency would not be possible on grounds of cost. Nor would it be desirable, as mentioned under Option 2, to have increased bureaucracy in this area. We dissent with Mr Maystadt, however, that this would be the most suitable option, neither in the short term nor on a long-term basis. Our preferred option is the transformation of EFRAG, especially regarding the reinforcement of its functioning and cooperation with other EU bodies and institutions; and especially the balancing of interests within its Supervisory Board.

1.5. ARC

So far as EuroFinUse is aware ARC has, in fact, in recent years played little or no part in the IFRS processes. If it is thought that EFRAG is either unwilling or unable to take full account of the public interest a body such as the ARC is required. However it is not clear why EFRAG cannot undertake this role and thereby avoid the cost and delay which the involvement of another body into the process will incur.

2.5. The European parliament



EuroFinUse supports the idea of proper and regular notification to the parliament.

2.6. The monitoring board of the IASB

EuroFinUse supports any increase of the representation of end-users (i.e. investors) in the debate, and the proposal by Mr Maystadt of this Advisory Group to be composed by standardisation specialists and final users, who would advise the European Commission on its participation in the Monitoring Board of the IASB, could contribute to this end. However, it would not be enough to ensure the appropriate representation without counting at least with one investor representative in the EFRAG Supervisory Board. EuroFinUse notes that the proposed functions of the monitoring board of the IASB could maybe be undertaken by one of the already existing bodies of EFRAG, which would be desirable in order to avoid duplication of tasks, provided that users (and especially "final" users are well-represented in the Board of EFRAG. In that case, it would not be necessary to create another dedicated body to ensure their involvement in the whole process.

3. Conclusion

EuroFinUse fully supports the Commission's recognition of the need for fresh consideration of the use of IFRS in the EU.

It believes the essential needs are to:

- -ensure that the currently adopted IFRS fit the criteria of protecting the public interest and providing a true and fair view on the legally required prudent basis
- -ensure that these objectives are clearly met in future
- -ensure that the interests of the views of the key users of financial reporting, both institutional and individual take priority and are fully recognised and
- -improve the way in which the EU influences the IASB
- EuroFinUse believes these interim recommendations are a strong step along the right path but that more remains to be done.