

Effects of using International Financial Reporting Standards (IFRS) in the EU: public consultation

Fields marked with * are mandatory.

Impact of International Financial Reporting Standards (IFRS) in the EU: public consultation

Purpose of the consultation

The European Commission is holding a public consultation to seek views from all interested parties on their experience of Regulation 1606/2002 ("[the IAS Regulation](#)"). The results of this public consultation will feed into the European Commission's evaluation of the IAS Regulation.

Background

Applying internationally accepted standards - the International Financial Reporting Standards (IFRS) – means standardising companies' financial reporting to make financial statements more transparent and comparable. The ultimate aim is for the EU capital market and the single market to operate efficiently.

Scope of the IAS Regulation

The IAS Regulation states that the IFRS must be applied to the consolidated financial statements of EU companies whose securities are traded on a regulated EU market. EU countries may extend the application of IFRS to annual financial statements and non-listed companies ([view an update on the use of options in the EU](#)). The Transparency Directive ([2004/109/EC](#)), as subsequently amended, also stipulates that all issuers (including non-EU ones) whose securities are listed on a regulated market located or operating in an EU country must use IFRS.

Impact of the IAS Regulation

The implementation of IFRS in the EU has had an impact on cross-border transactions, trade, the cost of capital, investor protection, confidence in financial markets and stewardship by management. However, it is difficult to differentiate their impact from that of other significant factors, including other regulatory changes in the EU and internationally.

Developments since adoption

Over 100 countries now use IFRS. These accounting standards have been increasingly discussed at international level (e.g. G20, Basel Committee) and with various interested parties in the EU, especially in the wake of the financial crisis.

Several initiatives concerning technical issues and governance are under way at both international and EU level. In the EU, [the Maystadt report's recommendations](#) are being implemented. These are designed to strengthen the EU's contribution to achieving global and high quality accounting standards by beefing up the role of the European Financial Reporting Advisory Group (EFRAG), which advises the Commission on IFRS matters.

Current Commission evaluation

The Commission is evaluating the IAS Regulation to assess:

- IFRS's actual effects
- how far they have met the IAS Regulation's initial objectives
- whether these goals are still relevant
- any areas for improvement.

This consultation is part of the evaluation process. The questionnaire was drafted with the help of an informal expert group which is to assist the Commission throughout the [process](#).

Target group(s)

Any interested party – commercial, public, academic or non-governmental, including private individuals.

Especially: capital market participants and companies preparing financial statements or using them for investment or lending purposes (whether or not they use IFRS).

Consultation period

7 August — 31 October 2014 (12 weeks).

How to submit your contribution

If possible, to reduce translation and processing time, please reply in one of the Commission's working languages (preferably English, otherwise French or German).

Contributions will be published on this website with your name (unless – in your response – you ask us not to).

N.B.: Please read the specific privacy statement to see how your personal data and contribution will be dealt with.

Reference documents and other, related consultations

- [IAS/IFRS standards & interpretations](#)
- [IFRS Foundation](#)
- [European Financial Reporting Advisory Group \(EFRAG\)](#)
- [Commission reports on the operation of IFRS](#)

Results of public consultation & next steps

The results will be summarised in a technical report and will feed into the evaluation report to be presented by the Commission in line with Article 9.2 of Regulation [258/2014](#).

Questions

Please note that some questions do not apply to all groups of respondents.

Who are you?

1. In what capacity are you completing this questionnaire?

If it's *not* on behalf of an organisation, please indicate that you are a "private individual".*

- Company preparing financial statements *[some specific questions for preparers marked with 'P']*
- Company using financial statements for investment or lending purposes *[some specific questions for users marked with 'U']*
- A company that both prepares financial statements and uses them for investment or lending purposes *[some specific questions for preparers and users marked with 'P' and 'U']*
- Association
- Accounting / audit firm
- Trade union / employee organisation
- Civil society organisation / non-governmental organisation
- Research institution / academic organisation
- Private individual
- Public authority *[one specific question for public authorities marked with 'PA']*
- Other

2. Where is your organisation/company registered, or where are you are located if you do not represent an organisation/company? Select a single option only. *

- EU-wide organisation
- Global organisation
- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- The Netherlands
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom
- Norway
- Iceland
- Liechtenstein
- Other European country
- Other

3. Please indicate your full name.*

Una Curtis

5. In the interests of transparency, your contribution will be published on the Commission's website. How do you want it to appear?*

- Under the name supplied? (*I consent to the publication of all the information in my contribution, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)
- Anonymously? (*I consent to the publication of all the information in my contribution except my name/the name of my organisation, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)

Relevance of the IAS Regulation

Objective

6. The rationale for the IAS Regulation, imposing internationally accepted standards - the International Financial Reporting Standards (IFRS) - was to make companies use the same set of accounting standards, thus ensuring a high level of transparency and comparability of financial statements. The ultimate aim was to make the EU capital market and the single market operate efficiently.

In your view, are the Regulation's objectives still valid today?*

- Yes
- No
- No opinion

6.1. Comments.

I think it is important that investors get comparable information from potential investees in order to ensure that they can make a valid judgement. Knowing that listed companies (if a group) provide their financial information on the basis of widely understood principles ensures that there is consistency of information.

7. The IAS Regulation refers to IFRS as a set of global accounting standards. Over 100 countries use or permit the use of these standards. The US, for instance, allows EU companies listed in the US to report under IFRS. However, it continues to rely on its "generally accepted accounting principles" (GAAPs) for its domestic companies' financial statements, while the EU requires IFRS to be used for the consolidated accounts of EU listed companies.

Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?*

- Yes
- No
- No opinion

7.1. Please explain.

Scope

8. The obligation to use IFRS as set out in the IAS Regulation applies to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU. There are about 7,000 such firms.

In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?*

- Yes
- No
- No opinion

8.1. How would you propose it be changed?*

- By making IFRS compulsory for the individual annual accounts of listed companies on regulated markets
- By making IFRS compulsory for the consolidated accounts of large non-listed companies
- By allowing any company to opt for reporting under IFRS
- Other

8.2. Comments.

If a company is listed on a regulated market, I believe that the same accounting principles should apply regardless of whether it is a stand alone entity or has subsidiaries. It has always appeared completely arbitrary to distinguish between entities on this basis. It appears logical that investors in regulated markets should get the same level of financial information regardless of the number of subsidiaries a company has.

Consideration should also be given to extending the requirement to companies listed on any public market in the EU/EEA. If the general public are investing in an entity's shares they should get similar information regardless of whether the market is regulated or unregulated.

9. National governments can decide to extend the application of IFRS to:

- individual annual financial statements of companies listed on regulated markets
- consolidated financial statements of companies that are not listed on regulated markets
- individual annual financial statements of companies that are not listed on regulated markets.

In your view, are the options open to national governments:*

- Appropriate
- Too wide
- Too narrow
- No opinion

12.1. Please elaborate.

The benefit has come from having a robust and generally understood set of accounting principles applied in the communication of results and financial position. This applies to companies listed on a regulated market - which tend to be the larger companies and the ones where the risk takers are separate from the management of activities.

Generally, private companies have greater choices as to the GAAP they apply - consequently comparability of these entities remains low.

13. Have financial statements become easier to understand

since the introduction of IFRS, compared with the situation before mandatory adoption?*

- Yes, in general
- Yes, but only in certain areas
- No, in general
- No, except in certain areas
- No opinion

13.2. Please elaborate.

I think they better disclose the risks that an entity faces - in past financial statements the information provided in them was focussed on what had happened in the past accounting period. Now companies are required to provide additional information to users on the risks faced by the company and how sensitive the results are to changes in key assumptions about the future. This makes the financial statements more relevant as they are more focussed on the future as well as the past.

14. Has the application of IFRS in the EU helped create a level playing field for European companies using IFRS, compared with the situation before mandatory adoption? *

- Yes
- Yes, to some extent
- No
- No opinion

14.1. Please elaborate.

15. Based on your experience, to what extent has the application of IFRS in the EU affected access to capital (listed debt or equity) for issuers in domestic and non-domestic markets that are IFRS reporters?

	Made it a lot easier	Made it easier	No effect	Made it more difficult	Made it a lot more difficult	No opinion
Domestic capital	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
EU capital other than domestic	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-EU capital	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15.1. Please provide data / examples if available.

More and more private equity and venture capital investors have required the target companies to adopt IFRS in their financial reporting as they are comfortable they will understand the output.

16. In your experience, has the application of IFRS in the EU had a direct effect on the overall cost of capital for your company or the companies you are concerned with? (Please distinguish - as far as possible – the impact of IFRS from other influences, e.g. other regulatory changes in the EU and the international credit crunch and crisis.)*

- Cost has fallen significantly
- Cost has fallen slightly
- No effect
- Cost has risen slightly
- Cost has risen significantly
- No opinion

16.1. Please provide data/ examples if available.

17. In your view, has the application of IFRS in the EU improved protection for investors (compared with the situation before mandatory adoption), through better information and stewardship by management?*

- Yes, to a great extent
- Yes, to a small extent
- It had no impact
- No, protection for investors has worsened
- No opinion

17.1. Please provide data/ examples if available.

18. In your view, has the application of IFRS in the EU helped maintain confidence in financial markets, compared with the likely situation if it had not been introduced?

(N.B.: the “enforcement” section of this questionnaire deals with how IFRS are/ were applied.)*

- Yes, to a great extent
- Yes, to a small extent
- It had no impact
- No, confidence in financial markets has decreased
- No opinion

18.1. Please provide data/ examples if available.

I think this was very evident during the financial crisis - while there were significant calls for improvements in IFRS as certain principles in those standards were found to be lacking (the incurred loss model in IAS 39 being a case in point), at the same time the users knew that a consistent approach was adopted by all and so they could compare entity to entity. I believe the criticism of the financial reporting obligations of banks would have been far worse had numerous different GAAPs been applied through out EU.

19. Do you see other benefits from applying IFRS as required under the IAS Regulation?*

- Yes
- No
- No opinion

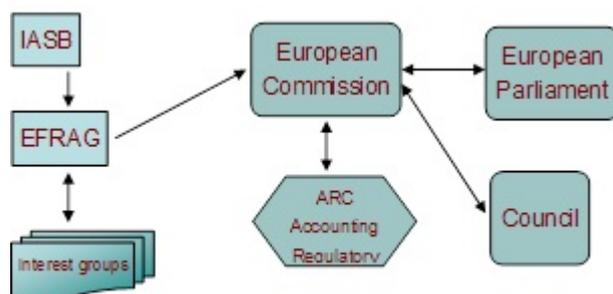
20. In your experience, on balance and at global level, how do the benefits of applying IFRS compare to any additional costs incurred – compared with the situation before mandatory adoption, bearing in mind the increasing complexity of businesses that accounting needs to portray?*

- Benefits significantly exceed the costs
- Benefits slightly exceed the costs
- Benefits and costs are broadly equal
- Costs slightly exceed the benefits
- Costs significantly exceed the benefits
- No opinion

20.1. Please provide any additional comments you think might be helpful.

Endorsement mechanism & criteria

The EU's IFRS endorsement process



In the EU, IFRS are adopted on a standard-by-standard basis. The procedure is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation.
- The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- The European Parliament and Council examine the standard.
- The Commission adopts the standard and publishes it in the Official Journal.

This process typically takes 8 months.

Endorsement criteria

Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's [Accounting Directive](#)
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

In his October 2013 [report](#), Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good, namely that:

- any accounting standards adopted should not jeopardise financial stability
- they must not hinder the EU's economic development.

He also suggested that more thorough analysis of compliance with the criteria of prudence and respect for the public good was needed.

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- The Commission adopts the standard and publishes it in the Official Journal.

Do you have any comments on the way the endorsement process has been or is being conducted (e.g. in terms of the interaction of players, consistency, length, link with effective dates of standards, outcome, etc.)?*

I think the process could be significantly shortened by monitoring the responses from EU respondents to the IASB proposals rather than having further consultation on the final standards held by EFRAG

22. Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's [Accounting Directive](#)
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

Are the endorsement criteria appropriate (sufficient, relevant and robust)?*

- Yes
- Yes, to some extent
- No
- No opinion

22.1. In his October 2013 [report](#), Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good:

- *that any accounting standards adopted should not jeopardise financial stability*
- *that they must not hinder the EU's economic development.*

Please give any suggestion(s) you may have for additional criteria.

- Not jeopardising the EU's financial stability
- Not hindering economic development in the EU
- Not impeding the provision of long-term finance
- More explicit reference to the concept of prudence
- Consistency with other adopted IFRS
- Criterion concerning simplicity/proportionality
- Other

22.2. Comments.

The process should be as non-political as possible and IFRS should not be endorsed only where to do so would jeopardise the financial stability of EU

23. There is a necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs. This is why the IAS regulation limits the Commission's freedom to modify the content of the standards adopted by the IASB.

Does the IAS Regulation reflect this trade-off appropriately, in your view? *

- Yes
- No
- No opinion

24. Have you experienced any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ("carve-out" for IAS 39 concerning macro-hedging allowing banks to reflect their risk-management practices in their financial statements)? *

- Yes
- No
- No opinion

Quality of IFRS financial statements

25. What is your overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS?*

- Very good
- Good
- Moderate
- Low
- Very low
- No opinion

25.1. Please provide any additional comments you think might be helpful.

26. Given that firms have complex business models and transactions, how would you rate financial statements prepared in accordance with IFRS in terms of complexity and understandability?*

- Very complex & difficult to understand
- Fairly complex & difficult to understand
- Reasonable
- Not complex or difficult
- No opinion

26.1. Please provide any further comments you think might be helpful, specifying any particular areas of accounting concerned, if appropriate.

Financial statements need to give a true and fair view of the results and financial position of companies and undertakings. Since business models are themselves complex the financial statements that present them also need to be somewhat complex.

27. How would you rate financial statements prepared using IFRS in terms of complexity and understandability – compared with other sets of standards you use?

	IFRS information is easier to understand than...	IFRS information is neither easier nor more difficult to understand than ...	IFRS information is more difficult to understand than ...	No opinion
Information under your local GAAPs	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information under any other GAAPs	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

27.1. What are your local GAAPs?

Irish GAAP - which comprises accounting standards issued by the Financial Reporting Council in the UK.
 Certain companies are also permitted to use US GAAP provided it complies with Irish Company law

27.2. Please identify other GAAPs you are using as a basis for comparison.

US GAAP

27.3. Please provide any additional comments you think might be helpful.

28. How do IFRS compare with other GAAPs in terms of providing a true and fair view of a company's (group's) performance and financial position?

	IFRS are better than...	IFRS are equivalent to...	IFRS are worse than...	No opinion
Your local GAAPs (as identified under question 27)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Any other GAAPs (as identified under question 27)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

28.1. Please provide any additional comments you think might be helpful.

IFRS are more complete than Irish GAAP - more guidance is provided which means less options for companies
IFRS are more principal based than US GAAP

29. How often is it necessary to depart from IFRS under “extremely rare circumstances” (as allowed by IFRS), to reflect the reality of a company’s financial performance and position in a fairer way?*

- Often
- Sometimes
- Hardly ever
- Never
- No opinion

29.1. Please provide additional comments and examples of departures from IFRS that you have seen.

Have not seen this exemption used since the introduction of IFRS as a GAAP

30. How would you rate the extent to which IFRS allows you to reflect your company's business model in your financial statements?*

- This is not an issue
- IFRS are flexible enough
- IFRS should be more flexible, so different business models can be reflected
- No opinion

30.1. Please explain.*

Since IFRS are quite principal based they generally are capable of reflecting most business models.

Enforcement

Since 2011, the European Securities and Markets Authority (ESMA) has been coordinating national enforcers' operational activities concerning compliance with IFRS in the EU. ESMA has taken over where the Committee of European Securities Regulators (CESR) left off.

Enforcement activities regarding companies listed on regulated markets are defined in the Transparency Directive ([2004/109/EC](#) , as subsequently amended).

31. Are the IFRS adequately enforced in your country?*

- Yes
- Yes, to some extent
- No
- Not applicable
- No opinion

31.1. Please provide any additional comments you think might be helpful.

Would prefer a more transparent process so that decisions were clearly taken in public and not behind closed doors.

32. Does ESMA coordinate enforcers at EU level

satisfactorily? *

- Yes
- Yes, to some extent
- No
- Not applicable
- No opinion

32.1. Please provide any additional comments you think might be helpful.

It would be more helpful if the enforcement process was more transparent and if decisions were made public like the SEC enforcement regime

33. Has enforcement of accounting standards in your country changed with the introduction of IFRS?*

- Enforcement is now more difficult
- Enforcement has not changed
- Enforcement is now easier
- Not applicable
- No opinion

33.1. Please provide any specific relevant examples.

Prior to the introduction of IFRS and prior to the Transparency Directive there was very little enforcement of Accounting Standards in Ireland

34. In your experience, have national law requirements influenced the application of IFRS in the EU country or countries in which you are active? *

- Yes, significant influence
- Yes, slight influence
- No
- No opinion
- Not applicable

35. If you are aware of any significant differences in enforcement between EU countries or with other jurisdictions, do they affect your practice in applying IFRS or analysing financial statements? *

- Yes, significantly
- Yes, but the impact is limited
- No
- No opinion
- Not applicable

35.1. Please provide specific details.

There may be some slight differences at the level of entity financial statements but not at the consolidated level.

36. The recitals of the IAS Regulation stress that a system of rigorous enforcement is key to investor confidence in financial markets. However, the Regulation contains no specific rules on penalties or enforcement activities, or their coordination by the EU.

Should the IAS Regulation be clarified as regards penalties and enforcement activities? *

- Yes
- No
- No opinion

37. Should more guidance be provided on how to apply the IFRS? *

- Yes
- No
- No opinion

Consistency of EU law

There are different types of reporting requirements in the EU (e.g. prudential requirements, company law, tax, etc.)

38. How would you assess the combined effects of, and interaction between, different reporting requirements, including prudential ones? *

Sometimes this interaction can be problematical and greater effort should be made to align the different requirements clearly identifying the difference needed to be made for the stated purpose. Company law should be seen as the general purpose reporting system and prudential law should be layered on top of this by the use of regulatory filters that amend the general purpose financial reporting.

39. Do you see any tensions in interaction between the IAS Regulation and EU law, in particular:

	No	Yes	To some extent	No opinion
Prudential regulations (banks, insurance companies)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company law	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

39.2. If you answered "yes" or "to some extent", please give details and state what the main effects of these tensions are.*

There are two key issues that should be addressed between the IAS Regulation and EU accounting law. Both are with respect to consolidation.

It should be made clear as to which consolidation rules apply particularly when a company voluntarily adopts IFRS - If the company has chosen to apply IFRS (ie it is not mandated to do so under the IAS Regulation) what consolidation exemptions can it apply? Is it those in EU law (size of group, higher EEA parent and higher non-EEA parent) or is it limited to the exemptions in IFRS ie higher parent preparing IFRS financial statements (that is equivalence is not permitted).

The second also concerns a parent company. If the company is an Investment Entity and prepares its financial statements under IFRS and so accounts for all its subsidiaries at fair value (IFRS 10 states these are not consolidated financial statements but separate financial) - does this meet the legal requirement under EU law for a parent company to prepare consolidated financial statements?

User-friendliness of legislation

All standards are translated into the official EU languages before they are adopted. The Commission also regularly draws up a consolidated version of the current standards enacted by the EU (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02008R1126-20130331:EN:NOT>). The consolidated version does not include any standards that are not yet in force, but can be applied before the date of entry into force.

40. Are you satisfied with the **consolidated version** of *IFRS standards adopted by the EU*, which is not legally binding, or would you like to see improvements?

- Satisfied
- Need for improvements
- I wasn't aware of it
- I don't use it
- No opinion

41. Are you satisfied with the quality of **translation** of IFRS into your language *provided by the EU*

?*

- Yes
- Yes, to some extent
- No
- No opinion
- Not applicable

General

42. Do you have any other comments on or suggestions about the IAS Regulation?

Thank you for your valuable contribution.

Contact

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