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

1.1. (As a) company preparing financial statements - please specify*

- (●) Industry
- ( ) Financial services

1.1.1. Industry - please specify*

- ( ) Consumer goods
- ( ) Energy
- ( ) Healthcare
- ( ) Manufacturing
- ( ) Information technology
- ( ) Materials
- ( ) Telecommunications
- ( ) Utilities
- (●) Other

1.1.1.1. Other industry - please specify*

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with a background and experience of supporting since 30 years industry
groups of every size and many industries we present in this consultation
our experiences among others in the following industries: automotive
(supplies) - energy supply - fashion - beverages - high-tech - IT
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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. What is the name of the organisation or authority you represent? If you are part of a group, give the name of the holding company as well.*

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4. In the interests of transparency, we ask organisations to supply relevant information about themselves by registering in the Transparency Register (http://ec.europa.eu/transparencyregister). If your organisation is not registered, your submission will be published separately from those of registered organisations. Is your organisation registered in the European Parliament/Commission Transparency Register?*

- (●) Yes
- ( ) No

4.1. Please give your registration number.*

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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.*)

P.1. Are you completing the questionnaire with reference to:*

- [ ] a company with securities traded in a regulated capital market
- [ ] a company listed in a non-regulated capital market
- [x] a non-listed company
- [ ] other

P.2. What size is your company? *

Categories of companies and groups are defined by Article 3 of Directive 2013/34/EU of the European Parliament and the Council of 26 June 2013 (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF)

Companies

- **Small companies** fall below at least 2 of the following 3 criteria:
(a) balance sheet total: EUR 4 000 000
(b) net turnover: EUR 8 000 000
(c) average number of employees during the financial year: 50.

- **Medium-sized companies** fall below at least 2 of the following 3 criteria:
(a) balance sheet total: EUR 20 000 000
(b) net turnover: EUR 40 000 000
(c) average number of employees during the financial year: 250.

- **Large companies** exceed at least 2 of the following 3 criteria:
(a) balance sheet total: EUR 20 000 000
(b) net turnover: EUR 40 000 000
(c) average number of employees during the financial year: 250.

Groups

- **Small groups** consist of parent and subsidiary companies to be consolidated and which, on a consolidated basis, fall below at least 2 of the following 3 criteria on the parent company's balance sheet data:
(a) balance sheet total: €4 000 000
(b) net turnover: €8 000 000
(c) average number of employees during the financial year: 50.

- **Medium-sized groups**, on a consolidated basis, fall below at least 2 of the following 3 criteria on the balance sheet data of the parent company:
(a) balance sheet total: €20 000 000
(b) net turnover: €40 000 000
(c) average number of employees during the financial year: 250.

- **Large groups** exceed the limits, on a consolidated basis, of at least 2 of the following 3 criteria on the balance sheet data of the parent company:
(a) balance sheet total: €20 000 000
(b) net turnover: €40 000 000
(c) average number of employees during the financial year: 250.

- ○ small or medium-sized
- ◉ large

P.3. How international are your activities in terms of operations, suppliers and customers? You may give more than one answer.*

- ☐ National
- ☐ EU-wide
- ☑ International

P.3.1. International – please specify.

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global
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P.4. Your company / group:

All questions relate to "IFRS as adopted in the EU" and not to "IFRS for small and medium businesses" (the latter was not adopted at EU level). You may select more than one option.

- [ ] is required to apply IFRS
- [ ] applies IFRS on a voluntary basis
- [x] is a non-IFRS reporter

P.4.3. is a non-IFRS reporter - please specify.*

- ( ) for consolidated financial statements
- ( ) for individual annual financial statements
- (•) for both consolidated and individual annual financial statements

P.6. If you do not apply IFRS please say why. You may select more than one option. *

- [ ] Not permitted under national law
- [x] No intention of being listed
- [ ] No benefits expected from applying IFRS
- [x] Costs would outweigh benefits
- [x] Requirements too complex
- [ ] Too difficult to combine with national requirements (e.g. taxation)
- [x] Other
- [ ] Never thought about it
- [ ] Not applicable

P.6.3. Comments.

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Our experiences with non-listed often family owned business groups in
the past 15 years are:




The cost-benefit relation in regard to applying IFRS vs. national GAAP
has clearly developed negatively over time. Major changes of IFRS in the
past years (purchase accounting, income taxes, pensions, leasing
proposals, ...) made the preparation much more costly while the economic
substance and preferability of these changes became more and more
difficult to explain to shareholders and other stakeholders. Many
changes of IFRS in past years did not result in clearly higher quality
but rather were a compromise to achieve acceptance in the US.




While a voluntary application of IFRS after the IAS regulation 2002 was
considered being a potential option to have the group presented
internationally "on eye level" with its listed competitors the above
reasons and developments made this option more and more burdensoem and
thus inattractive. With the modernization of German GAAP in 2009 and its
well balanced moves towards international standards as of today the use
of IFRS is not an  attractive option anymore.
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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

6.2. If you think the IAS Regulation should pursue new goals in future, what should they be?*

The named rationale for the IAS regulation assumed that IFRS would be able to support the needs of stakeholders of companies using the capital markets and the ones not using capital markets at the same time.

The revisions and newly developed IFRS in the past 10 years however were predominantly considered necessary to meet the needs of (US) capital market stakeholders while usually increasing complexity and the extent of disclosures. As transparency may have increased it is not assured that comparability (over time and branches) has increased as well.

When looking on these developments it appears more and more visible that the criteria of transparency and comparability may play a reduced or a different role for non-listed companies and their stakeholders. Having often a small number of shareholders plus years-long ties to banks they provide needed information rather individually and on demand. The extensive disclosures required by IFRS are often regarded as a competitive disadvantage by companies domiciled in the EU as this information is globally available while no similar publication needs exist in the US and other countries. In countries allowing an optional use of IFRS (like in GER or CH) as of today it appears more and more definite, that IFRS are not considered a relevant alternative for international or global use by non-listed companies.

When or whether at all the IFRS will achieve a convergence with US GAAP and a global acceptance is currently an open question. Whether this will require further changes and compromises towards the US (see leases) must be awaited. At the same time it is rather questionable whether the EU and increasingly raised concerns of increased complexity and reduced relevance of prudence might have a chance of getting acknowledged.

The future goals of the IAS Regulation must however definitely take into consideration, that an increased har-monization of private entity GAAP on the ground of IFRS will not be achieved. It can be seen as a fact, that the IFRS for SMEs in its current form and orientation is and will not be a suitable scheme for the developed countries in the EU either - for many reasons.

Thus new thinking appears necessary concerning other ways of harmonizing private entity GAAP in the EU. An increased harmonization will potentially be supportive for cross-border financings in the single EU market (in the wake of the financial crises l/t financing of European private businesses continues to be a major issue). One pos-sible way may be the definition of a benchmark set of principles as an option to the member states providing high quality f/s while addressing the rather long-term orientation of non-public entities and the relating distinct needs of its stakeholders.

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.

YES and NO:

The two named critieria global acceptance and high quality must be looked at separate for the capital markets and the remaining businesses.

Reg. capital markets the IAS regulation has on the one hand used the weight and relevance of the EU capital markets to support the use and acceptance of IFRS for capital markets globally. While many developed countries followed there is on the one hand no full convergence with US GAAP achieved by today and many question, that this will be achieved at all. And in other cases the acceptance and use of the IFRS by the IASB is based or will be depending on individual carve-outs or changes (China, India, ...). Talking about high-quality standards, there is an increasing number of topics where compromises between US and IASB prevail and existing solutions of higher quality will be replaced (see impaiment only, segment reporting or leases).This is one side of the picture.

The other are the private entities not using (regulated) capital markets. This picture is by today rather scattered. The less or underdeveloped countries mostly used IAS which later became capital market oriented IFRS and are now happy to have the IFRS for SMEs offered as a less burdensome alternative. The developed countries how-ever have all rather clearly decided not to accept and use the IFRS for SMEs but keep or develop individual schemes. Per today a large variety of deviating private entity GAAP is to be found on a global basis (US, UK, AUS, GER, FR and nearly any other EU member state has deviating local GAAP). In light of this actual status the ques-tion remains, what makes up the quality of accounting standards on the one hand and to what extent global ac-ceptance and thus comparability is needed outside of capital markets.

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

8.1.1. Other - please specify.*

The scope is right because it relates only to f/s for information purposes (i.e. consolidated accounts). And it is also right, to require the use of IFRS only for regulated markets.

In that respect the constantly increasing complexity of IFRS has led to discussions, whether for listed SMEs some relief concerning the extend of disclosures may be more adequate and whether there are companies using the capital markets having a rather long-term orientation and what could/needs to be done to address it. It may in that context be worthwhile to discuss the use of the IFRS for SMEs for listed SMEs. The IFRS and the IFRS for SMEs are based on the same framework with a clear orientation towards capital markets. A future IAS regulation must take that into account and may be more distinct in regard to the sizes and investor orientation, which must not necessarily be short-term.

The experiences with the IAS regulation have however made visible, that there are significantly distinct user and stakeholder needs outside of the capital markets. These needs must be identified more clearly and addressed in a suitable and separate way.

For (private) companies an optional use, as can be seen today, appears to be or have become no real alternative for international use. Thus the future scope of the IAS regulation must take into consideration, that as of today the IFRS have not found wide-spread acceptance outside of the capital markets at least in the developed countries.

When talking about a single market in the EU and global acceptance of accounting and reporting standards it must be considered that there are different uses for financial statements and financial information which can not be addressed with just one set of rules. Any future regulation reg. EU wide accounting and reporting principles should predominantly address consolidated f/s as these are only relevant for information purposes but may in that respect be subject to further standardization and harmonization in the EU to increase comparability and quality along current internationally accepted standards.

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

9.1. Please give details.

As presented before the IAS regulation should predominantly if not only focus on f/s for information purposes. To allow the use of IAS for individual separate f/s interferes with the focus of the 4. accounting directive and fur-ther contributes to the already existing bandwidth of national GAAP between the higher developed countries on the one hand and between these countries and the group of less developed countries having on the other.

While a further harmonization of national GAAP to be used for individual f/s has not been a focus of the actual revision of the accounting directives only considerations in respect to (optional or obligatory) group financial statements outside of capital markets are potentially realistic on the one hand and appear to be needed on the other.

While in the latter respect the existing IAS regulation has not achieved any visible harmonization within the EU and while the current revision of the 7. directive does not put a focus on it neither, a potential and in our view adequate measure might be the development of a reference or benchmark system with an optional use.

Cost-benefit analysis of the IAS Regulation

10. Do you have pre-IFRS experience/ experience of the transition process to IFRS?*

- (●) Yes
- ( ) No

11. In your experience, has applying IFRS in the EU made companies' financial statements more transparent (e.g. in terms of quantity, quality and the usefulness of accounts and disclosures) than they were before mandatory adoption?*

- (●) Significantly more transparent
- ( ) Slightly more transparent
- ( ) No change
- ( ) Slightly less transparent
- ( ) Significantly less transparent
- ( ) No opinion

11.1. Please elaborate.

with the extensively increased disclosures (on segments, acquisitions, taxes, financial instruments, ...) financial statements based on IFRS present without any doubts the group financial situation and performance in a much more transparent way as it requires nearly any nationial GAAP based on the 7. directive.

However - it must be noted, that there are increasingly valid concerns regarding the quality (because of the wide and subjective valuation ranges) and usefulness of the excessively extended disclosures AND as a consequence the cost / benefit balance resulting from this development. Examples with questionable cost/benefit relation are acquisition accounting (IFRS 3), impairment tests (IAS 36), tax reconciliations (IAS 12) ...

12. In your experience, has applying IFRS in the EU altered the comparability of companies' financial statements, compared with the situation before mandatory adoption?

	Significantly increased	Slightly increased	No change	Slightly reduced	Significantly reduced	No opinion
In your country	◉	○	○	○	○	○
EU-wide	◉	○	○	○	○	○
Compared with non-EU countries	◉	○	○	○	○	○

12.1. Please elaborate.

Comparability has factually increased as many accounting issues were elaborated in much more detail and application and audit benchmarks got more and more specific and restrictive (enforcement, Big4 manuals and brochures). As the IFRS are more and more influenced by and moved towards convergence with US GAAP its application has visibly moved towards a rather rules based accounting scheme ("cook book accounting").

At the same time it must be noted, that the options of IFRS 1 for the 1. time adoption and the constant changes and revisions of individual IAS/IFRS significantly impair the comparabilty betwenn companies and over consequtive periods.

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

13.1. In which areas?*

Generally the preparation and use of financial statements under IFRS is a much more complex undertaking for everyone needing much more specific knowledge and experience than beofre under any national GAAP in the EU (see 13.2.).

However in specific concerns and for specific groups of users the understandability has increased:

1 (professional) investors will find much more detailed information for their analysis

2 individual areas like acquisitions, development activities or financial instruments are presented in much more detail making providing a more thorough (may be not easier) understanding possible

13.2. Please elaborate.

It appears that an easier understandability and the target of supporting investor needs can not be fulfilled at the same time. Additoinally the intended convergence has set the IFRS under an increasing US influence making the application and understanding more complex.

In general a full set of IFRS financial statements became more and more an extensive document with information only to be understood and analyzable by experienced users with specific IFRS backgrounds. Many talk about an "information overload".

It is also an often heard critic that individuals (like company owners or board members) without a specific technical expertise in IFRS feel overstrained in analyzing the f/s and often do not find the information they look for (an often heard argument from owners of non listed family businesses).

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.

While this may apply for the large listed companies and groups it may rather not be a fact with medium sized and smaller companies/grous.

Many listed companies were rather forced to apply IAS/IFRS. In Germany, were an optional use was possible before the IAS regulation made it mandatory ony around 20% of listed companies decided to voluntarily apply it before 2005.

For these companies (often the medium sized and smaller ones) the application of IFRS with its steadily increasing complexity life often changed significantly as many of them changed the auditor to a Big4 company because the former auditor did not have the necessary expertise and structures for an often global audit according the as well incrasing audit benchmarks.

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	○	○	○	○	○	●
EU capital other than domestic	○	○	○	○	○	●
Non-EU capital	○	●	○	○	○	○

15.1. Please provide data / examples if available.

since IFRS is accepted for US listings the US capital market became more attractive for companies/groups having not decided to apply US GAAP for a US listing.

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.

no data or examples available

But it is an often cited statement by banks in Germany, that they did not require IFRS for financings on the one hand and that based on their experience their is also no general positive impact as such on rating results. One usually positive criteria of applying IFRS was the fact, that the accounting structures and organization is demonstrated to capable of applying IFRS.

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

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.

Yes and No

Investors may feel more comfortable with the financial information to be presented by listed companies. However it is at the same time obvious if not by nature, that volatility of results has increased as well plus the extent of detaile disclosures allow for more uptodate analysis.

Volatiliy however reduces investors confidence, at least for l/t investors. And this fact reduces the prices investors are willing to pay. The consequence is, that prices of IPOs may not be as good as before or the information under IFRS may make it more difficult to find banks to support an IPO.

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

- (●) Yes
- ( ) No
- ( ) No opinion

19.1. Yes - please specify (you may select more than 1 option).*

- [ ] Improved ability to trade/expand internationally
- [x] Improved group reporting in terms of process
- [ ] Robust accounting framework for preparing financial statements Administrative savings
- [ ] Group audit savings
- [x] Other

19.1.1. Other - please specify.*

one argument used in favor of IFRS was the alignment of internal and external reporting and performance indicators. However resulting from recent revisions/changes this is not fully possible anymore.

19.2. If yes, please give details, with examples/ data if possible.

one argument used in favor of IFRS was

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.

The question of cost/benefit balance is on the one hand rather individually to be answered as it is depending on many individual circumstances and, as addressed in the question, to be considered in light of many different and increasingly complex business activities and environments.

In respect to companies using capital market this question may in general appear to be of rather minor relevance as the (international) user needs are any time cited when old standards were revised or new ones developed. Per today the use of IFRS for capital markets is not at disposition and the cost of applying IFRS may have to be ac-cepted when having the benefit of getting finance on the public capital market.

However the question remains, whether especially the increasing extent of disclosures at any time contributes to and fulfils user needs to an acceptable degree when taking the often immense preparation and audit cost to im-plement and apply new or revised standards into consideration. There are increasing concerns in respect to an information overkill in general and in respect to certain types and sizes of companies using capital market and its segments having distinct and potentially longer term orientations.

When looking on companies not using capital markets the cost/benefit balance has a distinct and much higher relevance, as often (like in Germany) the application of IFRS is voluntary and at the individual disposition of the companies/groups. In that respect an answer must be clearly made in dependence of time. When the IAS regula-tion was discussed and developed in the early 2000s the IAS/IFRS existing at that time were by far not yet as spe-cifically elaborated as of today. Same applied to application and audit requirements and benchmarks. For non-listed companies often having legal forms with (limited) personal liability it was and is a fundamental question whether the application of IAS/IFRS allowed to present the business and its often long-term orientation in an adequate, understandable and cost efficient way to their shareholders and banks as being the most relevant us-ers. As an optional use of IFRS often was considered as an attractive alternative to national GAAP by large private and family owned business groups doing global business the much higher degree of disclosures and publicly available information was accepted as a cost to being publicly competitive also in transparency concerns with listed competitors.

As the IFRS became immensely more complex and disclosures more extensive in the past 10+ years the negative implications for non listed businesses accumulated. The narrowing of applications suitable to private businesses and their legal forms and conditions led to sometimes economically inadequate presentations (no equity and high losses) experienced by German companies in respect to revised conditions of IAS 32. Being only one exam-ple of negative impacts in combination with steadily increasing costs from complexity and disclosures by today the cost/benefit balance appears to be clearly and definitely negative. In the consequence a voluntary applica-tion of IFRS appears at current to be no choice for large private and family owned German businesses as recent studies show.

P7+U4. Has the application of IFRS in the EU influenced the need for other non-IFRS based information ("non-GAAP" information) to explain companies' financial performance, compared with the situation before mandatory adoption?*

- (●) Significantly increased
- ( ) Slightly increased
- ( ) No change
- ( ) Slightly reduced
- ( ) Significantly reduced
- ( ) No opinion

P7+U4.1. Please elaborate.

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the extent of explanations and information in the notes has increased
substantially;

as example for:





pension plans


acquisitions


financial instruments


taxes


f&e
```

P.8. In your experience, is the ongoing application of IFRS costing you more than compliance with alternative standards would have done?

By this we mean: Does it significantly change any administrative, compliance or other costs incurred by your company (e.g. IT developments, costs for additional staff, training, advisory services, external audit, additional expertise/valuation), when compared with other costs that your company would otherwise have incurred to comply with alternative standards (excluding costs arising from the initial transition to IFRS)?*

- (●) Increased by large amount
- ( ) Slightly increased
- ( ) No change
- ( ) Slightly reduced
- ( ) Reduced by a large amount
- ( ) No opinion

P.8.1. Please specify any additional costs or savings relating to the preparation and communication of financial statements for your company.*

```
all costs named above have usually significantly increased compared to
compliance w/ national (German) GAAP:
```

P.8.2. How much are these additional costs or savings as a share of your turnover*

```
no info available
```

P.9. In your experience, have the costs of IFRS preparation changed significantly over time for your company since you adopted IFRS (e.g. IT developments, cost of additional staff, training, advisory services, external audit, additional expertise/valuation) – when compared with other costs that your company would otherwise have incurred to comply with alternative standards?

Please take into account any impact that regular amendments may have had on existing standards or the introduction of new standards by the International Accounting Standards Board (IASB).*

- (●) Increased by large amount
- ( ) Slightly increased
- ( ) No change
- ( ) Slightly decreased
- ( ) Decreased by a large amount
- ( ) No opinion

P.9.1. What are the main drivers of cost changes? *

```
indiividual accounting issues; the more complex and the more diverse the
business activities and structures of group the higher the cost for
integrating changes:


examples are:


- financial instruments


- revenue recognition

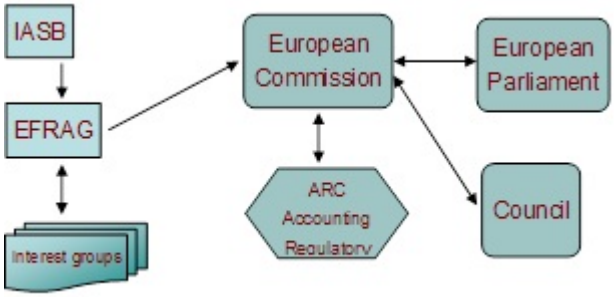

- (potentially) leasing
```

P.9.2. How much are these costs or savings as a share of your turnover?*

```
no info available
```

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.

21. In the EU, IFRS are adopted on a standard-by-standard basis. The process, which typically takes 8 months, 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.

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.)?*

n/a

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.

reg. provision of l/t finance:

recently the IASB has rejected to consider specific concerns reg. l/t orientation and l/t finance in a structural way. Based on our experience there are very different types of companies with very different business models using capital markets and respectively the investment horizons of investors are different as well. Institutional investors like pension funds or lfie insurances have by nature a very l/t investment horizon and seek for investments providing stability and adequate returns on a l/t scale. At the same time there are companies using capital marktes having a family owning the majority of shares having by nature a l/t orientation.

we consider it therefore worthwhile if not needed to identify the need for adressing l/t investing and business orientations in IFRS more adequately than today.

reg. the concept of prudence:

in that respect the same considerations and arguments as named above apply. The concept of prudence is one of the most fundamental and important concepts to address l/t considerations on preparers and investors side. It is as well relevant for taxation if linked with or based on national GAAP as it allows for establishing reserves for risks and uncertainties for instance to depreciate over shorter useful lifes. Its elimination in the current framework proposal thus leads into the wrong direction. The convergences w/ US GAAP being probably the most dominant aim by the IASB leads to an obviously increasing conflict between fundamental principles of Continental European accounting and the ones to be found in anglo-sacon countries in general and in the US in specifiic.

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

23.1. If not, do you think the IAS Regulation should allow the Commission more leeway to modify standards adopted by the IASB? What conditions should be stipulated?*

The IAS regulation has factually set 3 different impulses and initiated 3 different developments:

1. it choose the former IAS to become the only acccepted set of accounting principles for capital markets in the EU and with that move to become at some point the only set of accounting and reporting principles accepted globally

2. it left an empty space for adequate accounting standards for developping countries having applied IAS as national accounting schemes. This space was later filled with the development of the IFRS for SMEs.

3. it assumed and supported that the use of IFRS is also an adequate option outside of capital markets to be used by industry groups doing international business and by developed countries to use it for separate individual financial statements. Possibly because of that assumption the EU did not investigate on and took measures for a further harmonization of accounting requirements and still keeps over 40 year old directives in effect.

With respect to the above question reg. appropriate trade off by the IAS regulation the follwoing is applying in our opinion:

as to 1: IFRS will become the one globally accepted accountings standards for listed companies. That these be more European is neither realistic nor reasonable. They will finally be dominated by the influences from the countries with the strongest capital markets.

as to 2. The IFRS for SMEs is by fact not suitable for global use by private companies and nearly no developed country is considering using it. However this somewhat less elaborated and burdensome standard may be an alternative for smaller listed companies and/or listed companies with a low free float or to be used in specific sections of stock exchanges.

as to 3: It appears to be time to realize, that there is a need for further harmonization within the EU in the area of private entity accounting principles. Af first for industry groups doing cross-border and international business (7. directive) and potentially also for individual companies (4. directive). The focus only on SMEs of the current revision of these directives must be questioned. It could be cured or supplemented via a benchmark set of high quality accounting principles to be offered as an option to the many individual member state accounting regulations.

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.

It is an often named perception that many major changes of IFRS in past years have not in any case improved its quality in terms of understandability, reliability and comparability. In specific the alignment of IFRS with US GAAP targeted at by the IASB and the FASB in respect to major accounting topics often resulted in compromises which do not convince in respect to its quality and in any case led to very complex solutions with vast disclosures. Ex-amples are purchase accounting (impairment only - approach for goodwill) and segment reporting or the years long discussions concerning a new leasing standard. As these changes significantly deviate from the prior IFRS the comparability over time is not given. Comparability is also reduced by IFRS 1 allowing for a number of choices in the first IFRS f/s, which make comparisons with companies having moved to IFRS at a different point in time difficult.

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.

see comments above to 13.

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	○	○	◉	○
Information under any other GAAPs	◉	○	○	○

27.1. What are your local GAAPs?

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German GAAP
```

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

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

IFRS were developed on the basis of the former IAS, which initially were developed for use by less developed countries. While IAS integrated many different accounting schemes and allowed many different national/individual orientations they were developed and managed (IASC) under clear UK influence, some standards (like IAS 40) were identical to UK GAAP. After a far reaching revision in the early 2000s a process started in 2003/04 to align IFRS with US GAAP. The first visible US influence was the impairment-only approach for goodwill of IFRS 3, other standards followed. As addressed before this alignment process (convergence), which is still con-tinuing (recently: revenue recognition, soon: leasing) has put the IFRS under significant US influence and usually the final standards resulted in US dominated compromises. Problem is, that US business practice and legal system plus accounting and audit practice is very different to continental european ones. It often is called “cook book accounting” as the standards plus interpretations plus commentaries are usually extremely detailed and leave not much room for own decision. IFRS and the (Big4) commentaries since years obviously follow such a path moving IFRS away from a principle based system. And that has its influence on complexity, which usually increases, and on understandability as any potential circumstance is addressed and there is a clear trend towards industry specific solutions (IFRS in telecommunications, pharma, retail, automotive,...). At the same time the ex-tent of disclosures increases for the named reasons.

Compared to the individual EU member states GAAP IFRS has moved more and more away from it. And it more and more remains an open question, on what basis private entity GAAP can be harmonized using high quality accounting principles. It appears a more and more necessary task of the EU to discuss such a process besides the discussions reg. the development of IFRS (and IFRS for SMEs) as the US do not have any factual background in obligatory private entity GAAP.

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)	○	○	○	◉
Any other GAAPs (as identified under question 27)	○	○	○	◉

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

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

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.

32. Does ESMA coordinate enforcers at EU level satisfactorily? *

- ( ) Yes
- ( ) Yes, to some extent
- ( ) No
- ( ) Not applicable
- (●) No opinion

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.

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there was no enforcement beofre
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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

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? *

Taken Germany there have been and are numerous visible effects and interactions between IFRS on one hand and national GAAP and tax law on the other.

1 National GAAP
National German GAAP was revised and modernised in 2009 with the clear goal to move the national standards in a number of areas closer to IFRS (like pensions, capitalization of development cost, ...) and thus to reduce differences. However it was as well looked at keeping fundamental principles in place and to limit the extent of disclosures in light of the electronic publication requirements. By way of that modernisation Germany followed as well a path of demonstrating how adequate accounting principles of private companies also for international use may be defined as opposed to the IFRS for SMEs, which was cleary regarded being not suitable ste of rules for private SMEs and larger companies as well.

2. Tax law
The increasing use of IFRS had potentially negative effects on taxation as it became more and more difficult to argue for reserves and useful lifes where IFRS did follow a different and less prudent path.

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)	○	○	○	◉
Company law	○	◉	○	○
Other	○	○	○	○

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

```
see comments to 23.1.

The interaction may not be looked at only as being tension but also as
an interrelation in the way that European company law may miss per today
the needed degree of modernisation and harmonization because of the
perception, that IFRS may be an adequate set of standards for private
entities as well. But it isn't.
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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?

While the consultation on the impact of the IAS regulation and the use of IFRS in the EU is currently under way the following facts can be identified already as of today:
• The IFRS and its application in practice have developed in the past 10+ years clearly and solely to fulfil demands of capital markets with major influence and compromises resulting from the intended conver-gence with US GAAP and SEC requirements
• The IFRS have by today found no widespread acceptance as an internationally accepted accounting and reporting scheme for private entities outside regulated capital markets to be used as an alternative use besides national GAAP.
• As a consequence the IAS regulation has not supported a further harmonization of private entity ac-counting and reporting in the EU single market besides the (minimal) harmonization of national ac-counting schemes following the 4. and 7. directives in the 1970ies
In the wake of the recent financial and economical crises l/t financings in and outside of capital markets became a major problem for SMEs and LMEs in the EU. One aspect among others to ease future cross-border financings may be a further harmonisation and modernisation of GAAP for private entities along high internationally ac-cepted standards - however with a clear consideration of the distinct specifics and needs of the stakeholders of private mostly family owned companies and groups. One fact in that respect is
• The IFRS for SMEs is too close linked to full IFRS and has found no international acceptance by devel-oped countries as an alternative to current national GAAP in and outside the EU
One possible undertaking by the EU may be to develop a EU reference accounting and reporting scheme for private entities not using the capital market to be defined along highest quality benchmarks and principles with no national options.This could be a way to address the needed modernization and harmonization of EU group accounting and reporting and potentially for separate f/s as well without having to adjust any individual membership GAAP which appears to be not achievable in the near future.

Thank you for your valuable contribution.

Contact

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