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Dear Mr Maystadt,

Re: Draft Report: Should IFRS standards be more European?

BUSINESSEUROPE appreciates the opportunity to provide comments on your draft report. As we explained when we met in June, BUSINESSEUROPE supports the use of IFRS. These standards have proven to be beneficial to the global economy by increasing transparency of companies' financial position and performance, not in the least by increasing the comparability and quality of financial information across many jurisdictions.

BUSINESSEUROPE therefore concurs with your conclusion at 2.1, that there is consensus on the commitment to global quality standards. We also agree that the current "standard by standard" adoption procedure should be maintained and support that EFRAG should continue to be the coordinator of the European views on accounting matters.

Regarding the suggestion to provide for the possibility of a 'carve-in' or the drafting of an alternative standard when IFRS standards are not considered appropriate for Europe, some of our member federations believe that such a possibility would indeed contribute to the fragmentation of IFRS and should only be used in exceptional circumstances. It would therefore be better to resolve problems upstream, at an earlier stage, when the IASB is in the process of developing the standard.

Regarding the suggestion to add to the endorsement criteria that the accounting standards adopted should not endanger financial stability and not hinder economic development, we are not certain what the implications of this would be. In any case, application of these criteria should not be used to hide relevant financial information. Some member federations are concerned that adding these criteria could increase the likelihood of non-endorsement of standards whilst other members believe that these additions could be helpful to better explain the existing endorsement criteria.



Regarding the proposals to transform EFRAG, we agree that there is a need for a thorough economic analysis of the effects of proposed standards. Such analysis should be incorporated with the work of EFRAG. Having said this, it is important to safeguard the current quality of EFRAG which should be allowed to continue its technical role.

In this respect, we regret to note that the draft report fails to properly address the current due process followed by EFRAG which includes issuing early draft comment letters, setting up specialist user panels and other working groups with specific technical knowledge needed to understand the topics, and organizing outreach events. It is this due process that gives legitimacy to EFRAG and that ensures the high level of influence on IASB that EFRAG has achieved. However, it is clear that this also requires that stakeholders engage in order for them to be able to influence and contribute to the position of EFRAG.

We also have particular concerns regarding the proposals on the composition of the new Board. The draft report proposes to replace the current Supervisory Board with a high-level Board which would approve the comment letters addressed to the IASB and the adoption opinions, relying on the work of a technical group. The Board would make consensus-based decisions. The Board members should have an adequate profile, be capable of understanding both accounting problems and their economic implications. The draft report suggests that the President of the Board should be the public spokesperson of EFRAG in its relations with the IASB and that the new Board should be composed of 6 national standard-setters (4 of which should be permanently assigned to the four largest Member States), 3 European Institutions and 4 stakeholders.

BUSINESSEUROPE cannot support these proposals. They do not offer an appropriate representation of the private sector as preparers and users are underrepresented. The current TEG would essentially be reduced to a technical staff committee and there would be no oversight of the Board. National standard-setters are organized differently and their governance arrangements vary greatly. They cannot be considered as representatives of the private sector. Combined with the proposed changes to the composition of the TEG, this will essentially result in a situation where the represented standard-setters can dominate both forums and thus report to themselves. The proposed composition does also not ensure an appropriate geographical balance in the new Board which could be problematic especially considering that the proposed structure does not allow for input from the Member States.

We are also concerned that decision-making by consensus could effectively block decision-making in practice as the new Board would be unlikely to be able to reach consensus. Already today, either in the ARC or in their comment letters, it has proven difficult to reach consensus. We are thus concerned about the workability of such a system. Although the intention is that the new arrangements would lead to one single European voice on accounting, the danger is that it could easily lead to cumbersome (watered down) compromises within EFRAG in order to reflect the different interests of the new Board. It would thus be essential that qualified majority voting can be used when consensus cannot be achieved.



Regarding the role of the ARC, the draft report seems to conclude that the ARC will not be able to represent Member States and that its current technical capacities are considered limited. The draft report also concludes that the current procedures deprive the ARC of any possibility to perform upstream analyses and potentially request for the standard to be amended. The draft report recommends that the ARC should intervene at an earlier stage of the procedure and should strengthen the dialogue with EFRAG upstream, especially with the purpose of influencing the work programme of the EFRAG and, consequently, of the IASB.

The draft report fails to acknowledge that some of the current problems are due to the fact that the ARC has not performed its duty in assessing the economic and political implications (relations with other authorities, impact on other rules, etc.) or the contribution of the standards to the public interest at a sufficiently early stage to allow EFRAG to bring these concerns to the IASB.

The role of the ARC should thus be strengthened. This would also reflect the changes resulting from the Lisbon Treaty which are currently underway to have a balanced European Committee with a more political advisory role for the Commission. The ARC is supposed to ensure that all Member States have had a chance to react and the ARC should also ensure that the public interest has been considered. We thus suggest setting specific requirements for representatives in the ARC and possibly strengthening the ARC with representatives from the ECB in order to ensure financial stability. The ARC could also include a representative from the European Parliament in order to ensure that the public interest will be sufficiently taken into account. Further, the ARC should be involved at an early stage to issue written comments on IASB projects (exposure drafts, discussion papers, etc) to EFRAG in order to ensure that they are fulfilling a pro-active role.

This could be combined with entrusting the present Supervisory Board with the duty of ensuring that ARC input has been appropriately incorporated and considered by the TEG in their due process or, alternatively, having the ARC adopt or reject the comment letters by normal voting procedures (qualified majority which reflects and respects country sizes). This process would give EFRAG a very strong mandate even if individual standard-setters or other stakeholders were to write their own comment letters, as the adoption of the comment letter by ARC would clearly signal whether a final standard should be adopted or not.

It would then not be necessary to change the responsibility of the Supervisory Board, especially if two observers would be added to the EFRAG TEG, namely a representative from ESMA and a representative from the ECB, in order to ensure that the regulatory and economic impact are being addressed as part of the process of developing comment letters and evaluating the accounting standards. These procedures would not require legislative amendments.



The draft report also does not address the important role which the Monitoring Board is supposed to play in the IFRS Foundation. If the IASB does not follow due process (e.g. neglect and fail to consider input from the EU), then the Commission - together with the other members of the Monitoring Board - should interfere. A failure to act could be considered as a failure of the Board to perform its duties. The Commission should actively seek the relevant information from EFRAG and the ARC which would allow it to appropriately fulfill its role in the Monitoring Board.

Lastly, BUSINESSEUROPE does not share the draft report's view regarding non-listed entities. The experience with the accounting directives leads many to believe that Europe finds it increasingly difficult to agree on setting a common set of European standards for non-listed entities. Previously, BUSINESSEUROPE recommended that the revised accounting directive should allow for voluntary introduction of the IFRS for SMEs in the Member States, but even such voluntary introduction proved impossible. We therefore believe that EFRAG has an important role to play in order to ensure that there is a pan-European discussion on accounting for SMEs considering that many SMEs are already doing business in and outside Europe.

We remain at your disposal should you wish to discuss these issues further.

Yours sincerely,

Jérôme P. Chauvin
Director
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