SHOULD IFRS STANDARDS BE MORE "EUROPEAN"?

Mission to reinforce the EU's contribution to the development of international accounting standards

Report by Philippe MAYSTADT – October 2013

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List of acronyms

IFRS	International Financial Reporting Standards
EFRAG	European Financial Reporting Advisory Group
IASB	International Accounting Standards Board
ARC	Accounting Regulatory Committee
SMES	Small medium enterprises
ECOFIN	Economics and Finance Ministers of the Member States
US GAAP	United States Generally Accepted Accounting Principles
FASB	Financial Accounting Standards Board
FEE	Fédération des Experts Comptables Européens
IAS	International Accounting Standards
TFEU	Treaty on the functioning of the European Union
ASAF	Accounting Standards Setters Forum
TEG	Technical Expert Group
EBF	European Banking Federation
ESBG	European Savings Banks Group
EACB	European Association of Co-operative Banks
EFAA	European Federation of Accountants and Auditors for small and medium-sized enterprises
AISBL	Association Internationale Sans But Lucratif
EBA	European Banking Authority
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
NSS	National Standards Setters
CFSS	Consultative Forum of Standard Setters
U. S. SEC	U.S. Securities and Exchange Commission
IFRIC	International Financial Reporting Standards Interpretations Committee
PRC	Planning and Resources Committee
AASB	Australian Accounting Standards Board
CPC	Comitê de Pronunciamentos Contábeis (Brasil)
ACSB	Canadian Accounting Standards Board
CBR	Central Bank of Russia
NOFA	National Organization for Financial Accounting and Reporting Standards (Russia)
FRSC	Financial Reporting Standard Council (South Africa)

1. Introduction

In 2002, the European Union took a decisive step by imposing a legal requirement for the consolidated financial statements of European companies listed on European stock markets to be prepared under International Financial Reporting Standards (IFRS) starting from 2005.[1] Member States can extend this obligation to other companies.

At that time, the internationalisation of companies, the achievement of the single market and the globalisation of financial markets led to the need to find a common accounting language. Given the difficulty of achieving a European framework, the EU chose to renounce its regulatory sovereignty in accounting and decided to apply the standards drawn up by a not-for-profit private sector organisation based in London, the IASB (*International Accounting Standards Board*). The EU developed a system for the endorsement of the IFRS standards that allows it to accept or reject a standard following consultation with EFRAG, the European Financial Reporting Advisory Group, which is made up of experts from the private sector, and the vote of members of the ARC, the Accounting Regulatory Committee, which is made up of Member State representatives (for details on the current procedure, see Annex 2).

The EU's choice has, unquestionably, had positive effects in terms of the quality and comparability of financial reporting. Even fervent critics of the current situation acknowledge that "the adoption of IFRS in 2005 was a real step forward for companies and all stakeholders in terms of comparability, providing a common language to be used between entities in the same group of companies as well as between international groups, and it increased transparency through the volume and the reliability of the information that companies are required to provide" [Memorandum MEDEF (Movement of French Enterprises) – AFEP (French Association of Private Companies) of June 2013].

However, the financial crisis brought about a debate on what numerous experts considered as an excessive resorting to market values for accounting for financial instruments. In particular, the establishment of immediate fair values in the absence of a market or for non-liquid assets is complex and risky in terms of data reliability. Some believe that such accounting played a role in worsening the crisis. In any case, this debate raised the awareness of numerous economic stakeholders and political decision-makers of the potential impact of accounting standards on the results made public by the companies and, thereafter, on the economy as a whole. This resulted in a more general reflection on IFRS standards and on their Conceptual Framework (which explains the concepts at the basis of the information in the financial statements and facilitates the coherent and logical formulation of the IFRS) and their adoption process. The Conceptual Framework itself is currently being revised by the IASB. This project is independent and is not part of the convergence programme with the American Financial Accounting Standards Board (FASB). The IASB suggests in its consultation document[2] that valuation based on fair values could be less generalised. It should be noted, however, that the Framework itself represents neither an international accounting standard, nor an interpretation thereof and, consequently, it is not adopted within EU law. Nonetheless, it offers an assessment basis for solving accounting problems. It has particular importance especially when there is no standard or interpretation thereof that applies specifically to an element of the financial statements.

[1] Regulation (EC) No. 1606/2002

[2] Cf. "Discussion Paper" published by IASB on 18 July 2013.

In a context where, on the one hand, the IASB continues to acknowledge the major influence of North-American positions for the purpose of international convergence (even if it now seems clear that the United States have no intention of adopting the IFRS standards in the foreseeable future) and, on the other hand, the use of IFRS has spread to other regions of the world, which legitimately ask for more influence in the IASB, the question is how the European Union, the main user of IFRS in terms of market capitalisation, can obtain and maintain leadership in the standard development and adoption process. The answer to this question needs to take into account the fact that, as is often the case with international institutions, the EU influence is reduced because it is diffuse. EFRAG, the national standards setters, the national and European supervisory authorities, the European users' associations, and other European stakeholders often adopt different and even opposite positions on the IASB's proposals and notify them to the IASB, which diminishes the influence of the European Union. Therefore, it is necessary to revisit the way in which these activities are organised to achieve a better coordination of the European positions in this field.

Moreover, policy choices in the field of accounting involve public interest stakes that should be considered more thoroughly. Recent examples include the links with prudential requirements for banks or insurance companies, the rules applicable to the shadow banking system, the impact on long-term investment or access to financing for SMEs. Accounting standards are more than a mere language convention. By influencing the behaviour of actors in financial markets, they can have an impact on the stability of those markets. EFRAG, which should be Europe's voice in the accounting debate, is a technical committee with views that do not always take appropriate account of these stakes.

At the ECOFIN Council of 13 November 2012, the Ministers for Finance discussed the means by which the European Union could defend its interests more adequately in the international accounting debate. They indicated that ARC is the body that should represent the European public interest, whereas EFRAG as a technical body, made up of experts mainly from the private sector, has no mandate from the Member States. They stated that in view of the need for both a better coordination of the accounting debate in Europe and for a more adequate consideration of the stakes related to the political choices in the field of accounting, the existing structures (ARC and EFRAG) should be reviewed and new structures should be established if necessary.

Therefore, Commissioner Barnier requested this report as a response to the recommendations outlined by the ECOFIN Council. The following questions are to be answered: Who establishes the common technical positions on international accounting standards and who makes sure that the public interest is respected? Who integrates these two aspects? Who communicates with the IASB? Which structure could truly unite the different points of view expressed by stakeholders so far?

In order to succeed, this structure should allow all stakeholders to express their views (Member States, national standard setters, supervisory authorities, users, accounting professionals, etc.) and also coordinate these views. There may be different perspectives (such as the public interest, the needs of investors and other users of financial information, and that of preparers/companies under the obligation of publishing IFRS accounts), which can nonetheless be complementary and coherent at European level. This structure should be able to represent European positions to the IASB when the standards themselves are being developed, and also at the crucial time when the work programme of the IASB is being established. Indeed, this body has had a tendency to favour actions that promote international convergence and the search for new regions to commit to using IFRS, to the detriment of those actions requested by States that already apply IFRS (for instance, the suggestion by the Commission relating to the drafting of standards adapted to long-term investors in its Green Paper on long-term investment).

2. Recommendations

2.1 Commitment to global quality standards

We have observed a wide consensus on the commitment to global quality accounting standards.

The initial objective that motivated the adoption of IFRS by the European Union does not seem to be challenged in Europe. Moreover, the G20 maintains its support for a single set of global quality rules.[3] The IFRS are the best choice at the moment.

Some regret that the IFRS body of standards is not flawless and particularly that it is incomplete (there are regulatory gaps in certain fields such as the insurance sector), too complex (which could be a listing obstacle for smaller enterprises), favours a view of the balance-sheet over performance, and lacks stability (the existing standards underwent major recasting as a consequence of the convergence project with US GAAP).

However, its global character is unquestionably the most significant. All the stakeholders interviewed acknowledge that it has improved the quality, comparability and reliability of financial information.

2.2 Endorsement process

We have observed a wide support to maintain a "standard by standard" adoption procedure (with the possibility of accepting or refusing a standard produced by the IASB).

The IAS Regulation stipulates that the standards issued by the IASB can be adopted only if:

- they are not contrary to the principle of the *true and fair view* set out in the Accounting Directives of the European Union;
- they are conducive to the European public good;
- they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG is the technical advisor of the Commission and is responsible for assessing whether the standards fulfil these criteria. In practice, EFRAG's judgement has been that these criteria have always been fulfilled and, until now, all the standards issued by the IASB have been adopted by the European Union.[4]

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[3] Communication, Moscow, 19-20 July 2013 "*We reiterate our call on the IASB and FASB to finalize by the end* of *2013 their work on key outstanding projects for achieving convergence on a single set of high-quality accounting standards. We recall the crucial importance of making swift progress on this issue in order to enhance resilience of financial markets*".

[4] Except for a limited *carve-out* to IAS 39 regarding hedge accounting. EFRAG also issued a negative endorsement advice on IFRIC 3 (interpretation on emission rights) in 2005, the European Commission did not start any adoption process and the IASB withdrew this IFRIC. EFRAG also recommended postponing the effective date on the consolidation standards to facilitate the implementation of those standards in Europe. Finally IFRS 9 has been issued by the IASB in 2010 but the European Commission has so far not requested EFRAG to issue an endorsement advice. The standard is not yet endorsed in Europe.

The analysis consists in assessing whether the application of a given standard would result in a true and fair view of the financial position and performance of the company. This assessment is performed in the light of the relevant EU Directives, without requiring strict conformity with each provision of those Directives.

Over recent years, some Member States have ever more frequently expressed reservations about the adoption of certain standards. The current adoption procedure does not allow much flexibility for such reservations to be taken into account, as the IAS Regulation grants the EU the possibility of either not adopting certain provisions of a standard or not adopting the standard as a whole (both of which result in a '*carve-out*'), but it does not authorise the EU to change the text published by the IASB ('*carve-in*') or to draft an alternative standard.

While there are differences between adoption processes, many other countries that have adopted IFRS have more flexibility (see details in Annex 3). According to the survey carried out by the IASB on the adoption methods in 66 countries, two thirds have an "endorsement" procedure and most of them have provided for the possibility to reject, change or replace a standard, even if, in fact, such possibilities are rarely used. The United States announced that they would introduce such possibilities if they decided to adopt IFRS, by setting up a mechanism called "*condorsement*" (contraction of "*convergence*" and "*endorsement*"). According to this approach, the IASB and the FASB would continue their current efforts towards convergence for the standards that are being revised. However, the FASB would not initiate new projects, but would make US GAAP converge towards IFRS for finalised standards.

<u>Should we opt for more flexibility on endorsement in the European Union?</u> Should we provide for the possibility to adapt standards that are not convenient for us? Before weighing the advantages and the risks involved, we should note that this option would inevitably imply that the European Union must provide its own means for the drafting of specific EU-adapted accounting standards.

<u>Expected advantage</u>

Several stakeholders in different countries consider that more flexibility would result in a stronger leverage on the IASB (even if there is no intention of using this possibility other than for exceptional cases). This threat of altering an IFRS standard should be sufficient to prompt more reflection upstream in the IASB process.

<u>Risks</u>

- The most obvious risk would be to give a negative signal to the rest of the world and to hinder actions that are underway, especially in Asia, for achieving the objective of using global standards and, hence achieving the comparability of financial statements. Indeed, the idea of having EU-adapted IFRS standards could trigger a tendency to create regional rather than global standards, which could cause confusion on the financial markets; increase the cost of capital for European issuers and also increase the costs of production of financial statements for companies operating in several regions of the world.

- Another major risk would be to endanger the coherence of the financial reporting framework. To avoid this risk, the only option would be to set up an actual European standard setter capable of adapting the standards and maintaining the coherence of the system. This would be a complex task that would raise technical, legal and practical issues and require formalised procedures in order to identify, analyse and assess the potential effects of a "carve-in" action; to alter the standard adequately to suit European needs and to interpret the new standard at a later stage. This would require technical resources that go beyond those available within EFRAG at present.

– In this context, the differences of opinion between the Member States should not be underestimated. In 2002, one reason why the European Union decided to adopt IFRS was because it was extremely difficult to achieve consensus on accounting matters at European level. To this day, the European national standards setters continue to express different and even opposing opinions on the proposals of the IASB. The European standard setter would probably be confronted with similarly contradictory *carve-in* or *carve-out* requests from Member States. Then, it would be likely that, following a well-known method of reaching a consensus in Europe, the European standard setter would be tempted to offer some options to Member States. This would give rise to the risk of re-nationalising accounting standards, with all the ensuing negative effects on the internal market, whereas all stakeholders agree that the main priority is to have uniform accounting standards which are consistently applied across the European internal market.

– The *carve-in* possibility would allow excessive lobbying for private interests up to the last stage of the procedure.

– There is a risk that third countries, especially the United States, would not recognise the new standards (under equivalence agreements): if the United States did not recognise an equivalence for the IFRS standards as amended and adopted by the EU, the 89 European companies listed in the United States would again be forced to draw up financial statements under US GAAP. However, it should be possible to have the equivalence of such EU standards recognised by the United States, which would avoid the need for the European companies concerned to make reconciliations or draw up another set of financial statements.

– Finally, according to certain stakeholders, developing a European version of IFRS could prove to be counterproductive regarding achieving more influence over the IASB. For example, according to FEE, a "*binary yes or no endorsement seems to bring more powerful dissuasion than opening the possibility of modifying a standard: the IASB might be less inclined to take Europe's concerns into account if Europe can freely modify the standard itself*" (FEE working document 27 June 2013).

Conclusion

Recommendation 1

Caution is essential. If, in the name of European sovereignty, we wanted to "open a door", this possibility should be strictly regulated by precise and restrictive criteria and conditions, for instance: proving that the European public good is really at stake; requiring that a qualified majority of Member States vote for an amendment within the ARC[5] and refusing to leave "options" for Member States to choose.

Recommendation 2

By contrast, as far as the adoption criteria are concerned, the system could benefit from some improvements:

1. The European Union could revise the IFRS adoption criteria by supplementing and clarifying the current criteria of the IAS Regulation, as well as by explaining its policy in this field in order to facilitate the analysis of the standards. Two other criteria could be added to those mentioned in the Regulation as components of the public good, namely: the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the Union. Alternatively, the Commission could issue a Communication giving guidelines for the interpretation of the "public good" criterion.

2. EFRAG could be asked to analyse more thoroughly the compliance with criteria regarding prudence and respect for the public good.

2.3 How can the IASB be better influenced?

Who must advise the Commission on the endorsement of the standards and who must provide the IASB with comments on the exposure drafts?

2.3.1 Context

Since the adoption of IFRS by the European Union more than ten years ago, expertise on IFRS has developed considerably in Europe. However, more and more non-European regions have also adopted the IFRS. The IASB has strengthened and formalised its relations with regional and national standard setters which has the advantage of additional transparency, but the roles of EFRAG and of the European national standards setters must be redefined in this new context. Since the Commission does not have the necessary technical resources, EFRAG is therefore responsible for technical discussions with the IASB in the name of the European Union, a fact which raises certain problems.

2.3.2 Problems raised by the current structure

- The influence of EFRAG is weakened at present by tense relations with the national standards setters of the largest Member States, which wish to gain more

[5] If the IFRS adoption process actually becomes a regular delegated act (see point 2.4), only the Council following a qualified majority vote and the Parliament following a majority vote will have the right to object (Art 290 TFEU).

influence in the debates. Their wish seems legitimate, but it should not be accomplished to the detriment of the standards setters from smaller states, which have fewer resources, in terms of their representation in EFRAG. The review of EFRAG governance, initiated in 2011 and meant to improve the partnership with the national standards setters, was ended prematurely because of the impossibility of reaching an agreement with the four largest Member States. In a way, the present mission is a re-launch of that review.

- The IASB Board members have stated clearly that the European influence would be strengthened if they could be sure that the position taken by EFRAG is a coordinated European view (at present, the IASB receives the views of some national standard setters in addition to the views of EFRAG and these views are not necessarily identical). The expression of different opinions can be beneficial in the early stages of the process; indeed the manifestation of diversity is natural within the ASAF ("*Accounting Standards Setters Forum")*. However, when the European position is to be expressed in an official comment letter to the IASB, there should be a single European voice.
- Therefore, it is necessary to have an institution that allows for the gradual achievement of a consensus or, at least, for the adoption of a common position by the majority of stakeholders, especially the national standards setters.
- However, the present EFRAG structure is complex, partially resulting from successive but incomplete governance reviews. Its mission and tasks are not defined with sufficient precision.
- Many stakeholders especially denounce the lack of legitimacy and representativeness of the structure: the TEG ("*Technical Expert Group*") of EFRAG is, in fact, the actual representative of EFRAG in the discussions with the IASB. Certainly, the experts' "independence" is considered an important feature (even if some stakeholders have doubts about the independence of certain experts in respect of big audit firms or large companies). Furthermore, despite the fact that the due process involves public consultations by EFRAG, the views of the TEG cannot be taken as overall European views. The EFRAG "*Supervisory Board*" does not act as an actual "Board" with respect to substantive issues. In particular, it is not empowered to validate either comment letters to the IASB or endorsement advice letters to the Commission.
- The credibility of EFRAG is, therefore, weakened by its lack of representativeness. Stakeholders do not see the TEG as their representative. In particular, despite the EFRAG User Panel and the user representation on EFRAG TEG, users feel that their opinions are not sufficiently taken into account.
- Certain stakeholders (mainly the national standard setters and large listed companies) regret that positions adopted by EFRAG, in conformity with its narrow interpretation of its mandate, are based exclusively on technical analyses of standards and do not take economic and political implications (relations with other authorities, impact on other rules, etc.) into consideration. The technical expertise of EFRAG is appreciated and should be maintained. Nevertheless, the fact that the role of EFRAG is limited to technical analysis and that it does not fully assess the economic impact or the contribution of the standards to the public interest is not considered satisfactory. According to EFRAG's interpretation of the IAS Regulation, the Commission and the ARC are responsible for analysing the economic/political implications. Moreover, EFRAG states that it does not have the resources and competence necessary for full economic analyses. While this concern to provide technical opinions unbiased by political considerations could

be perceived favourably by the IASB, it diminishes EFRAG's credibility with Member States.

- Finally, the current system of voluntary financing is complex and not fully reliable. The current funding comes from three sources: the private sector (European organisations representing stakeholders: industrial and trading companies, financial institutions, accounting professionals); national funding mechanisms (coordinated by the private sector or national standard setters), and an EU grant (doubling contributions made by private sector participants). Besides these three sources, there are contributions in kind (provision of staff, members of the TEG, of the working groups and of the Supervisory Board).

In 2013, the budget of EFRAG is funded as follows:

Voluntary contributions from private European institutions:	EUR 750,000
National funding mechanisms set up by 6 Member States (FR, DE, UK, IT, SW, DK), plus Norway, by various means:	EUR 1,445,000
EU grant:	EUR 3,100,000
Total cash:	EUR 5,295,000
Contributions in kind:	EUR 1,180,000
Total:	**EUR 6,475,000**

During the meetings that preceded this report, several organisations mentioned the possibility of reducing or even terminating their contribution. Due to budgetary constraints, the EU grant for 2014 will also be decreased and is expected to amount to EUR 2,800,000. An unstable funding mechanism may weaken the organisation.

2.3.3 Possible options

In order to rectify the problems described above, there are three possible options:

Option 1: Transforming EFRAG

The transformation of EFRAG would aim at reinforcing its structure and maintaining, at the same time, its mixed composition that covers both public and private interests at European level. The new structure would fulfil its current technical role, but would also be able to carry out a strategic analysis of the economic impact of the standards under scrutiny, relying on adequate conceptual and technical means.

This option builds on the existing technical credibility of EFRAG, whilst the appointment of a high level Board would enhance the organisation so as to meet three identified objectives: to bring to EFRAG's positions an institutional legitimacy in addition to the legitimacy that its due process provides; to have a different and supplementary set of skills to influence its positions at an early stage if some interactions with economic policy so require, and to involve National Standard Setters more fully in the organisation and to allow for their participation in all stages of the decision process.

The new structure would allow EFRAG to provide, firstly the IASB (comment letters on exposure drafts) and then the Commission (endorsement advice letters on final standards), with analyses that include both technical and economic considerations. EFRAG would continue its proactive activities (where these are relevant to IFRS, in particular by developing a coherent European voice to communicate with the IASB and covering both technical and economic aspects). However, under this first option, EFRAG would remain a private organisation and the Commission, as a guardian of the European public interest, would still be responsible for taking decisions on the strategic and political issues involved in the accounting debate, under the control of the Council and of the Parliament.

The improvements foreseen are presented below:

a. Clarify the remit of EFRAG

The remit of EFRAG, including its relation to the European Commission, was established officially in 2006 in the "Working Arrangements" document which stipulates, in particular, that "EFRAG will provide advice to the Commission on all issues relating to the application of IFRS in the EU". However, EFRAG's field of action is wider and covers also non-listed companies, in particular SMEs, which do not apply IFRS. The importance of having accounting standards adapted to SMEs must not be underestimated, but the "international aspect" is considerably less necessary, in spite of the intention of the IASB to develop IFRS standards for SMEs. As to the financial reporting framework for non-listed SMEs, we believe it is preferable at this stage to adopt the "European" approach at the initiative of the Commission (Accounting Directives) and in close cooperation with the national standards setters.

Recommendation 3

Consequently, our recommendation is that EFRAG should focus on its remit regarding the IFRS standards, in accordance with the IAS Regulation.

b. Funding of EFRAG

Recommendation 4

Our recommendation is to analyse the legal possibility of establishing a system of compulsory contributions/ levies paid by listed companies that use and benefit from IFRS. A proportion of compulsory private funding would stabilise the organization.

However, the preliminary analyses point out difficulties which the legal services of the Commission will have to study thoroughly. From a legal point of view, it seems that, in order to be able to request a contribution from listed companies, EFRAG should be able to identify clearly the service provided for the (individual?) benefit of those companies. Otherwise, the contribution would be seen as a tax. Member States would also be requested to unanimously approve the system.

Recommendation 5

Pending the implementation of such a levy system, we recommend for the meantime: 1. that Member States organise a national funding mechanism if it has not yet been done; 2. if voluntary private contributions and national funding mechanisms would not provide enough resources to ensure an appropriate budget for the new EFRAG, that the share of funding by the European Commission be increased.

c. Structure of EFRAG (see the diagram in Annex 4)

1) General Assembly

EFRAG General Assembly is currently composed of 7 Member Organisations (Business Europe, FEE, Insurance Europe, EBF, ESBG, EACB, EFAA).

Recommendation 6

We recommend to extend the General Assembly membership, within EFRAG's current legal form (international non-profit association - AISBL), to include National Funding Mechanisms and other private and/or public organisations that are contributing financially or in kind. As permitted by the Belgian law for AISBLs, there is no need to establish a strict link between voting rights and the contributions (financial or in kind) of Member Organizations. The European Commission will be invited to attend the meetings of the General Assembly. The General Assembly will exercise oversight over the decision-making Board, including the nomination of the Board members. It will also act as a sounding board for the Commission for its participation in the IFRS Foundation Monitoring Board.

2) Supervisory Board

Recommendation 7

We recommend to replace the current Supervisory Board with a high-level Board, which would approve the comment letters addressed to the IASB and the endorsement advice letters to the Commission, relying on the work of a technical group.

Composition:

The new board will be composed of members belonging to three pillars, appointed by the General Assembly:

- European public institutions (4 members proposed by ESMA, EBA, EIOPA and ECB, respectively)
- Stakeholders (5 members: industrial and trading companies; financial institutions; accounting professionals; users)

    - Industrial and trading companies: one member proposed by Business Europe.
    - Banks: one member proposed jointly (or, failing that, in turns) by the European Banking Federation, the European Association of Cooperative Banks, the European Group of Savings Banks, the European Association of Public Banks.
    - Insurance companies: one member proposed by Insurance Europe
    - Accounting professionals: one member proposed jointly by the FEE ("*Federation of European Accountants"*) and the EFAA ("*European Federation of Accountants and Auditors*")
    - Users: one member proposed jointly by the associations representing private investors ("*end users*") and financial analysts.

- National Standards Setters (NSS) (7 members, with the implicit agreement that the NSS of the four largest Member States will always be represented, as is also the case for the Executive Board of the ECB or the Management Committee of the EIB).

We therefore foresee a Board of 16 members, plus a President who would be proposed by the Commission with the approval of the Council and of the Parliament.

Furthermore, the Commission would nominate one observer with speaking rights.

The Board of EFRAG would make consensus-based decisions. It will be the main task of the President to use his/her best efforts to achieve consensus within the Supervisory Board[6].

Role:

Besides the internal management functions of the current Supervisory Board, the new Board would approve letters prepared by TEG, in particular, comment letters addressed to the IASB and endorsement advice letters addressed to the Commission. These new tasks require the appointment to the Board of high-level members with adequate profiles, notably with a good understanding of financial reporting and its implications, in particular, how it is used and how it may affect economic growth and financial stability. It would be useful to develop ex-ante criteria and personal profiles to provide a benchmark for institutions, organisations and national standard setters proposing candidates. Moreover, Members of the Board should commit themselves to the objective of Europe speaking with one voice.

[6] Consensus does not mean unanimous voting. Members of the Board might be allowed to abstain or remain silent.

It goes without saying that this would imply more frequent Board meetings (probably around ten meetings a year) in comparison with the current situation.

President of the Board:

It is possible to separate the role of President, who would be the public spokesperson of EFRAG, from the role of *Chief Executive Officer*, who would be responsible for the daily management of the organisation, including the chairmanship of the TEG. The Chief Executive Officer would participate in the meetings of the Board without a voting right, and would assist the President in relations with the IASB.

3) TEG

Recommendation 8

We recommend to transform the TEG as follows:

The modified TEG would prepare the projects submitted for the approval of the Board. It would receive more guidance and feedback from the Board. Its task would remain virtually unchanged, except (and this is an important and significant change) that the TEG would become an advisor to the Board instead of having full authority to determine the positions of EFRAG.

The TEG would continue to be composed of part-time experts. These experts should be active practitioners, with diverse professional experience and geographic origins. At least four of these experts should come from National Standard Setters, provided they meet the expertise criteria. The members of the TEG would be appointed in a transparent manner by the Board. Their number could be increased up to 16. The Chief Executive Officer would be the President of the TEG.

The manner in which the TEG uses the contribution of working groups should be more transparent; a delegation from each group should participate in the TEG's discussions on specific topics as relevant.

The TEG should continue to publish "*feedback statements*" in order to justify its position and how it relates to comments received from public consultations and from the activities of the working groups.

The TEG will continue to be supported by the current EFRAG staff.

4) Impact assessments

In European law-making practice, an impact assessment is an essential instrument ensuring that the initiatives of the Commission and EU legislation are drawn up on the basis of transparent, complete and balanced information.

When an impact assessment is carried out, a series of questions must be answered:

- What is the nature of the problem, its extent, how does it evolve and whom does it concern the most?
- What are the opinions of the stakeholders concerned?
- What objectives should be established in order to deal with this problem?
- What are the main options considered for the fulfilment of these objectives?
- What are the probable economic, social and environmental effects of each of these options?
- What are the differences in terms of effectiveness, profitability and coherence between the main options offering solutions to the problems?
- How can follow-up and assessment be organised in the future?

The IASB set up a working group responsible for drawing up the procedures for effects analyses. However, EFRAG cannot rely exclusively on the analyses carried out by the IASB because they cannot take sufficient account of the specificities of the European economy. Moreover, for confidentiality reasons, the IASB maintains that it cannot publish all the data that would be of interest for EFRAG.

Recommendation 9

> As part of its due process, EFRAG is encouraged to pursue its efforts (see, in particular, the new procedures published on 11 July 2013) in order to produce impact assessments corresponding to the needs of users and of the European legislator, in cooperation with the national standards setters. These impact assessments analyse the effects of the standard, check whether the standard improves the quality of financial information and explore alternative options in comparison with the ones considered by the IASB.
>
> EFRAG and the other European bodies concerned are also encouraged to work in a more coordinated manner when performing "*field tests*".

5) Consultative Forum of Standard Setters (CFSS)

Recommendation 10

> We recommend maintaining the quarterly meetings between EFRAG and representatives of <u>all</u> national standard setters (including Norway and Switzerland). They are important for the cooperation of the European national standard setters, particularly for smaller Member States. In addition they serve today as preparatory meetings for European participants in the IASB Accounting Standards Advisory Forum (ASAF) meetings.

<u>Option 2: Transferring the responsibilities of EFRAG to ESMA (European Securities and Market Authorities)</u>

ESMA wishes to have more influence in the standardisation process. The interest of ESMA as a supervisor is to ensure that the IASB produces standards which are sufficiently clear to allow consistent application of IFRS but also to protect markets.

ESMA has solid expertise in the field of implementation and interpretation of accounting standards at European level. As part of its functions (coordination at European level of the enforcement activities performed by national regulators on the consistent application of

IFRS), ESMA identifies cases where standards have been implemented in diverse ways and, if necessary, submits them to the interpretations committee of the IASB. Hence, there would be a possibility to integrate EFRAG into ESMA.

The author of this report considers that this option would have several advantages: the merger of the two European organisations (EFRAG and ESMA) active in the field of IFRS would allow for the rationalisation of human and financial resources, as well as the integration of the endorsement and enforcement processes, thus making the overall process of development of IFRS more coherent; it would also endow the European Union with a structure more similar to the American SEC. Moreover, the role of spokesperson for the European Union and the influence over the strategic guidelines in the field of international accounting standards would no longer belong to a private entity (EFRAG).

However, this option encounters a massive opposition from stakeholders, for various reasons:

- It is claimed that ESMA has a restrictive view on accounting standards and considers them only from the perspective of informing and protecting investors, without taking into consideration macro-economic impacts, prudential aspects and concerns of "*preparers*"*;*

- Certain Member States are reluctant to give more power to ESMA (see the discussions in the audit context);

- The development of standards and enforcement of them should not be mixed; several respondents expressed the fear that ESMA would grow into a stock market watchdog similar to the SEC;

- ESMA is only competent in enforcement coordination;

- The IFRS standards are based on principles (unlike US GAAP), therefore the supervisors' influence should remain moderate in order to maintain this characteristic and to avoid IFRS becoming more rules-based.

Even if, for these various reasons, Option 2 cannot be adopted, we recommend, nonetheless, strengthening ESMA's role in the European process. For this reason, in Option 1, we recommend that ESMA propose a member for the Board of the new EFRAG. ESMA could also share with the Commission the role of observer at IFRIC (International Financial Reporting Standards Interpretations Committee).

Option 3: Replacing EFRAG by an Agency of the European Union

Like many of its Member States, the European Union is partly decentralised, functioning by means of its agencies, which are independent legal entities separate from the institutions of the European Union. The agencies (e.g. the European Space Agency, the European Aviation Safety Agency, the European Environment Agency, the European Medicines Agency, the European Banking Authority, the European Securities and Markets Authority, the European Insurance and Occupational Pensions Authority, etc.) contribute to the implementation of the main policies of the Union, thus permitting the European institutions, especially the Commission, to focus on policy making.

The agencies also have a role in supporting decision-making processes by pooling technical competence and specialised know-how available at national and European levels and thus may contribute to reinforcing the cooperation between Member States and the European Union in important fields of activity.

A lack of communication and cooperation between European stakeholders, as well as the high level of expertise required in certain fields, justify the creation of decentralised agencies. This could be the case for the development of international accounting standards.

The major advantage of this option is the fact that it would no longer be necessary to entrust the roles of advisor to the Commission and of spokesperson in relations with the IASB to a private entity (EFRAG). This would clearly show that European public interest must prevail in these matters. This would not hinder the public body either from cooperating closely with stakeholders to define needs or from resorting to the best experts in the private sector.

However, this option appears unrealistic in the current budgetary context. In particular, the scope of this agency would seem to be too limited to justify the creation of such a structure, especially because it would inevitably generate costs, not only for salaries, but also for bigger pensions.

Moreover, considering the legal and practical implementation formalities (legislative proposal and legal basis adoption procedure, funding, setting up, personnel recruitment, etc.), such an agency could become operational only in the medium term. However, the European Union needs an effective structure, capable of offering the Commission pertinent advice on the endorsement of the important standards that will be finalised in the short term by the IASB, as soon as possible. Nevertheless, this third option should not be excluded from consideration in the longer term.

At this stage, Option 1 is preferred. It received maximum support from the stakeholders and it is the least burdensome. Nevertheless, it requires the approval of the General Assembly of EFRAG based on a proposal submitted by the current Supervisory Board. Should the latter fail to accept the changes foreseen, the Commission could propose to set up a new private-public entity under the form of an international non-profit organisation with the governance suggested in Option 1. The EU grant would be directed to the new institution.

2.4 The role of the ARC (Accounting Regulatory Committee)

The ARC represents the governments of Member States but, in its current organisation, its capacity for detailed technical debate is considered limited. Its intervention, according to the process set out in the IAS Regulation, occurs rather late, after the publication of the standard by the IASB and after the formulation of the endorsement advice by EFRAG, which reduces the possibility of the ARC performing upstream analyses or requesting that draft standards are amended.

Recommendation 11

We recommend that the ARC should intervene at an earlier stage of the procedure and should strengthen its dialogue with EFRAG upstream, with a view to influencing the activities of EFRAG and, consequently, the work programme and activities of the IASB. This would imply more frequent and substantive meetings, in accordance with the request expressed by several Member States.

EFRAG should request the amendment of deadlines for comments to the IASB on exposure drafts. Indeed, the European stakeholders, including the national authorities, often have too little time to send their comments to EFRAG. The modification of the comment period may increase the European influence on the IASB and facilitate the involvement of the ARC.

The discussions within the ARC should be better prepared: EFRAG presentations could be clearer and could be shared with participants in advance; the Commission could provide the ARC with notes on economic and political issues. Based, in particular, on the concerns expressed by the ARC, EFRAG could formalise the European needs in terms of the conceptual framework and standards setting.

The future status of the ARC is, however, uncertain due to the changes resulting from the Treaty of Lisbon, which are currently underway. Indeed, since the entry into force of this Treaty and the elimination of the traditional comitology procedure, the formal assistance (with voting) of a regulatory committee is no longer required. If the IAS Regulation is amended in order to be adapted to the rules of the Treaty of Lisbon (in line with the proposal of the Commission of 27 June 2013, which is being examined by the European legislator),[7] the ARC, which still functions according to the old comitology principles, will be transformed into a "group of experts" with a more political advisory role for the Commission, including discussions on accounting policy subjects. In any case, we recommend that the role of the ARC be strengthened.

In the context of endorsement of IFRS, the Council and the Parliament would maintain their final resort control in line with the Treaty (right to object).

2.5 The European Parliament

Recommendation 12

Setting up an "early warning" system from EFRAG to the Parliament would guarantee the optimum involvement of the Parliament. This measure could be effectively completed by the appointment of a permanent rapporteur for IFRS.

[7] Proposal for a Regulation of the European Parliament and of the Council adapting to Article 290 of the Treaty on the Functioning of the European Union a number of legal acts providing for the use of the regulatory procedure with scrutiny (RPS) COM/2013/0451 final. The proposal of the Commission provides for the transformation of the RPS in delegated acts for the fundamental legal acts listed in the Annex, among which the IAS Regulation 1606/2002.

3. Implementation of the recommendations

With the exception of the proposals on funding (compulsory contribution of the listed companies) and on the revision of the endorsement criteria, the recommendations favoured in this report do not require legislative amendments. We have made these choices intentionally, as it would be difficult to finalise such amendments before the future elections for the Parliament and the change of the Commission.

The recommendations proposed involve changes in the status and internal rules of EFRAG, which can be made by the General Assembly, on a proposal from the Governance and Nominating Committee of the Supervisory Board.

Annex 1: List of the stakeholders consulted

a) List of the stakeholders interviewed

N.B. The press release announcing Philippe Maystadt's mission invited interested stakeholders to sign up for an interview.

EFRAG	Françoise Flores (Chair)	8/4-12/7
	Hans Van Damme (Acting Supervisory Board Chair)	8/4 -9/7
National Standard Setters	Financial Reporting Council (UK) Roger Marshall, Stephen Haddrill, Melanie McLaren	23/4-5/7
	OIC (IT) Alberto Giusani, Maurizio Tesson, Angelo Caso, Tommaso Fabi, Carlo Carlandrini, Paolo Gnes	14/5-5/7
	Autorité des Normes Comptables (*Accounting Standards Authority*) (FR) Jérôme Haas, Isabelle Grauer Gaynor	29/4-5/7
	DRSC (DE) Liesel Knorr, Ralph Thomas	27/5-5/7
	Delegation of smaller NSS (DK, PL, LU, ES, BE, S, NO)	26/6
European Commission	Pierre Delsaux Nadia Calvino Olivier Guersent	19/4 28/6 25/7
European Parliament	ECON Committee	7/5
	Klaus-Heiner Lehne	10/7
Member States	Accounting Regulatory Committee	15/4
	Thomas Bloeink, Ministry of Justice (DE)	27/5
	Alessandro Rivera, Nicola Mango Ministry of Finance (IT)	14/5

	Ramon Fernandez, Charles Sarrazin, Mathieu Marceau, State Treasury (FR)	21/5
	Richard Carter, Vickie Wood, Department for Business, Innovation and Skills (UK)	20/6
	Jean-Marc Delporte, President of the Management Board, SPF Economie (BE)	5/6
	Lithuanian Presidency	24/6
ESMA	Steven Maijoor, Laurent Degabriel	16/5
EFRAG Member Associations	FEE	30/5
	BusinessEurope	24/6
	European Banking Federation	6/6
	Insurance Europe	4/7
	EFAA	8/7
	Saving Banks	9/7
	Cooperative Banks	9/7
Think tank Bruegel	Nicolas Véron	6/6
Preparers	MEDEF/AFEP (FR)	21/5
	The 100 Group (UK)	20/6
	ISDA/European Banks	20/6
Users	EurofinUse	5/7
	European Federation of Financial Analysts Societies	5/7
	Guy Jubb, Standard Life Investments	10/7
Auditors	ICAEW (UK)	20/6
	ACCA	10/7
	CNCC (FR)	19/6
IASB	Hans Hoogervorst (Chair), Board Members	20/6

IFRS Foundation	Michel Prada (Chair), Clemens Boersig, Sir Callum McCarthy, Antonio Zoido (European Trustees)	4/7

b) List of the stakeholders who provided comments on the draft report

1. IFRS Foundation
2. EFRAG Supervisory Board
3. European Central Bank
4. ESMA
5. EIOPA
6. EBA
7. National Standard Setters of Austria, Estonia, Denmark, Holland, Luxembourg, Poland, Portugal, Norway, Spain and Sweden
8. National Standard Setters of France, Germany, Italy and United Kingdom
9. Federal Ministry of Justice (DE)
10. Ministry of Finance, Accounting Department (PL)
11. Direction Générale du Trésor, Ministère de l'Economie et des Finances (FR)
12. Ministry of Economy and Finance (IT)
13. CRUF – the Corporate Reporting Users` Forum
14. European Banking Federation (EBF)
15. Insurance Europe
16. European Federation of Accountants and Auditors for SMEs (EFAA)
17. European Savings Banks Group (ESBG)
18. The European Federation of Financial Services Users (EuroFinUse)
19. Institute for Accountancy Profession in Sweden (FAR)
20. Comité des Normes Comptables (FR)
21. ICAEW
22. IDW (Institute of Public Auditors in Germany)
23. ACCA
24. MEDEF / AFEP
25. The Swedish Financial Reporting Board
26. Swedish Enterprise Accounting Group (SEAG)
27. Standard Life Investments
28. EFAMA (European Fund and Asset Management Association)
29. Accounting Standards Committee of Germany (ASCG)
30. Federation of European Accountants (FEE)
31. Association for Financial Markets in Europe (AFME)
32. The German Banking Industry Committee (GBIC)
33. Association of British Insurers (ABI)
34. CNCC (Compagnie National des Commissaires aux Comptes)
35. The Norwegian Accounting Standards Board (NASB)
36. The Danish Accounting Standards Committee
37. The European Federation of Financial Analysts Societies (EFFAS)
38. Mrs Françoise Flores (acting in personal capacity)
39. Mr Jérome Haas, ANC
40. Mr Henri Oliver, Professeur émérite à l'Université de Liège
41. Mr Nicolas Véron, Senior Fellow, Bruegel
42. BusinessEurope

Annex 2: Presentation of the current structure

1. A structure relying on two bodies

The endorsement mechanism of the international accounting standards applicable in the EU is mainly based on two bodies, EFRAG and ARC.

1) EFRAG (*European Financial Reporting Advisory Group*) , is a technical private law entity (with international non-profit organisation status under the Belgian law) created in 2001 by organisations representing, at European level preparers, users and accounting professionals. Initially it was funded exclusively by the private sector. Later on, EFRAG signed a *working arrangement* with the European Commission, which extended its scope of activity and decided subsequently to provide funding amounting to the level of the contributions of the other stakeholders. In practice, EFRAG now generally has three funding sources: the contribution of its members, the national funding mechanisms and the subsidy from the European Commission (plus contributions in kind in the form of seconded staff, members of TEG and working groups and board members).

EFRAG is currently organised as follows:

The **General Assembly,** made up of representatives of EFRAG constituents, is responsible for setting up the Supervisory Board, with the assistance of the Governance and Nominating Committee made up of representatives of EFRAG Member Organisations and National Funding Mechanisms.

The **Supervisory Board** is responsible for monitoring governance: it selects the members of the TEG and PRC, regulates the cooperation between EFRAG and the National Standard Setters and works to maintain EFRAG's funding.

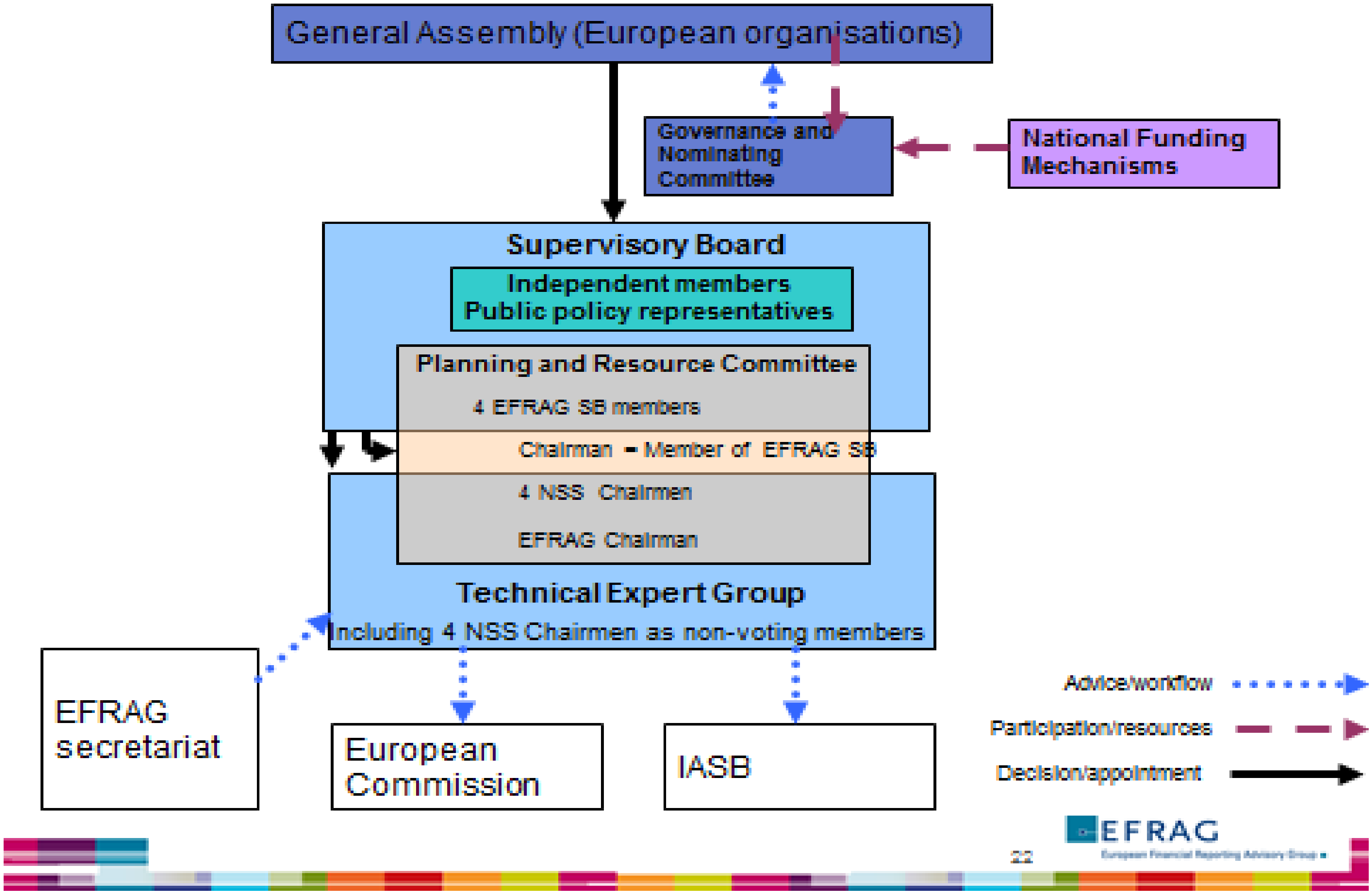
The **Technical Expert Group (TEG)**, made up of independent experts, is responsible for issuing opinions on IFRS exposure drafts and endorsement letters to the Commission in full autonomy, without submitting their opinions for approval by the Supervisory Board.

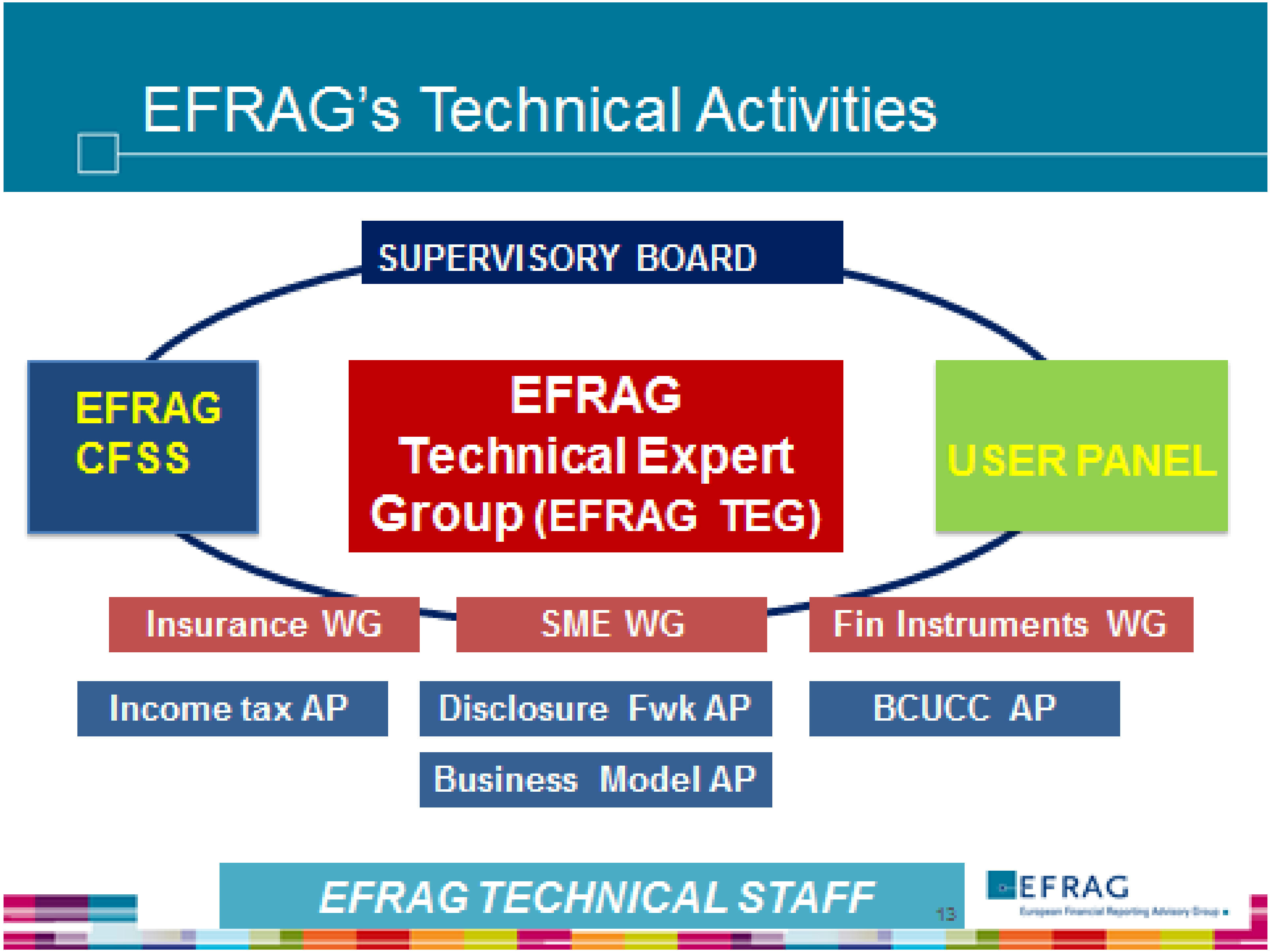
The **Planning and Resources Committee** (PRC), which mainly brings together the National Standard Setters, is in charge with proactive actions, contributing upstream to the reflection work of the IASB.

The **Consultative Forum of the national Standards Setters (CFSS)** is also an organisation of the national standards bodies; four of which also participate in the meetings of the TEG in an advisory capacity.

In practice, the decision-making power belongs essentially to the TEG.

2) The **ARC** (*Accounting Regulatory Committee*) is a political body with the objective of assisting the European Commission by offering an opinion on standard endorsement, taking into account the general interests of the Member States. It comprises members of public authorities of the Member States. Among these, some are not specialists in developing accounting standards, whereas others represent Member States' standard setters. The ARC meets when the Commission summons it and forms an opinion after EFRAG issues its advice.


General Assembly (European organisations)
Governance and Nominating Committee
National Funding Mechanisms
Supervisory Board
Independent members
Public policy representatives
Planning and Resource Committee
4 EFRAG SB members
Chairman - Member of EFRAG SB
4 NSS Chairmen
EFRAG Chairman
Technical Expert Group
Including 4 NSS Chairmen as non-voting members
EFRAG secretariat
European Commission
IASB
Advice/workflow
Participation/resources
Decision/appointment
EFRAG
22

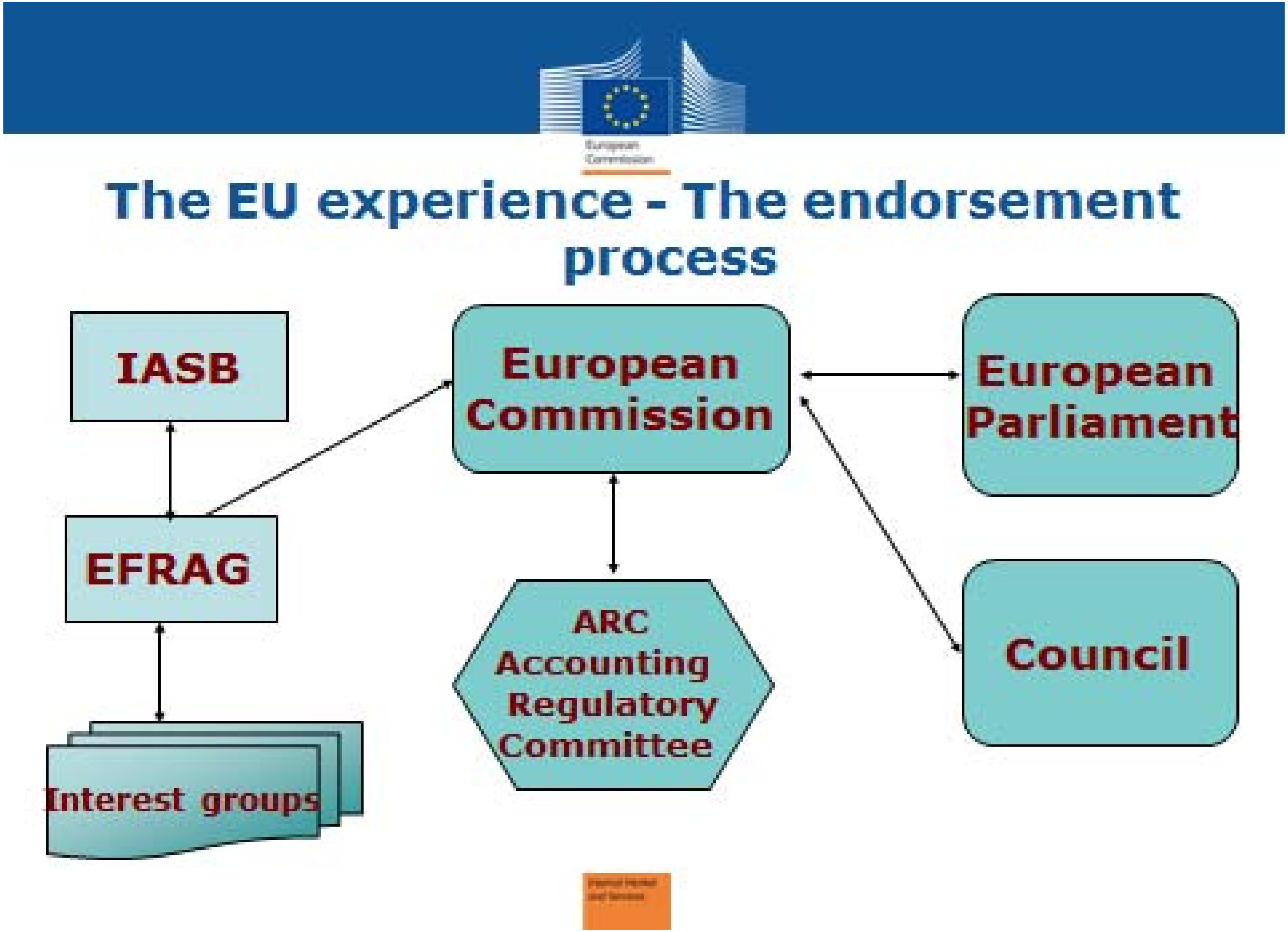

EFRAG's Technical Activities
SUPERVISORY BOARD
EFRAG CFSS
EFRAG Technical Expert Group (EFRAG TEG)
USER PANEL
Insurance WG
SME WG
Fin Instruments WG
Income tax AP
Disclosure Fwk AP
BCUCC AP
Business Model AP
EFRAG TECHNICAL STAFF
13
EFRAG

2. The accounting standards endorsement mechanism

Regulation (EC) No. 1606/2002 stipulates that the international accounting standards, in order to be applicable in Europe, must be adopted by the European Commission after they have been presented to the ARC for issuing an opinion and after they have been subjected to the procedure provided for by the Regulation, which allows the European Parliament and the Council to exercise their right to object (this has never happened). The international accounting standards can only be adopted if:

- they are not contrary to the principle of the true and fair view;
- they comply with the European public interest;
- they fulfil the intelligibility, relevance, reliability and comparability criteria required for the financial information used for making economic decisions and assessing the activity of the company managers.

Standards can be rejected, but there is no mechanism for modifying a standard or replacing it with another one in case it is considered inappropriate.


The EU experience - The endorsement process
IASB
European Commission
European Parliament
EFRAG
ARC Accounting Regulatory Committee
Council
Interest groups

Annex 3: The adoption mechanism of the IFRS standards in six countries outside the European Union

The information in this table, provided by the FEE, has been collected on a best endeavours basis from within the accountancy profession with a view to be factual. It has been collected between 31 May and 12 June 2013. It should be noted that the IFRS Foundation has recently completed the first phase of an initiative to assess the progress towards global adoption of IFRSs by publishing over 60 country profiles with more details on the status of the adoption of IFRS.

	Which national institution has the authority to endorse IFRS?	**Can IFRS as issued by the IASB be amended on endorsement?**	**Remarks**
Australia	• IFRS are incorporated into the Australian accounting standards, **IFRS cannot be adopted directly in Australia**. • **The Australian Accounting Standards Board (AASB) recommends legislation to adopt IFRS into Australian accounting standards.** • The Parliament has the ultimate say; they have a 'disallowance' capability so they can reject the AASB recommendation.	• Technically, yes, the AASB can recommend amendments. • However, the **overarching objective has been to make sure that for profit entities in Australia can claim IFRS compliance**. • Parliament can, in theory, also use its disallowance capability to reject. However, this was exercised only once under old Australia GAAP.	• To date there have not been any amendments for **for-profit entities.** • However, currently the AASB has **proposed** adding additional disclosures to the **investment entities** that meet the international exemption criteria to effectively still require them to provide consolidated information – it is not yet sure whether the international proposals will be adopted into Australia and just how as this is still being debated. • Australia, when originally transferring to IFRS made many changes (i.e. eliminating options, retaining Australian specific guidance). However, these were all reversed. • Amendments are made frequently for **not for profit entities**.
Brazil	• The **Comitê de Pronunciamentos Contábeis (CPC)** is the Brazilian standard-setting body that approves all IFRSs for application in Brazil as they are issued by the IASB following the terms of a **Memorandum of Understanding**	• No.	• However, in order for an IFRS to be locally applicable (for the local individual financial statements and for those companies that do not prepare IFRS consolidated financial statements), CPC is the body that issues standards and

	Which national institution has the authority to endorse IFRS?	Can IFRS as issued by the IASB be amended on endorsement?	Remarks
	among CPC, IASB, and CFC (the Brazilian Accountants Body). • Regulators, such as the Brazilian Securities Commission (CVM), the Brazilian Central Bank, and the insurance regulator, enforce the application of the CPC standards. As a result, all entities are required to apply a new or amended IFRS at the same time. • **Specific regulators can present an additional endorsement mechanism** in order for IFRSs to be applicable in specific sectors (banks, insurance companies, listed entities). The specific regulators **do not change the standards** (although the insurance regulator is known to change specifically the implementation mechanisms, but then it is not called IFRS any more).		legally has the right to write any standard they like, **but they are bound by the Memorandum of Understanding signed with IASB that standards issued in Brazil need to be converged with IFRSs**. • Brazil has eliminated some accounting policy options permitted by IFRSs, for example, the revaluation of property, plant and equipment under IAS 16 Property, Plant and Equipment and revaluation of intangible assets under IAS 38 Intangible Assets. Nonetheless, the resulting consolidated financial statements can still be in full compliance with IFRSs as issued by the IASB. • Also, Brazil modified IFRSs to: o require that, in separate company financial statements, the equity method must be used to account for investments in subsidiaries, associates, and joint ventures; and o prohibit early adoption. • Sometimes adjustments are made to the "individual financial statements," which are specific Brazilian legal entity financial statements similar to, but not equal to, separate financial statements. • So far the differences between IFRSs and local financial statements are minor and well identified.

	Which national institution has the authority to endorse IFRS?	Can IFRS as issued by the IASB be amended on endorsement?	Remarks
Canada	• The Canadian Institute of Chartered Accountants (CICA)'s **Accounting Standards Board** (AcSB) endorses individual new and amended IFRSs for adoption in Canada as Canadian GAAP for publicly accountable enterprises. • Under Canadian corporate law, financial statements must be presented in accordance with generally accepted accounting principles (Canadian GAAP) as adopted by the AcSB and reflected in the CICA Handbook. **The AcSB thus effectively must "endorse" IFRSs** in order for them to become Canadian GAAP and to incorporate them into the CICA Handbook and, on an ongoing basis, has to go through a process to adopt any new or modified IFRSs into the CICA Handbook so that they become Canadian GAAP.	• Technically, yes. The AcSB decides the composition of Canadian GAAP. Therefore, it has the ability to amend particular aspects of an individual IFRS before approving it for incorporation into the Handbook. • **However**, from the outset, **the AcSB publicly stated its intention to bring IFRSs into the Handbook in full and without modification**. To do otherwise would result in multiple and possibly conflicting versions of IFRSs globally, if enough other national standard setters did the same. That would defeat the purpose of global convergence, which is to move toward a single set of high-quality accounting standards for use throughout the world.	• Under Canadian securities rules, Canadian companies must present financial statements in accordance with IFRSs as issued by the IASB subject to certain transition rules (SEC registrants are permitted to present financial statements in accordance with US GAAP). Thus, **if the AcSB modifies IFRSs as issued by the IASB, those statements would not be acceptable for public companies** unless the Canadian securities administrators either provide an exemption or change their policies. • Mandatory adoption of IFRSs has been deferred for investment companies and segregated accounts of life insurance enterprises until 2014 and for entities with rate-regulated activities until 2015. Those deferrals were provided to give time for the IASB to complete projects affecting those entities. Accordingly, the deferral dates may be extended if completion of the projects is delayed.
Korea	• The Financial Services Commission, a government entity	• No.	• However, while translating IFRSs issued by IASB into Korean, certain paragraphs can be added only for implementation purposes.

	Which national institution has the authority to endorse IFRS?	Can IFRS as issued by the IASB be amended on endorsement?	Remarks
Russia	• The **Ministry of Finance** (MinFin) decides on endorsement (of a standard or interpretation) of IFRS, after discussing the document with the Central Bank of Russia (CBR) and the Federal Service of Financial Markets (FSFM). • MinFin is also required to **consult with the expert body** before making the final decision. The expert body can be a legal entity which meets criteria set up by a regulation. Currently the role of the expert body is performed by a non-commercial organization "Foundation "National Organization for Financial Accounting and Reporting Standards" (NOFA)".	• Technically, yes. A decision to endorse an individual IFRS or Interpretation of IFRS is made with regard to such a standard or interpretation **as a whole**. • However, **'carving out'** certain provisions of a standard or interpretation is possible, if those are recognized to be inapplicable in the Russian Federation. • Nevertheless, MinFin which makes the final decision has clearly expressed an **intention to avoid any carve-outs** of the standards and interpretations.	• Currently, all published standards and interpretations, and amendments to them **are endorsed without any carve-out**, except for amendments to IFRS 10 "Investment Entities", amendments to IAS 32 "Offsetting Financial assets and financial liabilities" and IFRS 9 which are not endorsed yet. • The only difference between the endorsed standards and IASB published versions is that the Russian law imposes a restriction on the application of the exemption provided by IFRS 10.4 (IAS 27 (2008) para. 10) for credit and insurance entities (including banks).
South Africa	• IFRSs are not endorsed, but **adopted as issued** by the IASB. The South African Companies Act requires applying IFRS as issued by the IASB. • The Financial Reporting Standard Council (FRSC) is appointed by the applicable government Minister. One of the functions of the FRSC is to consult with the Minister on making regulations to establish financial reporting standards (Minister has the final approval). The one proviso to this is that **any regulations applicable to public companies must be in accordance with IFRS, as issued by the IASB**. The Act identifies various other companies that are required to apply IFRS.	• No.	• In future the Minister (upon advice of the FRSC) may be able to issue interpretations on IFRS applicable to local situations and circumstances. At present, the Companies Act does not allow for this process yet. Based on the wording in the Companies Act, the FRSC (and Minister) would only be able to 'add to IFRS', but not 'carve out' or change IFRS.

Annex 4: Proposed structure (Option 1)