

Spanningsveld tussen EU, Local en IFRS GAAP

Overkoepelend Europees perspectief

Tilburg University

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6 September 2019



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OVERVIEW

FINANCIAL REPORTING IN EUROPE SOME 20 YEARS
AGO

ABOUT EFRAG

IS IFRS GOOD FOR EUROPE?

SUSTAINABLE FINANCE



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FINANCIAL REPORTING IN
EUROPE- SOME 20 YEARS AGO

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FINANCIAL REPORTING IN EUROPE

SOME 20 YEARS AGO



- EU Directives transposed into National Legislation:
 - Member State Options: lack of comparability and transparency
 - Several accounting issues not addressed
- Need to accelerate the completion of the internal market for financial services in the EU
- Focus on listed companies: which standards?
 - European or global standards?
 - US GAAP?
 - IAS?



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FINANCIAL REPORTING IN EUROPE

SOME 20 YEARS AGO



- 1999 FEE Discussion Paper on a Financial Reporting Strategy within Europe
- 2000 EC Communication EU Financial Reporting Strategy : the way forward
- 2002 IAS Regulation:
 - IAS/IFRS for the consolidated accounts of listed companies from 2005
 - Member state options for individual accounts and non-listed companies
 - Endorsement mechanism

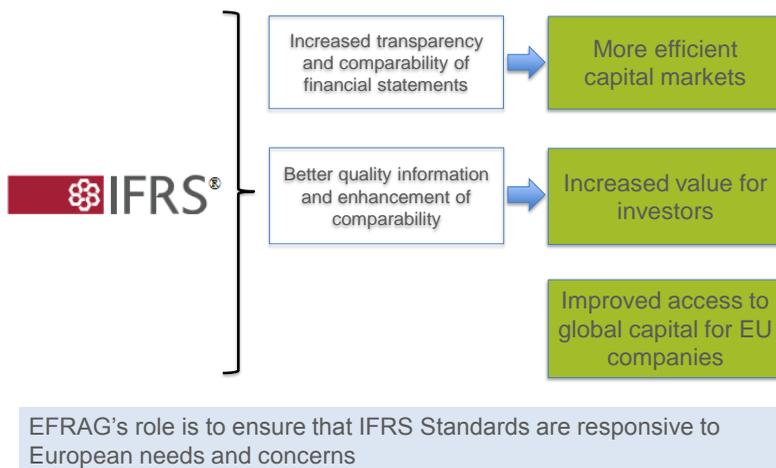


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FINANCIAL REPORTING IN EUROPE

IMPORTANCE OF IFRS STANDARDS FOR EUROPE



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FINANCIAL REPORTING IN EUROPE

SOME 20 YEARS AGO



European Financial Reporting Advisory Group

- Endorsement mechanism:
 - Why?
 - An accounting technical committee should provide support and expertise to the EC in the assessment of IAS (preamble 10): **EFRAG**
 - Two level structure: EFRAG is the technical level
 - Private sector asked by the EC to establish the technical level
 - EFRAG provides endorsement advice to the EC and brings European influence in the international standard setting process

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ABOUT EFRAG

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ABOUT EFRAG

WHO IS EFRAG?



EFRAG – **European Financial Reporting Advisory Group**

Private not-for-profit organisation established in 2001

Encouraged by the EC to serve the public interest

Its member organisations have an interest in the development of IFRS Standards and how they contribute to the efficiency of capital markets.



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ABOUT EFRAG



EFRAG MISSION STATEMENT

To serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard-setting process and in related international debates.

To provide advice to the EC on whether newly issued or revised IFRS Standards meet the criteria in the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.

To stimulate innovation in corporate reporting through the European Corporate Reporting Lab's work in sharing good practices.

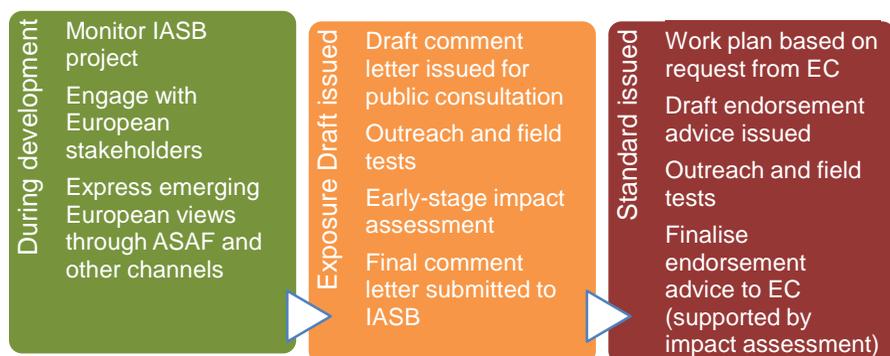
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EFRAG'S MAIN ACTIVITIES



ABOUT EFRAG

EFRAG's APPROACH TO INFLUENCING IFRS AND DUE PROCESS



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ABOUT EFRAG

KEY FEATURES OF EU ENDORSEMENT

- Endorsement criteria:
 - Technical criteria
 - Not contrary to the true and fair view
 - Conducive to European Public Good
- EC Powers to modify IFRS Standards at present:
 - Can reject an IFRS Standard, 'carve-out' (i.e. reject part of an IFRS Standard), 'top-up' and/or amend effective date
 - Cannot 'carve-in' (i.e. replace IASB's requirements with EU requirements)



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European Financial Reporting Advisory Group

2013 Maystadt Reform

- Essential features
 - Inclusive model:
 - National Standard Setters
 - European Supervisory Authorities and ECB
 - Broader strategic and economic considerations
 - Two level structure: EFRAG Board and EFRAG TEG
 - EFRAG Board decides on all EFRAG positions
 - EFRAG Board operates by consensus
 - European public good assessment and impact analysis
 - Scope of EFRAG activities: IAS Regulation

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SCOPE OF EFRAG'S ENDORSMENT ADVICE

- Technical criteria in the IAS Regulation (relevance, reliability, comparability, understandability, true and fair view)
- Conducive to the European public good:
 - Impact on financial stability
 - Impact on EU competitiveness
 - Impact on EU economic development
 - Other specific areas as requested by the EC

Costs
and
benefits

EFRAG's European public good assessment for major standards is supported by a comprehensive impact assessment which also provides insight into the practical implementation and business challenges

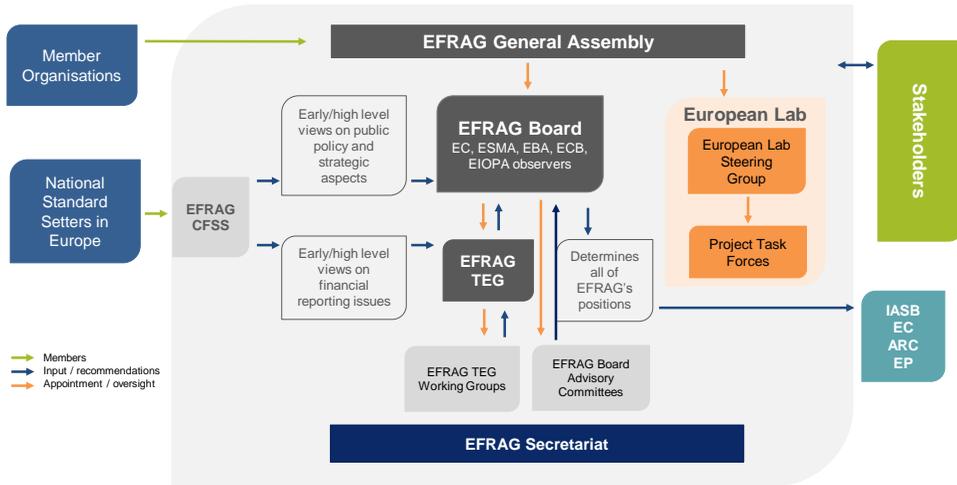
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Structure



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European Financial Reporting Advisory Group

Involvement National Standard Setters

- EFRAG Member Organisations: European stakeholder organisations and National Organisations
 - Nine National Organisations, including **the Netherlands (RJ)**
- EFRAG Board: 16 members and President
 - Only EFRAG Member Organisations can nominate
 - Peter Sampers is EFRAG Board member for the Netherlands
- EFRAG Consultative Forum of Standard Setters (CFSS): all National Standard Setters in Europe



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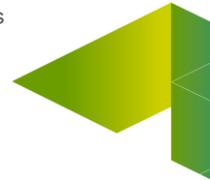
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Relationship with European Institutions

- European Commission:
 - EFRAG's advisory role
 - Observer in EFRAG Board, EFRAG TEG and Working Groups
 - European Lab
 - Partly financing EFRAG
- European Parliament:
 - ECON (Economic and Monetary Affairs Committee)
 - ECON IFRS Permanent Team
- ECB + European Supervising Authorities (EBA, EIOPA and ESMA):
 - Observer status in EFRAG Board, EFRAG TEG and Working Groups



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IS IFRS GOOD FOR EUROPE?

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IS IFRS GOOD FOR EUROPE?

REGULAR EVALUATIONS: 2015 Evaluation of the IAS Regulation

- Public consultation and literature review
- Findings:
 - Increased transparency of financial statements through improved accounting quality and disclosure and greater value-relevance of reporting – **but complexity**
 - Greater comparability between financial statements
 - Improved capital market outcomes: higher liquidity, lower costs of capital, increased cross border transactions, easier access to capital, improved investor protection and maintenance of investor confidence
 - Existing scope of IAS Regulation appropriate
 - EC supports IFRS as global standards

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IS IFRS GOOD FOR EUROPE?

REGULAR EVALUATIONS: 2016 EP Stolojan report

- EP's influence on financial reporting has increased over time
- Requests earlier involvement of the EP => ECON IFRS Permanent Team
- Is convinced that a globalised economy needs internationally accepted accounting standards
- Requests inclusion of the Maystadt criteria in relation to European public good in the IAS Regulation
- Insists that it is a priority for the IASB and EFRAG to strengthen their impact analyses notably in the field of macroeconomics and to assess different needs of the wide variety of stakeholders, including long-term investors

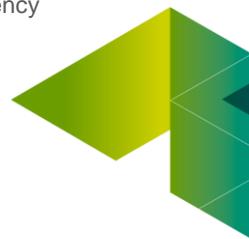
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IS IFRS GOOD FOR EUROPE?

REGULAR EVALUATIONS: 2018 Fitness Check – summary report

- Comprehensive check if EU framework for public reporting by companies is still fit for purpose, fit for new challenges, coherent and adds value at EU level
- Public consultation March-July 2018: 338 responses (9.2 % Belgium, 6.2% Netherlands)
- Scope: IAS Regulation, Accounting Directive, Bank Accounts Directive, Insurance Accounts Directive, Transparency Directive and Non Financial Information Directive
- 67 questions with subquestions:
 - not all respondents answered all questions
 - 6 questions related to the IAS Regulation



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IS IFRS GOOD FOR EUROPE?

REGULAR EVALUATIONS: 2018 Fitness Check – summary report

- Questions in relation to the IAS Regulation:
 - Should the EU IFRS endorsement process allow for “carve-ins”?
 - Does the current endorsement process pose an obstacle to broader EU policy objectives such as sustainability and long term investment?
 - Should an EU Conceptual Framework underpin the IFRS endorsement process or should the EU endorse the IFRS Conceptual Framework?
 - Would a minimum lay-out requirement for IFRS financial statements enhance comparability?



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IS IFRS GOOD FOR EUROPE?

REGULAR EVALUATIONS: 2018 Fitness Check – summary report

Majority views:

- EU public reporting framework brings added value, is coherent, effective and relevant for achieving its main intended objectives
- IFRS were considered effective (helped to reduce the cost of capital and increased investments in the EU)
- The European public good criterion should allow adequate consideration of sustainability and long-term investment
- Supported the status quo of the IFRS endorsement process and cautioned against “EU carve-ins” that could lead to “EU-IFRS”
- Integrated reporting could contribute to a more efficient allocation of capital and better decision making
- Staff document on the Fitness Check to be published in Q4 2019

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IS IFRS GOOD FOR EUROPE?

What about National GAAP and SMEs?

- National GAAP = Accounting Directive **plus**
- Accounting Directive not covering all accounting matters
- Indirect effect of IFRS on National GAAP
 - Differs per country
 - 2017 EFAA study “the trickle down effect of IFRS and accounting by SMEs”
 - More trickle down where the Accounting Directive is silent
 - Less trickle down in more complex matters such as financial instruments
- IFRS for SMEs vs Accounting Directive
- Initiatives for small listed companies

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SUSTAINABLE FINANCE

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SUSTAINABLE FINANCE

EC INITIATIVES

- 2018 High-Level Expert Group report *Financing a Sustainable European Economy*
- March 2018 EC Action Plan *Financing Sustainable Growth*, section Disclosure and Accounting: Action Points
 - Fitness Check will inform future legislative proposals, including Non-financial Information Directive
 - Revision 2017 of Guidelines non-financial information (supplement on climate related reporting published in June 2019)
 - EFRAG to establish a European Corporate Reporting Lab (established in Q3 2018)



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EC INITIATIVES



- March 2018 EC Action Plan *Financing Sustainable Growth*, section Disclosure and Accounting: Action Points (continued)
 - EC to ask EFRAG where appropriate to assess the impact of new or revised IFRS on sustainable investments (e.g. alternative accounting treatments to fair value for long-term investment portfolios of equity and equity-like instruments)
 - Fitness Check: EC to evaluate IAS Regulation: explore how the endorsement process can allow for specific adjustments to standards where they are not conducive to the European public good (e.g. where the standards could pose an obstacle to long-term investment objectives)

SUSTAINABLE FINANCE



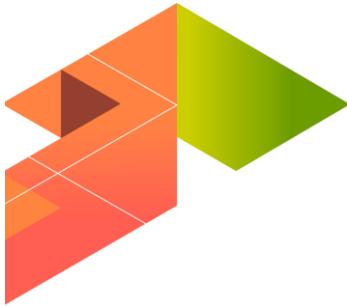
European Corporate Reporting Lab (European Lab)

- Objective: to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices
- European Lab deliverables have no authoritative or normative status
- Public consultation on the European Lab agenda deadline: 30 September
- Project on climate-related reporting (March 2019 start)
 - Evaluating use of climate related information
 - Evaluating entities' climate-related reporting practices
 - Considering the Task force on Climate-related Financial Disclosures (TCFD) and other useful complementary frameworks
 - Outreach Sept/Oct; public consultation paper: Nov/Dec



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