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**Evaluation of Regulation (EC) N° 1606/2002 of 19 July 2002 on the application of
International Accounting Standards**

Accompanying the document

Report from the Commission to the European Parliament and the Council

**Evaluation of Regulation (EC) N° 1606/2002 of 19 July 2002 on the application of
International Accounting Standards**

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1. Executive summary

Over ten years after the adoption of Regulation 1606/2002 ('IAS Regulation') and following an initial review of its operation in 2008, the Commission decided to assess whether it achieved what it set out to do as part of the Regulatory Fitness and Performance Programme (REFIT). In parallel, Regulation 258/2014 requires the Commission to report both on the findings of the evaluation including, if appropriate, proposals for amendments, and on the governance arrangements of relevant bodies.

The objective of adopting International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for use in the EU was to improve the efficient functioning of the EU capital markets and the internal market.

Under the Regulation, since 2005, the consolidated financial statements of listed EU companies have been prepared in accordance with IFRS. Member States may extend the application of IFRS to individual annual financial statements and to non-listed companies. The 'Transparency Directive' n2004/109/EC also stipulates that all issuers (including non-EU ones) whose securities are listed on a regulated market located or operating in the EU must use IFRS.

1.1. Evaluation process

The Commission conducted the evaluation which involved seeking the views of stakeholders through a public consultation (August — November 2014, 200 contributions), an informal expert group (18 public and private organisations, 3 meetings in 2014) and the Accounting Regulatory Committee (ARC) which comprises representatives of all Member States. It conducted a review of the literature on the impact of the mandatory adoption of IFRS in the EU and on the performance of IFRS during the crisis. It also drew upon internal experience of relevant international and European bodies. The evaluation took account of Mr Maystadt's recommendations to reinforce the EU's contribution in the international standard-setting arena.

The evaluation sought to compare the situation under the IAS Regulation with what would have been the case if IFRS had not been adopted. However, there was no clear benchmark against which to compare IFRS, as there is no single alternative in the EU and as national or US generally accepted accounting principles (GAAPs) evolved during the period under review.

The evaluation was generally from the perspective of the EU as a whole, without systematic analysis of the interaction of the Regulation with national legislation. The evaluation did not include a technical review of IFRS standards, nor were individual standards analysed from the perspective of the administrative burden they may impose. Neither did it consider possible alternative accounting regimes for EU non-listed companies.

1.2. Findings on evaluation criteria

The objective of the IAS Regulation were to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The Regulation attached importance to IFRS becoming globally accepted so that EU companies would be able to compete on an equal footing for financial resources in the world capital markets.

1.2.1. Effectiveness

Transparency and comparability

The Commission found that the IAS Regulation has increased the transparency of financial statements through improved accounting quality and disclosure and greater value-relevance of reporting, leading to more accurate market expectations including analysts' forecasts. It also led to greater comparability between financial statements within and across industries and countries although some differences persist.

Collected evidence suggested that the quality of financial statements prepared under IFRS is good, which implied that the standards are of good quality. Nevertheless, there were criticisms of their complexity. Findings suggested most complexity is unavoidable as it arises from the underlying complexity of business; although standards are not industry specific, they were considered flexible enough to accommodate most business models but there was some concern about their suitability for long-term investors and about the volume of disclosures.

The IAS Regulation recognised that high quality financial reporting depends on proper and rigorous enforcement. Under the Transparency Directive, enforcement of accounting standards is the responsibility of individual Member States; the European Securities and Markets Authority (ESMA) coordinates their activities to enhance supervisory convergence and ensure consistent application of IFRS in the EU.

Collected evidence suggested that there are proper mechanisms in place to ensure adequate enforcement of IFRS and that ESMA plays an important role in promoting consistency and coherence in enforcement across the EU. Nevertheless, some evidence showed that some differences in enforcement persist between Member States. ESMA recently published new guidelines on enforcement which could lead to further improvements in this area but it is too early to assess their impact.

Consistent implementation of standards can depend on how they are interpreted. ESMA refers areas of diversity in practice to the IFRS Interpretations Committee. The Commission welcomes the effective cooperation between the two bodies.

Efficient Functioning of the EU Capital Markets and Internal Market

The Commission found evidence of improved capital market outcomes: higher liquidity; lower costs of capital; increased cross-border transactions; easier access to capital at EU and global level: improved investor protection and maintenance of investor confidence. However, as noted above, the effects of IFRS could not be isolated from other changes affecting capital markets.

The extent to which, if any, the use of IFRS may have exacerbated the financial crisis has been widely debated and the evidence was mixed. Two aspects of accounting fall under the spotlight. The first is the use of current prices (fair values) to value financial instruments. When markets are overly buoyant or pessimistic, values can be exaggerated. By contrast, instruments such as bank loans are reported based on cost, with a constant need to assess whether customers will repay amounts due. During the financial crisis, the applicable standard for loan impairment was widely criticised for having led to 'too little, too late' provisioning. Other criticisms concerned a lack of disclosure by some banks. After an extensive due process, the IASB published a new standard for financial instruments in 2014 (IFRS 9) which is currently being assessed for adoption. Overall, the financial crisis highlighted that standards can have broad economic effects.

Global Standards

The IAS Regulation envisaged IFRS becoming global standards which would benefit EU companies. Stakeholders believed that the EU's decision to adopt IFRS provided a major impetus to the credibility and acceptance of IFRS globally. To date, over one hundred countries accept IFRS and the standards are supported by international organisations, such as the G20, Financial Stability Board, World Bank, International Monetary Fund and the Basel Committee on Banking Supervision.

The United States does not permit its domestic companies to use IFRS which constitutes a significant limitation on their global application. The 'equivalence' arrangement whereby the US Securities and Exchange Commission (SEC) accepts financial statements prepared under IFRS for foreign companies is perceived as an important benefit for around 90 large European issuers with US listings.

In 2002, the IASB and the US standard setter (FASB) began a programme to converge their respective standards. The financial crisis highlighted the importance of this work which was actively supported by the G20 and FSB. In some areas, however, the Boards were unable to achieve common positions.

1.2.2. Efficiency

Overall, the evidence from the evaluation showed that the benefits of the implementation of the IAS Regulation outweigh the costs.

Nevertheless, application of accounting standards does not readily lend itself to traditional cost-benefit analysis as benefits are not quantifiable in money terms; there is little data on costs and there is an uneven distribution of costs and benefits whereby costs are largely incurred by companies preparing IFRS financial statements whereas benefits are shared by them, users of financial statements including investors and the wider economy.

Nevertheless, companies largely supported IFRS which implies that they find the costs commensurate with the benefits. Evidence suggested that the ratio of costs to benefits depends on characteristics of a company such as its size and scale of international operations. Some stakeholders saw merits in extending the use of IFRS by giving an option to companies to adopt IFRS as there would be cost savings, especially for companies in listed groups. Also, some suggested a lighter version of IFRS, with reduced disclosures, for subsidiaries of listed groups. It was noted that the cost of adopting IFRS may represent an obstacle for an initial public offering, especially for small and medium size companies (SMEs).

Users of financial statements largely supported IFRS for improving the transparency and comparability of financial statements.

All stakeholders incur costs during the development and endorsement of standards. Some feedback suggested that, more recently, the trade-off between costs and benefits has been adversely affected by frequent changes to standards, their complexity and the increasing volume of disclosures.

1.2.3. Relevance

Overall, the evidence from the evaluation showed that the objectives of the IAS Regulation remain relevant.

The increasing globalisation of capital markets has made the need for one financial reporting language even more relevant. In 2002, there was no level playing field for listed companies across EU capital markets. This has now been achieved so the debate focuses on whether a

level playing field exists globally. As noted, international organisations support IFRS as global standards.

The crisis evidenced the need to understand the effects of regulations on financial markets and on economies. The IAS Regulation specifies that as a condition to being brought into EU, international standards must be conducive to the European public good. The term ‘public good’ is not defined but may be understood to encompass broad financial stability and economic considerations. In particular, it is necessary to assess whether accounting standards could be detrimental to the economy or to particular stakeholders, such as long-term investors. There is also a growing call for regulations to be considered holistically in terms of their cumulative effects.

At the time of the adoption of the IAS Regulation, it was agreed that its objectives were more relevant for listed EU companies which was reflected in the scope of mandatory application which Member States have the option to extend. Some stakeholders considered that the use of IFRS could potentially bring similar benefits, in particular to investors, if their use was extended (e.g. to individual annual financial statements of listed companies not preparing consolidated financial statements). Others highlighted a risk of imposing complex standards on SMEs.

1.2.4. Coherence

Within the IAS Regulation

IFRS adopted by the EU have been codified in a legally-binding Commission Regulation amended for each new standard and amendment. Twice yearly, the Commission draws up a non-binding consolidated version of current standards in all EU languages. Evidence shows a need for improved translations for certain languages, practical difficulties in the consolidation of the standards and some discrepancies between IASB and the EU consolidated texts. An official codification of all IFRS by the Commission could therefore represent a useful exercise.

A different aspect of the coherence of the Regulation was raised by some stakeholders who questioned whether there is a need for assurance, beyond the IASB’s due process, that new standards or amendments are coherent with the existing body of IFRS.

With other EU legislation

The IAS Regulation interacts with other EU regulations and directives.

The Commission is committed to help address any points of friction in the interactions between the IAS Regulation and the Accounting Directive. Thus far, adequate interpretation and transposition methods by the Member States have enabled such points to be overcome.

Capital maintenance and dividend distribution rules have also been cited as a source of legal challenge which can arise in certain jurisdictions where Member States permit or require the use of IFRS for individual annual financial statements on which distributable profits are based. Each Member State considers how to address such issues in their national legislation within the framework of the EU capital maintenance requirements.

The IASB’s existing Conceptual Framework states that the objective of general purpose financial reporting is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors. Although IFRS-based financial information is the starting point for much prudential regulation, the IASB does not include prudential supervisors or regulators on its list of users. Nevertheless, there is a need to ensure

that financial information is fit for that purpose whilst recognising that prudential regulators can demand other information to meet their different objectives.

The evidence suggested that although IFRS, regulatory requirements, tax and capital maintenance rules may impose different reporting requirements on companies, such differences are largely considered to be proportionate and legitimate given the array of objectives pursued.

1.2.5. EU added value

In the late 1990s, 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 for listed companies. Some of them had to prepare an additional set of accounts under international or US standards because their national accounts were not recognised internationally. The EU decided to apply IFRS for listed companies through a Regulation because difficulties in reconciling different accounting traditions between Member States would have impeded adequate enhancement of the Accounting Directives.

Evidence has shown that the Regulation's objectives have been achieved effectively and efficiently and that they remain relevant. Also, to date, there is still no well-defined alternative to IFRS. Thus the Regulation continues to provide added value to Europe reducing cross-border barriers through a common international accounting language and by allowing for a strong EU voice in the development of international standards.

Evidence showed that the balance between the mandatory scope of application of the Regulation and the option for Member States to extend the use of IFRS at national level ensures proper subsidiarity and proportionality. Member States have implemented the options in diverse ways which take account of their specific economic and legal environments. Compulsory use of IFRS has not been widely extended to non-listed companies or to individual financial statements.

1.3. Findings on endorsement process and criteria

1.3.1. Endorsement mechanism — process

IFRS issued by the IASB are endorsed by the Commission under a comitology process. An endorsement process remains necessary to ensure that the standards developed by a private body meet certain criteria and are fit for the European economy before becoming part of EU law.

The Commission aims to ensure that the endorsement process runs smoothly and efficiently; feedback indicated that most stakeholders consider that it works well. Timing raised some concerns as it introduces regulatory uncertainty. Nevertheless, the need for a proper due process allowing adequate time for stakeholders to contribute as appropriate must be respected.

Another important factor for the endorsement process is that the effects of a standard are fully understood. To date, the IASB has provided limited analysis of the effects of its standards, focusing on the quality of the information provided to users of financial statements. Additionally, the Commission services and the European Financial Reporting Advisory Group (EFRAG) assess the effects of a standard at EU level.

1.3.2. Endorsement mechanism — flexibility

Some European stakeholders consider that the IAS Regulation is lacking in flexibility as it does not allow IFRS to be amended by adding text and has only limited scope for 'deleting'

(‘carving-out’) text. In the EU, one carve-out used by a number of banks has been in effect since 2005. Other stakeholders considered that standards issued by the IASB should not be altered for application in Europe. The Maystadt Report stated that caution is necessary in this area and most stakeholders supported maintaining the status quo.

The feedback received also expressed the belief that the reform of EFRAG should enhance Europe’s influence over the development of standards earlier in the process.

1.3.3. Endorsement criteria

The IAS Regulation sets out a number of criteria that must be met in order for a standard to be endorsed in the EU. The standard should not be contrary to the "true and fair" view principle set out in the Accounting Directive, should be conducive to the public good in Europe and should meet basic criteria related to the quality of information required for financial statements. The Maystadt report noted that two other criteria could be added as components of public good: that the standards should not endanger financial stability and must not hinder the economic development of the Union. Alternatively it suggested issuing a Communication giving guidelines for the interpretation of the public good criterion.

Overall, feedback suggested that the existing criteria work appropriately and, while some stakeholders would like to see other criteria included in the Regulation, there was no clear majority view calling for a particular criterion to be added. Nevertheless, some stakeholders considered that it would be helpful to be more specific about what European public good encompasses while others considered that the term is generic enough to have meaning and allows flexibility in practice. Most stakeholders did not recommend making any changes to the IAS Regulation itself but preferred that the Commission identify areas of focus for EFRAG on a case by case basis.

The challenge is that there should be a shared understanding of terms in the Regulation, including "public good" and "true and fair". In the latter case, some stakeholders recommended that a standard should be explicitly assessed in terms of whether it would lead to prudent accounting which they saw as an important factor in providing a true and fair view. The Commission, together with EFRAG, should produce guidance for improving the understanding of the endorsement criteria.

1.4. Governance

1.4.1. IFRS Foundation

The IFRS Foundation is an independent organisation setting accounting standards for more than 100 countries. Hence, it needs strong governance arrangements to ensure public accountability.

It has a three-tier governance structure aiming at favouring transparency, segregation of duties and adequate oversight. The Monitoring Board of public authorities, including the European Commission, ensures that the IFRS Foundation is subject to public oversight. It can refer matters of broad public interest to the IASB.

In 2013, the IFRS Foundation was mainly financed through contributions. It aims at establishing (compulsory) national financing regimes, proportionate to a country’s GDP. This has so far proved challenging as many countries that use IFRS do not make commensurate contributions. Thus, the Foundation continues to rely on voluntary contributions, often from the private sector which may give rise to a risk of conflicts of interests. The EU as a whole, including the Member States contributions, is the main financial backer of the IFRS

Foundation, with a multi-year commitment which provides the IFRS Foundation with a stable source of funding and helps it to diminish its reliance on the private sector.

In the period under review, there were a number of positive changes: creation of the Accounting Standards Advisory Forum, with European representation; recommendations to the Trustees from a consultative group on the methodology for field work and effects analyses which will be implemented by the IASB, and the introduction of post-implementation reviews of standards.

In response to demand from stakeholders, including European concerns, the IASB is developing its Conceptual Framework which will improve financial reporting by providing a complete and updated set of concepts to use in their future work. An exposure draft has been published on 28 May 2015 and addresses a number of important matters including reinstating the concept of prudence as an important element in financial reporting.

The IFRS Foundation is bound by its Constitution to review its organisational structure every five years. Past reviews significantly improved its governance. The next review will present an opportunity to tackle the issue of the Foundation's funding and decision-making process, including the role of the Monitoring Board.

1.4.2. EFRAG

In July 2014, the Commission reported on the progress achieved in the implementation of the reform of EFRAG following the Maystadt Report. The Commission came to a favourable conclusion regarding the progress made to date. The reform took effect on 31 October 2014 when the amended EFRAG Statutes and Internal Rules came into force. It involved establishing a new Board of EFRAG, its new decision-making body, with balanced representation of public and private interests, with a view to strengthening the legitimacy of its positions and contributing to the objective of Europe speaking with one voice.

2. Evaluation mandate

2.1. Background and legal basis

Over 10 years on from the adoption of Regulation (EC) No 1606/2002 on the implementation of international accounting standards (the 'IAS Regulation'),¹ the European Commission decided to assess whether it had achieved what it set out to do. In the wake of the financial crisis, the standards have been discussed increasingly at international (e.g. G20, Basel Committee) level and with various interested parties in the EU. Several initiatives concerning technical and governance issues have been taken at international and EU level. In the EU, Philippe Maystadt reported² in October 2013 on the findings of his mission to advise Commissioner Barnier, the former Commissioner for the internal market and services, on how to improve the EU's contribution to the development of international accounting standards. This evaluation of the IAS Regulation was designed to complement this action by providing factual data about experience in Europe to date.

Evaluations are essential for the Commission's decision-making and its 'better regulation' process to ensure that European laws and regulation are well targeted, implemented correctly and at the right level, and proportionate to need. This evaluation is included in the 2015 Commission's work programme as part of the Regulatory Fitness and Performance (REFIT) Programme,³ the objective of which is to simplify existing legislation and reduce administrative burdens. The evaluation is a comprehensive policy examination, covering all relevant criteria,⁴ i.e. the effectiveness, efficiency, relevance, coherence and EU added value of EU legislation.

Article 9(2) of Regulation (EU) No 258/2014,⁵ which established a funding programme for organisations in the accounting and audit field, requires the Commission to report to the European Parliament and the Council on the findings of its evaluation, including, where appropriate, proposals for amending the Regulation with a view to improving its functioning, and on governance arrangements for all relevant institutions. Criteria for the endorsement of standards in the Union were referred to in the recitals of the Regulation.

This staff working document (SWD) accompanies Report from the Commission to the European Parliament and the Council on the evaluation of Regulation No 1606/2002 of 19 July 2002 on the application of international accounting standards (the IAS Regulation). The Report draws conclusions on the findings of the evaluation, on the Regulation's endorsement criteria and on governance aspects, and maps out a way forward. The SWD is organised by topics covered in the IAS Regulation.

¹ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1).

² *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; http://ec.europa.eu/finance/accounting/docs/governance/reform/131112_report_en.pdf.

³ COM(2014) 368 final.

⁴ http://ec.europa.eu/smart-regulation/evaluation/index_en.htm.

⁵ Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC (OJ L 105, 8.4.2014, p. 1-8).

2.2. Main provisions of the IAS Regulation

2.2.1. Background

The EU started to harmonise national accounting rules in the late 1970s.⁶ However, the aim was never full convergence and accounting standards continued to differ from one Member State to another. The lack of comparability between accounts prepared according to different regimes constituted a major barrier to cross-border investment and the integration of European capital markets at a time of increased company internationalisation and financial market globalisation. Furthermore, European companies listed outside the EU had to prepare an additional set of financial statements under international or US standards because their national financial statements were not recognised internationally.

Given the difficulty of reconciling different Member States' accounting traditions to enhance the Accounting Directives for listed companies in the EU, the EU took a decisive step in 2002 with the IAS Regulation, which required that a single set of internationally accepted accounting standards be applied to listed companies from 2005 onwards.

These International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and interpretations of them (SIC/IFRIC)⁷ are drawn up by the International Accounting Standards Board (IASB), a not-for-profit private organisation based in London.

2.2.2. Objectives

Under Article 1 of the IAS Regulation:

'This Regulation has as its objectives the adoption and use of international accounting standards in the Community with a view to harmonising the financial information presented by companies ... in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market.'

Thus, the expected and desired effects of mandatory IFRS adoption are to increase the transparency and comparability of European financial reporting, so as to allow capital markets to function more efficiently, in particular by eliminating barriers to cross-border trading in securities, reducing the cost of capital for companies and enhancing investor protection.

One of the EU's objectives in adopting the Regulation was to create a level playing-field for EU companies, assuming that the IFRS would become the single set of high quality international accounting standards.

An intervention logic is presented in Appendix 1.

⁶ The Community first adopted harmonised accounting requirements for limited liability companies in 1978 in the form of the 4th company law directive on annual accounts (Directive 78/660/EC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies, OJ L 222, 14.8.1978, p. 11). This was followed in 1984 by the 7th company law directive on consolidated accounts (Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3)(g) of the Treaty on consolidated accounts, OJ L 193, 18.7.1983, p. 1).

⁷ International Accounting Standards (IAS) were first issued by the International Accounting Standards Committee (IASC), the predecessor of the International Accounting Standards Board (IASB). The IASB issues International Financial Reporting Standards (IFRS).

2.2.3. Scope

When the IAS Regulation was adopted, it was agreed that the above objectives were more relevant for large, internationally active EU companies. Therefore, mandatory application of IFRS at EU level is limited to the consolidated financial statements of European companies whose securities are traded on a regulated market in the EU.

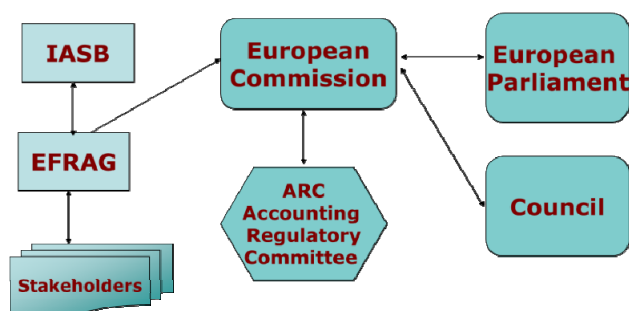
In addition, Member States may extend this scope by allowing or requiring that IFRS are used in their country for the consolidated financial statements of other companies and for annual individual financial statements, regardless of whether the company is listed on a regulated market in the EU. This was to ensure proper subsidiarity and proportionality.

The Transparency Directive (2004/109/EC)⁸ also requires all issuers (including non-EU ones) whose securities are listed on a regulated market, located or operating in an EU country, to use IFRS.

2.2.4. Endorsement procedure and criteria

IASB international accounting standards and interpretations are endorsed in the EU in line with a procedure laid down in the IAS Regulation. The European Commission decides on their application by adopting implementing measures in the form of Commission regulations, which are adopted by the regulatory procedure with scrutiny laid down in Council Decision 1999/468/EC, as amended by Council Decision 2006/512/EC (comitology procedure).

Chart 1 — The EU's IFRS endorsement process



The endorsement procedure for new standards, and interpretations of and amendments to existing standards, involves a number of steps:

- i. on request from Commission officials, the European Financial Reporting Advisory Group (EFRAG)⁹ examines potential impact and advises on endorsement;
- ii. following receipt of this advice, the Commission decides on endorsement for the EU;
- iii. if the Commission decides to endorse, officials prepare a draft implementing measure;

⁸ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38-57).

⁹ <http://www.efrag.org/Front/Home.aspx>.

- iv. this is submitted to the Accounting Regulatory Committee (ARC), composed of representatives from relevant Member State authorities, for its opinion;
- v. if the ARC's opinion is positive, the Commission submits a draft implementing measure to the Council and the European Parliament for a three-month scrutiny period; and
- vi. finally, the Commission adopts an endorsing regulation.

The new regulation is then published in the *Official Journal of the European Union*. Overall, including translation of the standard into the languages of the Member States, the process typically takes eight months.

The future status of ARC is uncertain due to changes resulting from the Treaty of Lisbon, which replaced the current comitology procedure with new forms of implementing legislation, namely delegated acts and implementing acts. The ARC may be transformed into a 'group of experts' discussing inter alia issues relating to accounting policy. In the context of IFRS endorsement, the Council and the Parliament retain their right of final resort control in line with the Treaty (right to object).

In 2006, an additional group, the Standards Advice Review Group (SARG) was established to provide the Commission with independent advice on EFRAG's endorsement recommendations. However, as EFRAG's role evolved and expanded, the Commission decided that it no longer needed additional advice and SARG's mandate was not renewed; it was dissolved in July 2011.

Under Article 3(2) of the IAS Regulation, for an IFRS standard to be adopted in the EU, it must:

- (1) not be contrary to the 'true and fair' view principle set out in the Accounting Directive;
- (2) be conducive to the public good in Europe; and
- (3) satisfy basic criteria as to the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, and provide the financial information needed to make economic decisions and assess stewardship by management).

2.2.5. Enforcement

According to recital 16 of the IAS Regulation, 'a proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States by virtue of Article 10 of the Treaty are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement'.

Enforcement activities regarding companies listed on regulated markets are defined in the Transparency Directive (Article 24):¹⁰ 'Each Member State shall designate the central authority [...] responsible for carrying out the obligations provided for in the [Transparency] Directive and for ensuring that the provisions adopted pursuant to this Directive are applied'.

¹⁰ See footnote 8.

In particular, the central authority has to assess whether the consolidated accounts are ‘drawn up in accordance with the Regulation (EC) No 1606/2002’, which introduced IFRS in the EU.

In 2011, as part of the new European supervisory architecture, the European Securities and Markets Authority (ESMA) took over the activities of the CESR, including the coordination of national enforcers’ activities concerning enforcement of IFRS in the EU. ESMA acts within the scope of the Transparency Directive and does not have the power directly to enforce accounting standards. However, under Article 16 of Regulation (EU) No 1095/2010,¹¹ it may issue guidelines and recommendations to competent authorities or financial market participants with a view to establishing consistent, efficient and effective supervisory practices within the European system of financial supervision, and to ensuring the common, uniform and consistent application of Union law.

2.2.6. 2008 review of the operation of the IAS Regulation

In 2008, a review of the operation of the IAS Regulation was conducted under Article 10 of the Regulation.¹² Conclusions on the first years of mandatory application of IFRS in the EU were generally positive, indicating:

- ✓ an increase in the value of accounting information;
- ✓ consistent application of IFRS in Europe in general; and
- ✓ an EU endorsement process ensuring technical quality, political legitimacy and relevance to business.

The inclusion in the IASB’s work programme of issues raised by the EU was identified as a significant factor in maintaining a high level of acceptance of IFRS in the EU. The crucial need for EU institutions, Member States and stakeholders to become involved in the standard-setting process as early as possible was highlighted, as were the careful monitoring of future IASB impact assessments and the assessment of IASB governance and funding.

2.3. Evaluation methodology

2.3.1. Scope

The evaluation covers the whole IAS Regulation so as to provide a basis for the conclusions presented in the Report. It is retrospective, comparing the situation under the IAS Regulation with the situation had IFRS not been adopted (e.g. national or US GAAPs).

The evaluation was generally from the perspective of the EU as a whole, without systematic analysis of the interaction of the Regulation with national legislation. Differences in Member States’ legal, fiscal and social environments are often reflected in differences in their national accounting frameworks and the traditions and cultures that underpin them and can affect their views.

¹¹ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84-119).

¹² Report from the Commission to the Council and the European Parliament on the operation of Regulation (EC) No 1606/2002 of 19 July 2002 on the application of international accounting standards (COM(2008) 215).

The evaluation focused on the requirements of the IAS Regulation and did not address possible alternative accounting regimes for non-listed companies in the EU (e.g. the IASB's 'IFRS for SMEs' standard, designed for companies that do not have public accountability, which has not been adopted in the EU). Feedback was received from a very limited number of stakeholders, in the margin of the consultations, but is reported for the sake of completeness.

Lastly, the evaluation did not include a detailed technical analysis of the provisions of each IFRS standard or an analysis of the administrative burden that may be imposed. The IASB itself has started post-implementation reviews, to which EFRAG and ESMA are contributing actively.

2.3.2. Key questions

The key questions addressed in the evaluation were:

- To what extent have the objectives of the IAS Regulation been achieved? In particular, have IFRS provided stakeholders (e.g. companies preparing financial statements, users of financial statements, i.e. analysts and investors) with greater transparency and comparability than other accounting standards (e.g. national or US GAAPs)? Do stakeholders see benefits in international convergence? To what extent has the functioning of the internal market improved? Have the changes contributed to greater protection for investors and to maintaining confidence in the financial markets?
- To what extent are the objectives of the IAS Regulation still relevant today? In particular, are its endorsement criteria still relevant and adequate? Is the endorsement process adequate? What lessons can be learned from the crisis?
- What are the impacts of the use of IFRS in Europe (including costs and benefits)?
- Is the governance of IASB and of EU bodies involved in endorsing IFRS adequate?

The evaluation also addresses more detailed questions; these are shown below, along with the corresponding evaluation criteria, as used in the Report, and sections of the SWD:

Category	Evaluation questions	SWD section
Effectiveness	• To what extent have the objectives of the legislation been achieved (i.e. transparency and comparability of financial statements, better functioning of the EU capital markets through support for cross-border transactions or cross-listings, lower cost of capital, better protection for investors and maintenance of confidence in the financial markets)?	3.2
	• To what extent have implementation issues been an obstacle to transparency and comparability?	3.5
	• To what extent have enforcement activities helped enhance transparency and comparability?	3.5
	• Were the criteria for endorsing IFRS in the EU adequate to ensure the effectiveness of the Regulation?	3.4
	• Were the governance arrangements with organisations developing the standards and advising on their endorsement adequate to ensure the effectiveness of the Regulation?	3.7
Relevance	• To what extent are the needs that were identified when the EU adopted the IAS Regulation still valid?	3.2
	• In what way have these needs evolved, in particular in the light of the financial crisis?	3.2
	• To what extent does the IAS Regulation still address these needs?	3.2
	• Are the endorsement criteria of the IAS Regulation still relevant and adequate?	3.4

	<ul style="list-style-type: none"> • Are the governance arrangements for organisations developing the standards and advising on their endorsement still relevant? 	3.7
Efficiency	<ul style="list-style-type: none"> • What have been the costs/benefits of the IAS Regulation? 	3.3
Coherence	<ul style="list-style-type: none"> • Is internal consistency of the Regulation and of its implementing Regulations ensured (e.g. translation, codification)? 	3.6
	<ul style="list-style-type: none"> • To what extent is the consistency of EU law ensured (in particular between the IAS Regulation, the Accounting Directive and prudential requirements)? 	3.6
EU added value	<ul style="list-style-type: none"> • To what extent has addressing the problem at EU level gone beyond what could have been achieved by national, global or other measures? 	3.2
	<ul style="list-style-type: none"> • How were the options given to Member States to extend the use of IFRS to other types of companies used (Article 5)? 	3.1

2.3.3. Data sources

Commission officials conducted the evaluation internally and consulted stakeholders via a public consultation, and discussions in the framework of an expert group and in the ARC. The work involved:

- an economic review of the available evidence in the literature published until 2014 on the impact of mandatory IFRS adoption in the EU (see Appendix 5), including its performance in the financial crisis (see Appendix 6);
- an inventory of the scope of application of IFRS in each Member State (Appendix 2);
- a survey on the number of European companies applying IFRS in the EU in commercial databases; and
- a review of the relevant institutions' governance arrangements.

The evaluation drew on the Commission's experience of relevant international and European bodies, including the G20, the Basel Committee, European supervisory authorities (ESAs), in particular ESMA, and participation in different groups of the IFRS Foundation (oversight body of the IASB) and of EFRAG.

As regards the governance of accounting organisations, officials reviewed the IFRS Foundation's governance on the basis of public sources of information (the Foundation's constitution, *Due Process Handbook, 2013 Annual Report*) and the Commission's experience of the Foundation's Monitoring Board. This work follows up on the Commission staff's *ex ante* evaluation for establishing a Union programme to support specific activities in the field of financial reporting and audit.¹³ As regards the governance of EFRAG, the evaluation took full account of the Maystadt Report and the progress achieved in implementing the reform of EFRAG.

As regards the coherence of EU legislation, the officials consulted other Commission departments at different stages of the process, through a steering committee composed of the Secretariat-General, the Legal Service, the Directorates-General for Budget, Competition, Internal Market, Industry, Entrepreneurships and SMEs, Justice, Taxation and Customs Union, Translation, Eurostat and the Publications Office. They drew on the experience of the

¹³ Commission staff working document on *Ex ante evaluation for establishing a Union programme to support specific activities in the field of financial reporting and auditing*, accompanying the proposal for a Regulation to the European Parliament and the Council establishing a Union programme to support specific activities in the field of financial reporting and auditing (SWD (2012) 444 final, 19.12.2012).

unit in charge of the present evaluation, which is also responsible for the Accounting Directive¹⁴ and facilitating its transposition by Member States.

They also referred to the Commission's 2008 review on the operation of the IAS Regulation.¹⁵

2.3.3.1. Expert group

The then Directorate-General for Internal Market and Services (DG MARKT) set up an informal expert group in June 2014 to advise and assist it in its work. It was composed of 18 member organisations (Appendix 9), with a balance between the public sector (ESMA, national standard-setters, national supervisors) and the private sector (industry, users of financial statements, i.e. analysts and investors, academics). It met three times in 2014 (in July, October and December). Officials used the group as a sounding board, consulting it on the questionnaire for the public consultation, preliminary feedback from the consultation, the endorsement criteria and mechanism, enforcement, and the scope of the IAS Regulation. All information on the group's meetings is available on a dedicated website.¹⁶

2.3.3.2. Public consultation

Between 7 August and 7 November 2014, Commission officials conducted a public consultation on the impact of IFRS in the EU, covering several aspects of the IAS Regulation. The questionnaire is attached (Appendix 7), as is a feedback statement, which identifies the respondents (Appendix 8).

A total of 200 respondents commented on the public consultation, of whom 23% requested anonymity (including 40% of the companies preparing financial statements and half the private respondents) and one asked for non-publication. The remaining responses are published on the Commission's website.¹⁷

There was a significant number of responses from three Member States, Germany, the United Kingdom and France, and global and EU-level organisations.

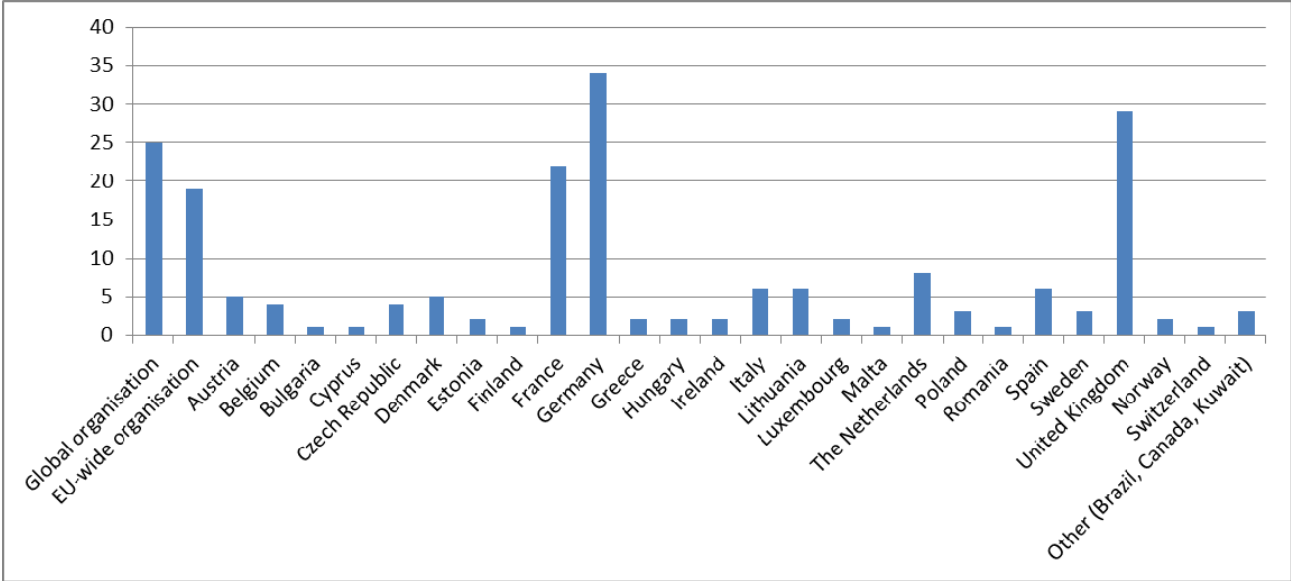
¹⁴ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19–76).

¹⁵ See footnote 12.

¹⁶ Dedicated webpage of the expert group on the evaluation of the IAS Regulation:
http://ec.europa.eu/finance/accounting/governance/committees/evaluation/index_en.htm.

¹⁷ http://ec.europa.eu/internal_market/consultations/2014/ifrs/index_en.htm.

Chart 2 — Geographical origin of respondents to the public consultation

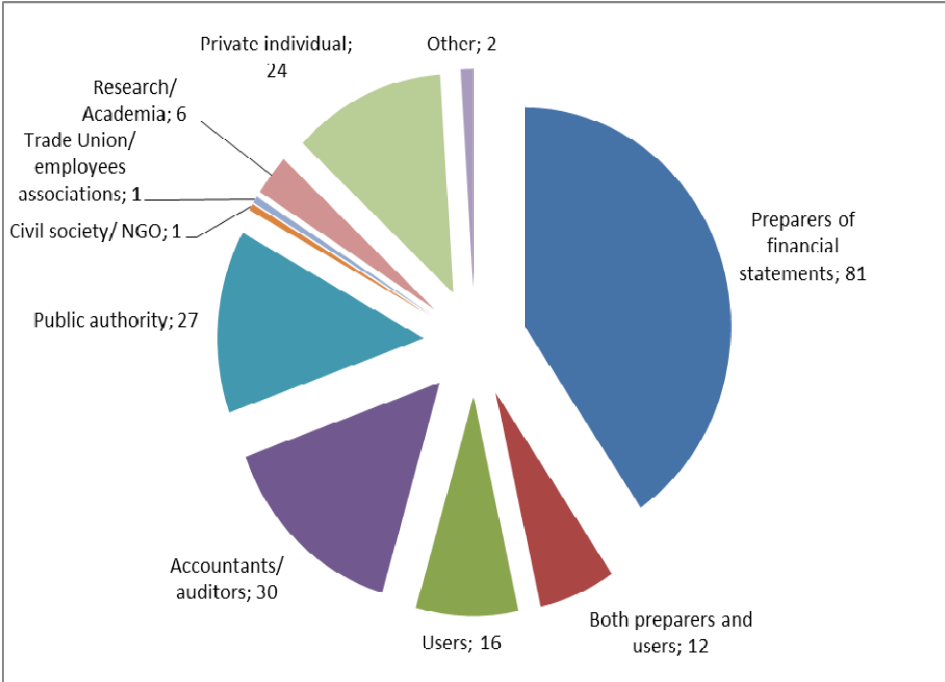


Of all respondents, 47% (93) were companies (60) or business associations (33), mostly preparing and, in some cases (12), also using financial statements under IFRS. Nearly all the companies were large, operating internationally, listed on regulated markets and required to apply IFRS for consolidation purposes. Industry and financial services were equally represented.

Some 8% of respondents (6 companies, 10 associations) were investors, analysts and lending institutions, with industry and financial services again equally represented.

Another 15% were accountants or auditors (30, including 11 firms and 12 associations) and 14% public authorities (including three European authorities).

Chart 3 — Respondents to the public consultation by profile



2.3.3.3. Accounting Regulatory Committee (ARC)

ARC members provided the Commission with updates on the scope of IFRS application in their Member States in autumn 2013. They discussed the evaluation in February 2014 and were consulted in November 2014 on the scope of the IAS Regulation, including national extension, on the basis of initial feedback from the public consultation.

2.3.4. Limitations

There are some limitations to the methodology and techniques used. Some key points are highlighted below. More details as to the challenges in the empirical measurement and interpretation of results in academic studies are presented in section 3 of the literature review (Appendix 5).

Data availability

It was difficult to obtain quantitative data on EU companies applying IFRS and on the costs and benefits of IFRS application. Complete historical data on EU companies applying IFRS on a mandatory and voluntary basis (beyond the mandatory scope of the IAS Regulation) were available neither from commercial databases nor from Member States. Implementation of Transparency Directive provisions (Article 21a)¹⁸ on a central access point for regulated information by 1 January 2018 could improve the situation for listed companies in the future.

A quantitative cost/benefit analysis was not possible. The nature of the benefits is such that they cannot easily be expressed in monetary terms. Evidence of costs is scarce in the literature and stakeholders were not able to give figures. Instead, Commission officials focused on qualitative factors.

Challenges in isolating the effects of IFRS on market behaviour

The period under review saw significant regulatory and economic changes in the EU and internationally, making it difficult to draw conclusions about the effects of IFRS adoption in isolation. For example:

- the financial crisis meant that banks had to raise capital on the market due to the decrease in their own funds;
- changes in the EU regulatory framework included the introduction of the Market Abuse Directive, the Markets in Financial Instruments Directive (MiFID), the Directive on statutory audits (2006/43/EC), changes in corporate governance rules and adjustments to enforcement frameworks; and
- changes in international regulations, such as the Sarbanes Oxley Act and listing and delisting procedures, also served to blur possible causal links between the use of IFRS and the behaviour of EU companies.

Lack of clear benchmark

Much of the academic research into the benefits of IFRS adoption focuses on the period immediately after adoption, as this is when the effects are likely to be most easily detectable.

¹⁸ See footnote 8.

IFRS are not static and early research results may no longer hold. There appears to be a need for further research into the long-term impacts of IFRS, but at the same time such research faces significant challenges, as the longer the period studied the more difficult it is to control for confounding factors and isolate the direct effects of IFRS adoption.

Differences in Member States' GAAPs when IFRS were first adopted also present challenges for academic researchers, as do variations in the application of the principles-based IFRS across and within countries.

Full cost/benefit analysis is hampered by the lack of a clear benchmark against which to compare IFRS, as there is no single alternative in the EU and national GAAPs may have evolved during the period under review. Some local GAAPs are being brought more into line with IFRS. In addition, some countries had no fully developed standards before IFRS adoption.

Bias in sample

Empirical research in this field also focuses mostly on larger companies.

In addition, the Commission's public consultation cannot be regarded as a statistical analysis as, despite the good response rate, the sample of respondents from particular groups of interests is too small and self-selected (e.g. high number of respondents from three Member States). In addition, public consultations may be an opportunity for lobbies to convey their views on future policy development rather than a gauge of the results of adopted legislation.

3. Findings of the evaluation of the IAS Regulation

In this section, sources of evidence are generally specifically identified. When the term 'consultations of stakeholders' is used, it refers to findings derived from the public consultation, the expert group and the ARC.

3.1. Scope

ESMA estimates¹⁹ that about 4 800²⁰ European companies prepare their consolidated financial statements under IFRS as endorsed by the EU, as their securities are traded on a regulated market in the EU. It estimates that over 1 000 European companies listed on regulated markets draw up their individual annual financial statements under IFRS where there is no obligation to prepare consolidated financial statements (Member State option for listed companies).

No reliable and comprehensive data are available on the number of companies not listed on regulated markets, but applying IFRS for their consolidated or individual annual financial statements as a result of Member States' application of the options for non-listed companies or of a requirement from a non-regulated stock exchange (multilateral trading facilities).

Consultations showed broad agreement among stakeholders, including Member States and experts, on the appropriateness of the current mandatory scope of application of the Regulation, together with the flexibility to widen IFRS application at national level. Over two thirds of respondents to the public consultation are of this view.

3.1.1. Option for Member States to extend the scope of application of IFRS

The options for extending the scope of the IAS Regulation at Member-State level (see section 2.2.3) have been implemented in different ways depending on the economic and legal environments in individual Member States, in particular the links to fiscal rules and company law. Compulsory use of IFRS does not appear to have been widely extended to non-listed companies and/or individual financial statements. However, the use of IFRS for some non-listed companies' consolidated financial statements is broadly permitted in all Member States. Only six Member States allow neither listed nor non-listed companies to use IFRS for their individual financial statements.

Table 1 shows Member States' use of the options in Article 5 of the IAS Regulation as of end 2013 and Appendix 2 sets out in more detail the types of company concerned.

Use of IFRS is more widespread today than at the time of the Commission review in 2008 (see Appendix 3 for a detailed comparison). More Member States have taken up the options to allow or require the use of IFRS (more requirements and permission for individual financial statements of listed companies, more requirements for consolidated accounts of other undertakings). Two are considering extensions of their use of the options. Two others explained that they do not wish to extend application, one because there was no demand from companies and the other because IFRS were already permitted and requiring them would be regarded by many as too burdensome for companies.

¹⁹ *Enforcement and regulatory activities of accounting enforcers in 2014*, ESMA report, 31.3.2015 (ESMA/2015/659).

²⁰ Excluding issuers listed on EEA regulated markets and overseas companies.

Two Member States reported positive experience of extending the use of the options. They explained how they sought to ensure compatibility between the various applicable frameworks. One reported that a dual-track approach was used initially for taxation purposes. At present, the two countries' taxation systems are in line with IFRS and there are specific rules on capital maintenance. In this respect, a KPMG (2008) study²¹ commissioned by the Commission highlighted differences in the way Member States applying IFRS to individual annual financial statements were dealing with capital maintenance aspects in view of profit distribution (at the time, 17 of 27 Member States used the IFRS option, of which eight had different rules for dividend distribution purposes).

Table 1 — Snapshot of Member States' use of options offered by the IAS Regulation

Country/ IFRS for	Listed undertakings	Other undertakings	
	Regulated markets	Consolidated financial statements	Annual financial statements
Belgium	Required for some*	Required for some, permitted for all others	Required for some*
Bulgaria	Required for some*	Required for all	Required for all
Czech Republic	Required for all	Permitted for all	Permitted for some
Denmark	Required for some/ permitted for some	Permitted for all	Permitted for some
Germany	Not permitted	Permitted for all	Not permitted
Estonia	Required for all	Required for some, permitted for all others	Required for some, permitted for all others
Ireland	Permitted for all	Permitted for all	Permitted for all
Greece	Required for all	Required for some/ permitted for some	Required for some/ permitted for some
Spain	Not permitted	Required for some, permitted for all others	Not permitted
France	Not permitted	Permitted for all	Not permitted
Croatia	Required for all	Required for some*	Required for some*
Italy	Required for some*	Required for some/ permitted for some	Required for some/ permitted for some
Cyprus	Required for all	Required for all	Required for all
Latvia	Required for some*	Required for some/ permitted for some	Required for some*
Lithuania	Required for all	Required for some/ permitted for some	Required for some/ permitted for some
Luxembourg	Permitted for all	Permitted for all	Permitted for all
Hungary	Not permitted	Permitted for all	Not permitted
Malta	Required for all	Required for some, Permitted for all others	Required for some, Permitted for all others
Netherlands	Permitted for all	Permitted for all	Permitted for some
Austria	Not permitted	Permitted for all	Not permitted
Poland	Permitted for all	Required for some/ permitted for some	Permitted for some
Portugal	Required for some, permitted for all others	Required for some, permitted for all others	Permitted for some
Romania	Required for some	Required for some, permitted for some	Required for some*
Slovenia	Required for some/ permitted for all others	Required for some/ permitted for all others	Required for some/ permitted for all others
Slovakia	Permitted for all	Required for all	Required for some/ permitted for some
Finland	Permitted for some	Permitted for all	Permitted for some
Sweden	Not permitted	Permitted for all	Not permitted
United Kingdom	Permitted for all	Permitted for some	Permitted for some

* otherwise not permitted

Source: Accounting Regulatory Committee, end 2013²²

Consultations showed that a majority of stakeholders regarded the options for national governments as appropriate. The fact that Member States have a great diversity in their use of options was seen by some as proof that the system works well and does not need to be changed. It may also be that, due to the diversity of legal frameworks in the EU, it would be difficult to achieve more consistency.

3.1.2. Discussion on possible extension of scope

While stakeholders do not see an immediate need for change, about a third acknowledged that extension of the use of IFRS beyond the present mandatory scope could be explored in certain

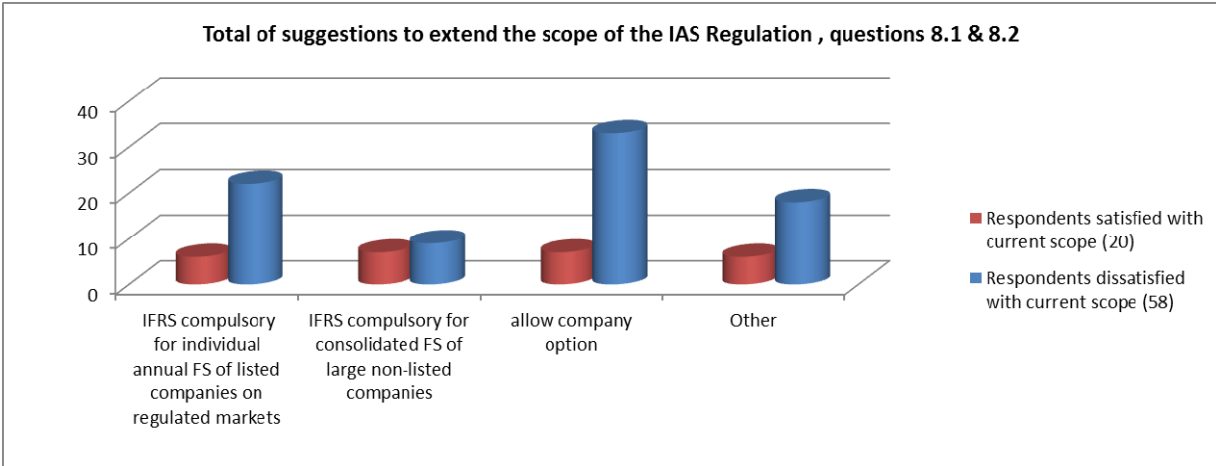
²¹ *Feasibility study on an alternative to the capital maintenance regime established by the Second Company Law Directive 77/91/EEC of 13 December 1976 and an examination of the impact on profit distribution of the new EU accounting regime*, KPMG, January 2008.

²² http://ec.europa.eu/finance/accounting/docs/legal_framework/20140718-ias-use-of-options_en.pdf.

areas to achieve greater harmonisation where possible, to inform investors but also to save costs.

However, the stakeholders who expressed an opinion on this via the public consultation, the expert group and the ARC highlighted practical issues that Member States could have difficulties in overcoming. These concerned taxation, company law, capital maintenance and variable remuneration. Also, there was an increased need for Member States to assess the impact of IASB developments at national level. A potential need to align certain European directives was also stressed.

Chart 4 — Results of the public consultation on possible extension of the scope of IFRS



Note: respondents proposing extension while satisfied with the current scope of the Regulation were mostly in favour of extending IFRS use through the options offered to Member States.

Company option for reporting under IFRS

Many stakeholders were in favour of giving companies the option of applying IFRS and saw this as particularly useful for groups. Expected benefits of this option were:

- ✓ substantial savings for multinational groups and their subsidiaries;
- ✓ a level playing-field for large companies or local companies operating internationally; and
- ✓ easier listing for entities seeking to go public (by developing their expertise in and history of relevant reporting, and ensuring fewer changes in the year of the initial public offering).

In particular, banking associations maintain that a double set of accounting standards for statutory reporting is an obstacle to the integration of the EU financial markets and an avoidable cost for banks’ cross-border operations.

Experts also discussed the impact of differences in accounting standards, or in their application, on dividend distribution for groups, with potentially misleading information being conveyed. One saw merit in an optional use of IFRS, where companies within a group would choose what they consider the best accounting framework for them in view of the particularities of the jurisdictions in which they operate. However, another highlighted that some analysts use subsidiaries’ individual financial statements prepared under local GAAPs as an additional check.

IFRS mandatory for individual annual financial statements of listed companies

Some stakeholders were in favour of making IFRS compulsory for the individual annual financial statements of companies listed on regulated markets (in particular those that do not prepare consolidated accounts), to improve transparency, comparability and the quality of the financial information available to the markets.

IFRS mandatory for large companies

A minority of respondents were in favour of extending the scope to large companies, in particular public-interest entities (PIEs) or entities that are important for the stability of the economy or the financial system, irrespective of their size. Expected benefits were the increased comparability of financial statements for investors who operate in private equity or non-regulated markets. Applying IFRS to PIEs could also reduce the reconciliation burden for prudential requirements and would allow for more precise statistical data at EU level. Also highlighted was the potential need for a common language for banks in the context of the launch of a banking union. In this respect, it is worth noting that the competent authority (the European Central Bank) may require that institutions value assets, off-balance-sheet items and determine own funds in accordance with IFRS as adopted in the EU.²³

Other proposals

Other discussions focused on small and medium-sized enterprises (SMEs).²⁴ Opinions were divided.

It was suggested that the application of IFRS should be extended to companies listed on a non-regulated EU public market. The case was highlighted of certain SMEs listed on such markets which disclose only limited information due to limitations under the Accounting Directive (e.g. small biotech companies with very little turnover, net assets and employee numbers, but still potentially representing higher risk investments).

Alternative accounting arrangements for non-listed companies were not included in the scope of the evaluation and the consultations, but comments were made on these nevertheless. IFRS were seen as an unnecessary burden for non-listed companies, which are less exposed to international benchmarking and global financing. One idea put forward was to harmonise further the national GAAPs for individual and consolidated financial statements, with the development of a reference or benchmark system for optional use, while others argued against creating an additional new accounting regime. One expert mentioned that modernised national GAAPs were deemed to meet the needs of such companies in individual Member States in terms of cost, level of complexity, publication requirements and relations with creditors and rating agencies.

Some stakeholders proposed using a lighter version of IFRS, with reduced disclosures for entities not listed on regulated markets (e.g. subsidiaries) or differentiated levels of disclosure by sector (more disclosure on financial instruments in the financial sector and lighter arrangements for industry), after a proper consideration of consistency with other directives. This would reduce operational cost and effort.

²³ Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1–337).

²⁴ Within the meaning of Article 3 of Directive 2013/34/EU (see footnote 14).

3.1.3. Voluntary application

Given the scope of the IAS Regulation, the focus of the Commission's analysis was on listed companies. Officials gathered limited feedback on voluntary applications, which were not core to the discussions.

According to the literature review, companies are likely to adopt IFRS voluntarily if they expect the benefits (e.g. in terms of lower cost of capital and widening the pool of potential investors) to exceed the costs. The fact that some companies adopt IFRS voluntarily and others do not suggests differences in the cost/benefit trade-off (see section 3.3.3). The literature (Appendix 5) shows that voluntary adopters are generally larger, more likely to have international cross-listings, rely more extensively on outside funding, have geographically dispersed operations and more diffuse ownership, and are more likely to be based in countries with low-quality local reporting.

As acknowledged in the literature, limited data are available on companies listed neither on regulated markets nor other markets. For the purpose of the present analysis, it was not possible to obtain data on the full current population of IFRS reporters in the EU. Instead, the analysis was based on a sample of companies extracted from a commercial database (S&P Capital IQ) in 2002-2013 (see Appendix 4). The sample includes non-listed companies incorporated in an EU Member State, with no distinction possible between those preparing consolidated financial statements and those preparing individual annual financial statements. The representativeness of the sample was considerably impaired by the fact that the database covers only a very small proportion of non-listed companies.

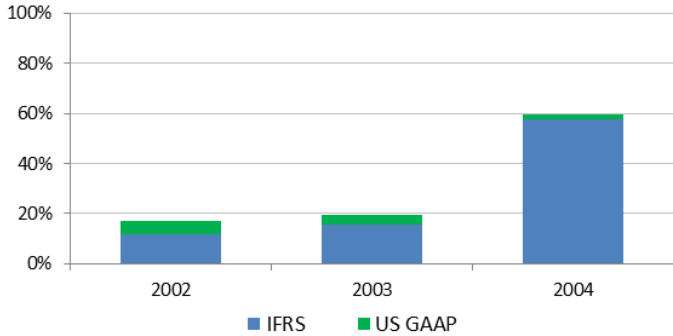
Early voluntary adoption of IFRS (2002 to 2004)

Companies did not switch overnight in 2005 from a pre-IFRS environment to an IFRS environment. Some EU companies were reporting on an IFRS basis anyway prior to mandatory adoption and some adopted IFRS in anticipation of mandatory adoption.

Chart 5 shows a gradual increase in IFRS adoption from 2002 onwards. In that year (the year the IAS Regulation was adopted), around 12% of the listed companies in the sample were reporting under IFRS. This increased to around 16% in 2003 and to approximately 58% by 2004.

In addition, the proportion of listed companies in the sample reporting under US GAAP fell from around 5% in 2002 to approximately 2% in 2004.

Chart 5 – Use of international accounting standards by listed companies (2002-2004)

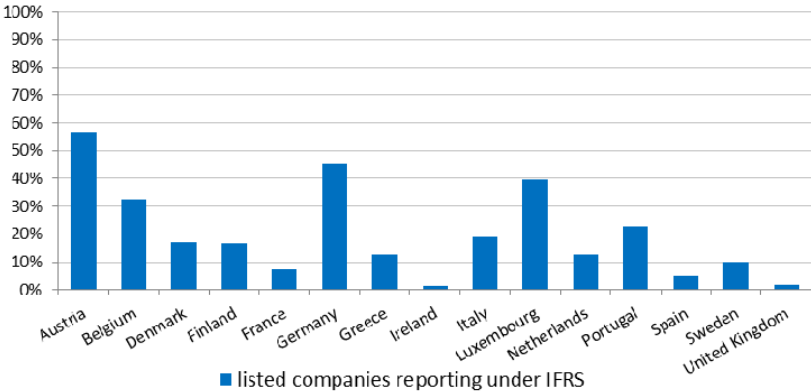


Source: S&P Capital IQ

Early voluntary adoption of IFRS was allowed in several EU Member States. For instance, Germany allowed it from 1998 and a large proportion of German listed companies took up this option.

Chart 6 shows that, in 2003, Austria and Germany were the Member States with the largest proportions of IFRS-reporting listed companies in the sample (around 57% and 45% of their companies). By contrast, hardly any companies in Ireland (1%) and the UK (2%) were reporting under IFRS in 2003.

Chart 6 — Distribution by Member State of listed companies reporting under IFRS (2003)



Source: S&P Capital IQ

The use of IFRS by non-listed companies

The results in this section should be interpreted with caution given the limited representativeness of non-listed companies in the sample.

The data show that a number of non-listed companies also adopted IFRS both before and after 2005.

Chart 7 shows that in 2002 around 15% of the non-listed companies in the sample were reporting under IFRS. The percentage increased to around 18% in 2003 and 66% by 2013. These high percentages are likely to reflect the fact that large companies, including some preparing for a listing, are overrepresented in what is quite a small sample. The data are reported only to illustrate the fact that some non-listed companies opted (voluntarily) to report under IFRS (see also Appendix 4 for the country breakdown).

Chart 7 — Use of financial accounting standards by non-listed companies (2002-2013)



Source: S&P Capital IQ

Non-listed companies may decide to adopt IFRS voluntarily in anticipation of a listing at a later stage. Around 59% of the non-listed companies in the sample (which were reporting under local GAAP and adopted IFRS by 2013) became listed by 2013.

In addition, 62% of the non-listed companies in the sample that were reporting under local GAAPs before 2005 had adopted IFRS by 2013, while 28% continued to report under local GAAP.²⁵

3.2. Objectives of the IAS Regulation: key benefits of applying IFRS

3.2.1. Overall objectives

As stated in section 2, the overall aim of the IAS Regulation was to require use of IFRS in the EU in order to improve the transparency and comparability of financial reporting and thus enhance the efficient functioning of EU capital markets and the single market. In addition, the Regulation emphasised the importance of IFRS becoming accepted globally, so that European companies would be able to compete on an equal footing for financial resources in the world capital market.

Evidence from the evaluation confirmed that the Regulation had been effective in achieving these objectives. In particular, the review of academic literature (Appendix 5), notwithstanding inherent limitations, found that there is evidence suggesting that the mandatory adoption of IFRS in the EU resulted in:

- ✓ a higher degree of transparency of financial reporting, through improved accounting quality and disclosure, more value-relevant reporting and more accurate market expectations and analyst forecasts;
- ✓ greater comparability of financial reporting across countries and industries, although differences persist; and
- ✓ improved capital market outcomes, as measured by higher liquidity, lower cost of capital and increased cross-border investment.

This shows that the IAS Regulation clearly adds value at EU level.

However, not all academic research supports these conclusions:

²⁵ For the remaining 10%, it was not possible to determine the accounting standard.

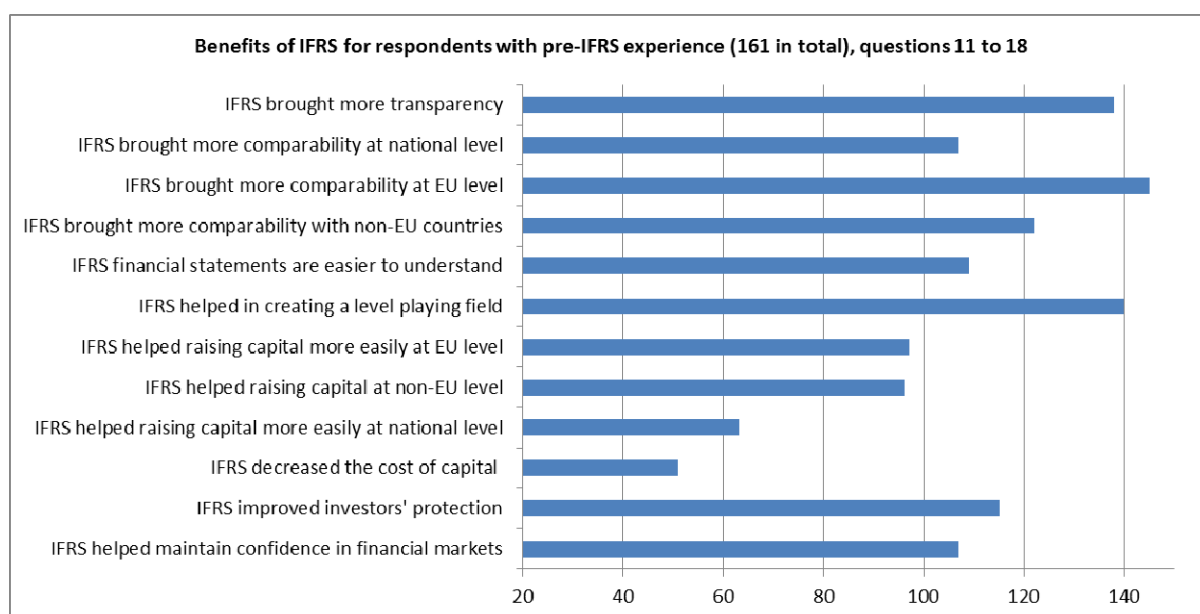
- ✘ while most studies show positive capital market effects, the results as regards transparency and comparability are more mixed. It was acknowledged that these benefits generally depend on the existence of good enforcement regimes and companies' incentives to produce high-quality financial reports;
- ✘ while the Regulation reduced differences between accounting standards applied across the EU, the same degree of uniformity does not exist in countries' enforcement frameworks and companies' reporting incentives.

Consultations of stakeholders confirmed the findings of the literature review. As detailed in Chart 8 below, a vast majority of respondents to the public consultation found that the application of IFRS in the EU, as compared with the situation before mandatory adoption, improved the transparency of companies' financial statements and their comparability at national, EU and global level. In addition, a strong majority found that:

- ✓ IFRS-based financial statements are easier to understand;
- ✓ companies compete on an accounting level playing-field and can raise capital more easily at EU and global levels;
- ✓ there was a positive impact on the cost of acquiring companies; and
- ✓ investors are better protected and have greater confidence in financial markets.

The results of the consultations are less definitive as regards the overall cost of capital and the ease of raising capital on domestic markets.

Chart 8 — Results of the public consultation on the benefits of applying IFRS as compared with the situation before mandatory adoption or the likely situation had IFRS not been introduced



Moreover, consultations of stakeholders (including close to 95% of respondents to the public consultation, across all categories) show that the objectives of the IAS Regulation are still valid today, and even more so given the growing globalisation of capital markets. This confirms the need to maintain the requirements at EU level. IFRS provide for a common accounting language that is based on a single set of rules governing the preparation of the consolidated accounts of companies listed on regulated markets and shared by issuers and

investors across the EU and more widely. It was acknowledged that this is vital for capital and trade flows across the EU.

Also, in all consultations and discussions held, it emerged clearly that the use of IFRS in the EU is supported by a large majority and that there is no well-defined alternative to international high-quality standards.

The process in recent years of amending the Accounting Directives to harmonise further the arrangements for large companies outside the scope of the IAS Regulation illustrated that it can be hard to reach agreement across Europe on both principles and detailed provisions in the field of accounting.²⁶

3.2.2. IFRS as a single set of global standards

3.2.2.1. International use of IFRS

The Regulation refers to IFRS as a set of global accounting standards. As detailed in the literature review (Appendix 5), the EU's decision to adopt IFRS injected significant impetus to the acceptance and spread of IFRS, including in countries such as Australia, New Zealand, Hong Kong and South Africa, most of which adopted IFRS in 2005. Public expressions of support for the concept of global accounting standards were soon forthcoming from the G20, the World Bank, the International Monetary Fund (IMF) and the Basel Committee, among other groups concerned with the global financial system.

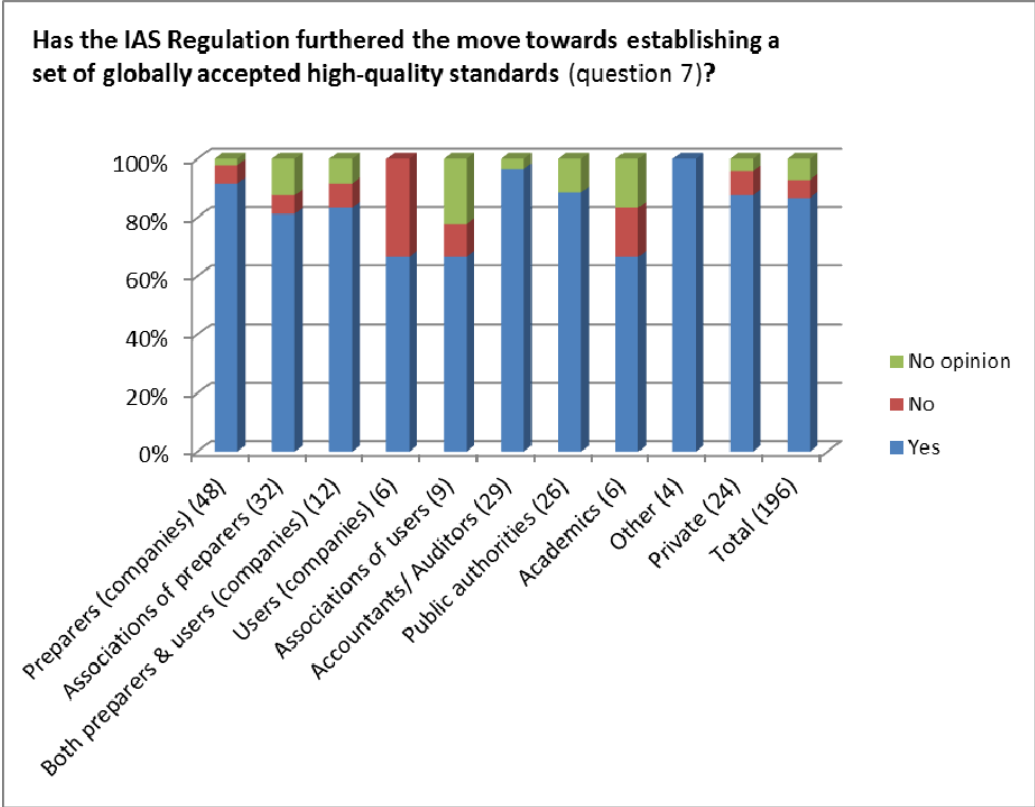
To date, according to the IFRS Foundation (Pacter),²⁷ nearly all of the 140 jurisdictions studied have publicly stated a commitment to support global accounting standards (130) and that those standards should be the IFRS (132). IFRS are required for all or most listed companies in more than 100 jurisdictions (116), including several that do not have stock exchanges but require IFRS for banks and other publicly accountable entities. Of the remaining countries, some permit IFRS for at least some listed companies (14) or are in the process of adopting IFRS. The combined 2012 GDP of IFRS jurisdictions is USD 41 trillion, or more than half of worldwide GDP. The combined GDP of IFRS jurisdictions outside the EU/EEA (USD 23.8 trillion) is now greater than that of the EU/EEA itself (USD 17.2 trillion), although the EU remains the single biggest user of IFRS. In this context, the term 'IFRS jurisdiction' covers countries in which IFRS are used to differing degrees.

The Commission's consultations show that most stakeholders are of the view that the IAS Regulation has significantly increased the credibility and acceptance of IFRS worldwide and hence furthered the move towards a single set of globally accepted high-quality standards.

²⁶ See footnote 14.

²⁷ IFRS Foundation webpage, Pacter (data updated constantly; update of 1 May 2015 taken into account): <http://www.ifrs.org/use-around-the-world/pages/jurisdiction-profiles.aspx>.

Chart 9 — Results of the public consultation on IFRS as a set of globally accepted standards



3.2.2.2. EU decisions on equivalence with other GAAPs

The EU introduced an equivalence regime to encourage third countries to adopt IFRS and/or to align their national GAAPs with IFRS. The objective was to promote the use of IFRS as the worldwide accounting language.

The Prospectus²⁸ and Transparency²⁹ Directives provide that the financial information in prospectuses filed by third country issuers seeking to list their securities in the EU and in financial statements prepared by third country issuers whose securities are already listed in the EU is to be prepared in accordance with IFRS or any other standard that has been declared equivalent to IFRS.

A mechanism³⁰ for determining the IFRS-equivalence of a country’s GAAP was established in 2007, in order to ensure that equivalence is determined in all cases that are relevant to EU markets. Equivalence was granted on a temporary or permanent basis (‘permanent’ meaning for an indefinite period provided conditions remain unchanged).

²⁸ Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (OJ L 345, 31.12.2003, p. 64).

²⁹ See footnote 8.

³⁰ See the ‘Equivalence Mechanism Regulation’, Commission Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council (OJ L 340, 22.12.2007, p. 66).

In 2008, the Commission adopted permanent equivalence decisions on the GAAPs of the United States and Japan. At that time, the USA had made a commitment to move to a single set of global standards and recognised that IFRS would be best-placed in this respect. Today the USA has still neither required nor permitted the use of IFRS for US domestic issuers, but in 2007 the US Securities and Exchange Commission (SEC) accepted their use by European companies seeking to meet US listing requirements. Around 90 major European companies currently benefit from this arrangement. In Japan, domestic listed companies are permitted to apply IFRS voluntarily for consolidated financial statements.

In 2008, the GAAPs of China, Canada, South Korea and India were granted equivalence for a three-year period. In 2011, this was converted to permanent equivalence in the cases of China, Canada and South Korea. China had adopted national accounting standards that were substantially aligned on IFRS, and Canada and South Korea had made the use of IFRS mandatory for most domestic companies. Temporary equivalence was granted to India following its Government's public commitments to adopt IFRS. This was renewed in 2011 for a limited period of three years and the Commission is currently reassessing its status.

Feedback has shown that IFRS' status as a global set of accounting standards is a strong factor in the success of the IAS Regulation. While the fact that the USA has not yet adopted IFRS for use by its domestic companies limits the global application of IFRS, the EU-US equivalence arrangements are generally perceived as an important benefit for European companies. Some members of the expert group highlighted that the USA's acceptance of IFRS financial statements as published by the IASB for EU companies brought huge benefits for preparers of financial statements, who do not have to prepare onerous IFRS-US GAAP reconciliation statements of their financial statements. Discussion in the expert group showed that, while such reconciliations provided useful information to investors in the past, their usefulness has diminished as the perspectives of IFRS and US GAAP have become more and more closely aligned and IFRS preparers have exercised any IFRS options over time to align with the latter where necessary.

Respondents to the public consultation emphasised the risks for dual-listed companies of any departures in Europe from IFRS as published by the IASB, e.g. in terms of the scope for introducing changes to IFRS under the IAS Regulation or as regards the time required for the endorsement process (see section 3.4 below).

3.2.2.3. Convergence between IFRS and US accounting standards

The United States does not currently allow its domestic issuers to use IFRS. In July 2012, a SEC report concluded that additional analysis and consideration were necessary before any decision could be taken. Since then, nothing has been finalised, but there are indications that the SEC is considering the matter again. Stakeholders commented in the consultations on the fact that the USA has not adopted IFRS for its own use. In general, this was a source of regret, because it limits the global application of the standards. It was acknowledged, however, that differences between the US and EU litigation environments might have implications for the accounting framework.

Nevertheless, the IASB and the US standard-setter (FASB) have been engaged since 2002 in an ambitious programme to align their respective standards in order to ensure a level playing-field for companies on both sides of the Atlantic. This convergence programme has received international support from many organisations, including the G20, the Financial Stability Board and the Basel Committee on Banking Supervision.

These efforts are highly relevant, because the closer the two sets of standards, the easier it would be for the USA to adopt IFRS. This also relates to the equivalence arrangements detailed above (section 3.2.2.2).

After more than 10 years, the convergence process has achieved mixed results. There are success stories in the areas of revenue recognition (IFRS 15, issued in June 2014, is a fully converged standard), consolidation, fair value measurement and off-balance-sheet disclosures. However, despite calls for convergence from the G20 and others, the Boards have achieved only partial convergence on financial instruments. In July 2014, the IASB published the final version of IFRS 9 on financial instruments, despite the Boards' different approaches on impairment (i.e. loan loss provisioning). It is not clear whether there will be a converged standard for insurance contracts. The future of the leases project is uncertain.

Convergence is not an aim in itself, but it should bring reporting languages closer together in order to enhance the comparability of annual reports across jurisdictions (users' request), facilitate the adoption of IFRS and allow for the consistent application of prudential requirements. In the EU, Member State economics and finance ministers confirmed at the ECOFIN meeting of November 2013 that priority should be given to high-quality standards over international convergence and reiterated their support for a cautious decoupling between the Boards in the interests of having a good-quality standard on financial instruments sooner rather than later.

Similarly, members of the expert group and respondents to the consultation stressed the need for Europe to focus on high-quality standards, which they saw as more important than convergence. There could be underlying differences between economies, products and markets that make it difficult or inappropriate to apply fully converged accounting standards. The aim is to have high-quality standards appropriate for European markets; if they converge with US GAAP, that is an added advantage.

The public consultation looked specifically into how IFRS were perceived in comparison to other GAAPs in terms of whether financial statements prepared under IFRS present a true and fair view. Only around a quarter of respondents expressed an opinion on this question, with most comparing IFRS to US GAAP. IFRS were largely seen as better than or equivalent to US GAAP in this respect. Many explained that this was because IFRS are more principles-based. Many dual-listed companies, however, perceived IFRS and US GAAP as equivalent in terms of providing a true and fair view.

3.2.3. Quality of IFRS financial statements

The Commission's literature review concluded that the introduction of IFRS was seen as improving accounting quality, disclosure and the value-relevance of reporting. However, the evidence is not unequivocal. The impact differs between companies and countries (the move to IFRS is more beneficial in countries with low-quality local accounting standards) and depending on the measurement approach. A high level of enforcement also appears key to ensuring high-quality financial reporting (see section 3.5.1).

Early survey evidence collected for the Commission by the Institute of Chartered Accountants in England and Wales (ICAEW 2007)³¹ shows that most investors, preparers and auditors surveyed thought that IFRS had improved the quality of consolidated financial statements and

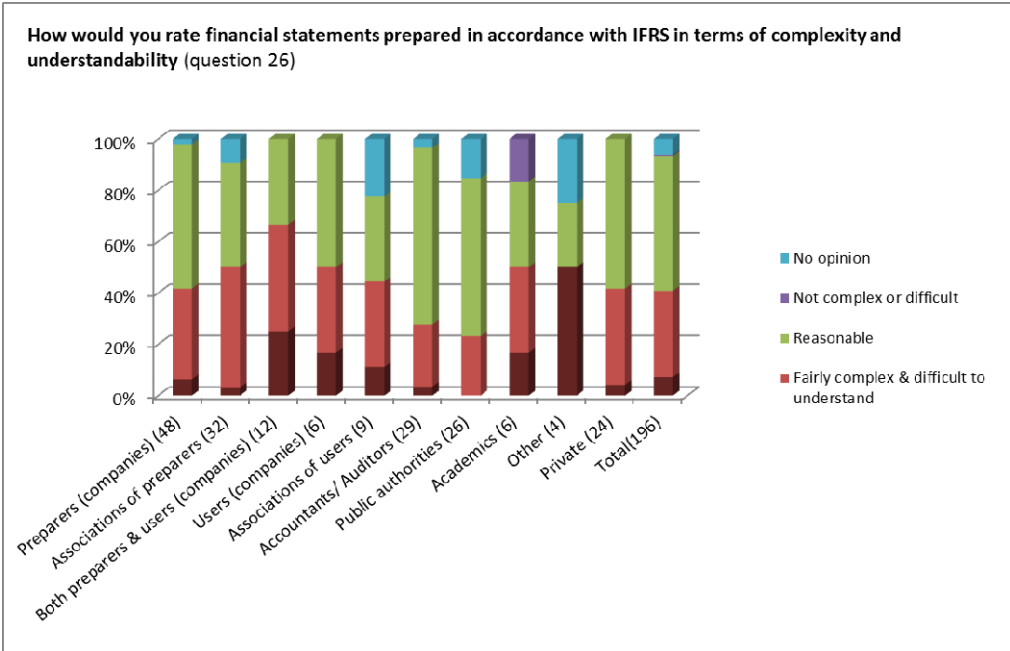
³¹ *EU implementation of IFRS and the Fair Value Directive*, report for the European Commission, ICAEW, 2007.

transparency, notably in certain areas (e.g. derivative instruments, off-balance-sheet items, securitisation, stock options and segment reporting).

Consultations show that most stakeholders (e.g. 70-75% across all categories of respondents to the public consultation) see the quality of financial statements prepared under IFRS as good to very good. However, it was noted that other factors (e.g. role of management in preparing financial statements, audit and enforcement) also have an impact on quality.

For many stakeholders, the comparability of financial statements prepared using IFRS was enhanced but complexity increased. However, as illustrated in Chart 10 below, a majority of stakeholders rate the complexity and understandability of IFRS-based reporting as reasonable, since most of the former was judged as unavoidable given the complexity of the business activity in question.

Chart 10 — Results of the public consultation on the complexity and understandability of IFRS financial statements



Nevertheless, some complexity could be avoided. Many experts and respondents to the public consultation believe that there is still room for improvement, most notably with respect to the scale and appropriateness of disclosures.

In particular, while acknowledging the improved quality of disclosures in certain countries and where companies have strong corporate governance, the literature review noted shortcomings in disclosure requirements in specific areas (e.g. financial instruments). However, it was unclear to what extent these concerned the application of standards, rather than the IFRS themselves (see section 3.5.1).

Commission staff's consultations of stakeholders also led to the conclusion that there was an issue with the volume (perceived as excessive) and appropriateness of disclosures.

EFRAG working with standard-setters in France and the UK has researched how to make disclosures more relevant for users of financial statements and limit them to useful information only. They published a discussion paper in 2012 and a feedback statement on this

paper in 2013. The IASB is working on this issue as part of a ‘disclosure initiative’ research project. A discussion forum on disclosure in financial reporting was held in 2013, and the IASB conducted a survey and published a feedback statement in May 2013.³² This led to amendments to IAS 1 (published in December 2014) and other projects (e.g. on materiality) are still ongoing.

Most stakeholders see IFRS as better than or equivalent to their local GAAPs in terms of being able to provide a true and fair view, mostly because IFRS are more comprehensive and involve more disclosures. This was the view of 87% of respondents who expressed their opinion on this question in the public consultation. As stated earlier, IFRS also compare well with US GAAP.

Most stakeholders consider that IFRS allow for departures from their basic principles in order to ensure that a true and fair view is given, while a small group disagreed, seeing less flexibility or other external constraints.

Many stakeholders consider IFRS sufficiently flexible to reflect different business models as they are principles-based. However, others expressed concerns, particularly as regards insurance accounting.

3.2.4. The performance of IFRS during the financial crisis

The period covered by this evaluation includes the financial crisis, which saw a liquidity freeze affecting, in particular, bonds issued through securitisations and the inter-bank lending market. While most would agree that IFRS did not cause the crisis, opinions are more divided as to whether the use of them exacerbated it. The various aspects of this question have been the subject of much discussion, writing in the press and academic research.

Commission officials prepared a separate overview of literature in this area (Appendix 6). One of the key aspects is fair value accounting, because in Europe the application of IFRS generally led to a greater use of fair values, in particular for financial instruments, than had been the case under local GAAPs. It must be stressed, however, that this was not necessarily the case throughout Europe. In the UK, for example, national GAAP evolved in a similar direction to IFRS in terms of the use of fair values.

Overall, the literature review found little empirical evidence to substantiate the claim that fair value accounting contributed significantly to the crisis. Academic proponents of fair values argue that such information is an objective measurement basis reflecting current market conditions and providing timely, transparent information which prompts corrective action. Most members of the expert group shared this point of view. However, some academics noted that prices can be distorted, and peaks and troughs exaggerated, by market behaviour, which tends to result in pro-cyclicality. A small number of respondents to the public consultation suggest that the use of fair values contributed to excessive remuneration and dividends in the period before the crisis, as profits were over-stated in over-optimistic market-based valuations; this in turn contributed to banks being under-capitalised as they entered the crisis.

The Commission’s 2013 green paper on *The long-term financing of the European economy*³³ sought input as to whether the use of fair values had led to short-termism. Respondents’ views

³² <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx>.

³³ COM/2013/0150 final, March 2013.

were mixed. As recorded in the Commission's 2014 Communication on *Long-term financing of the European economy*,³⁴ fair value accounting was criticised by a range of stakeholders for introducing market volatility in financial reports and therefore favouring short-term behaviour. Many respondents commented on the significance of the IASB's *Conceptual Framework* in ensuring that future accounting standards are developed in a way that is not damaging to long-term investment. They also pointed to the (then ongoing) work of the IASB to review the accounting of financial instruments (IFRS 9).

The literature review accompanying this evaluation found some support for the relevance of fair value. For example, a 2008 Chartered Financial Analysts (CFA) Institute survey found that about 80% of investors felt that fair value requirements for financial institutions improved transparency. Some academics argue that fair values are relevant even for assets held with a long-term perspective.

Fair value is used for some financial instruments only, the rest being valued at cost (or amortised cost). The above-mentioned green paper asked whether stakeholders could suggest a better alternative to fair value measurement and a small number of ideas were put forward, but in general the evidence suggests that there are no credible alternatives at this time, because for some instruments, such as derivatives or equity shares, cost is not a meaningful measure. Nevertheless, the literature review found that the fact that IFRS are a mixed-measurement model (blending the use of fair values with cost-based measurement) is important for financial stability. Some of the academic literature argued that financial stability concerns are a matter for prudential regulators and not for standard-setters, a view shared by some members of the expert group.

Notwithstanding the importance of a mixed-measurement model, the literature review also found that cost-based information can lack relevance, for example where investors doubt that a bank will be able to hold assets to maturity because of liquidity issues. In particular, there have been concerns about the impairment loss model in the standard on financial instruments (IAS 39), which the G20 characterised as having led to 'too little, too late' in terms of loan provision, as it was based on an incurred-loss model that required evidence of actual impairment. Thus, during the crisis, although banks reported significant impairment losses on loans carried at amortised cost, these were reported later than they would have been had the loans been at fair value. The IASB has addressed this problem in the new standard replacing IAS 39 (IFRS 9) by developing a new impairment loss model based on expected losses which is required to take account of forward-looking information, including macro-economic indicators, in determining provisions. Nevertheless, the fact that capital markets did not have confidence in the levels of loan losses reported by banks is said to have contributed to their market-capitalisation values being less than their book-carrying values and to have inhibited funding to banks, leading the ECB and other central banks to intervene to provide liquidity.

Since the crisis, the IASB has looked at all aspects of accounting for financial instruments, including the measurement and disclosure of fair values, the transparency of disclosures for off-balance-sheet vehicles and the consolidation of such vehicles, and is addressing disclosures in a broad-based initiative. This work has involved a large number of stakeholders in a number of consultative phases. In Europe, at the time of writing, the endorsement process for the new financial instruments standard (IFRS 9) is ongoing.

³⁴ Communication from the Commission to the European Parliament and the Council on *Long-term financing of the European economy* (COM(2014) 168 final, March 2014).

3.3. Cost/benefit analysis of the adoption of IFRS in the EU

3.3.1. Limitations

Cost/benefit analysis is a technique used to evaluate the consequences of decisions. In the public sector, it helps in assessing different policy options and contributes to evidence-based policy-making. However, it has limitations, in particular for policy options with unquantifiable consequences or where costs and benefits are distributed unevenly across the population.

Some academics have argued that straightforward cost/benefit analysis might be particularly unsuitable as a basis for deciding whether to adopt IFRS. On the one hand, some key benefits resulting from the use of IFRS are very difficult to quantify, cannot be easily monetised and are difficult to aggregate. Unquantifiable benefits include increased transparency and comparability, improved accounting quality, an accounting level playing-field for companies and investors and greater confidence in financial markets (see section 3.2). On the other hand, the distribution of costs and benefits seems particularly uneven. Costs are largely incurred by companies preparing IFRS-based financial statements, whereas the benefits are wider in scope and shared by them, the users of financial statements (including investors) and the wider economy.

Adequate analysis of the impact of IFRS adoption is further complicated by the paucity of available data, even on relatively easily quantifiable consequences. It is difficult to compare cost estimates directly with the benefits. None of the respondents to the public consultation produced hard figures on the costs and benefits of IFRS.

In addition, some experts argued that the cost/benefit analysis of the application of IFRS should acknowledge the parallel development of local GAAPs to take account of the increased complexity of businesses, the fact that some local GAAPs are converging on IFRS and the implementation costs of alternative standards.

3.3.2. Mandatory adoption of IFRS

3.3.2.1. First-time implementation

As regards first-time implementation, estimates of preparers' costs are available from the ICAEW (2007) study³⁵ based on survey responses from preparers of IFRS consolidated financial statements. Chart 11 shows per-company cost estimates ranging from 0.31% of total turnover for companies with turnovers below EUR 500 million to 0.05% for larger companies. The expected additional recurring costs of IFRS are lower, ranging on average from less than 0.01% to 0.06% of turnover in the different size categories.

³⁵ See footnote 31

Chart 11 — Costs of preparing IFRS-based consolidated financial statements

Company turnover	Adoption costs (% of turnover)	Recurring costs (% of turnover)
< EUR 500 million	0.31%	0.06%
EUR 500 million — EUR 5 billion	0.05%	0.01%
> EUR 5 billion	0.05%	0.008%

Note: Shows estimates of average additional costs of preparing IFRS financial statements compared to prior national requirements, based on preparers' responses to an online survey. Split into adoption costs in the first year and expected recurring costs in subsequent years.

Source: ICAEW (2007)

According to ICAEW (2007), although the respondents were asked for estimated additional costs (i.e. incurred over and above what would have been spent on complying with national standards), some of the reported costs might not be truly incremental. For example, IFRS project teams might include staff not fully engaged on IFRS or software changes for IFRS might be made concurrently with other financial software upgrades. Moreover, there were a lot of 'don't knows' in the responses on costs, which indicates that many companies did not track this information. A number of companies, particularly large ones, appear not to have thought it worthwhile to record separately the costs of IFRS implementation.

The above estimates indicate that, proportionately, the smallest companies bore the highest costs. There appear to be economies of scale, even among larger companies with more complex transactions requiring more sophisticated accounting policies. Small companies appear to have been unable or unwilling to use internal resources and relied to a greater extent on external support, with external advice and auditing ranking as the most significant cost elements. The ICAEW (2007) analysis also suggests that the largest companies were more prepared to embed accounting changes to reduce future costs.

Focusing on audit fees paid by EU companies in 2004-2008, Kim *et al.* (2012) find that, on average, IFRS adopter companies' audit fees increase 5.44% more than other companies'. They also find that 'the IFRS-related audit fee premium increases with the increase in audit complexity brought about by IFRS adoption, and decreases with the improvement in financial reporting quality arising from IFRS adoption'.

It should be noted that cost estimates reflect private costs to IFRS preparers on a per-company basis, whereas many of the benefits are wider in scope and accrue to other companies, analysts, investors and the wider economy. Also, some of the costs for IFRS preparers translate directly into additional revenues for financial reporting consultants and auditing firms.

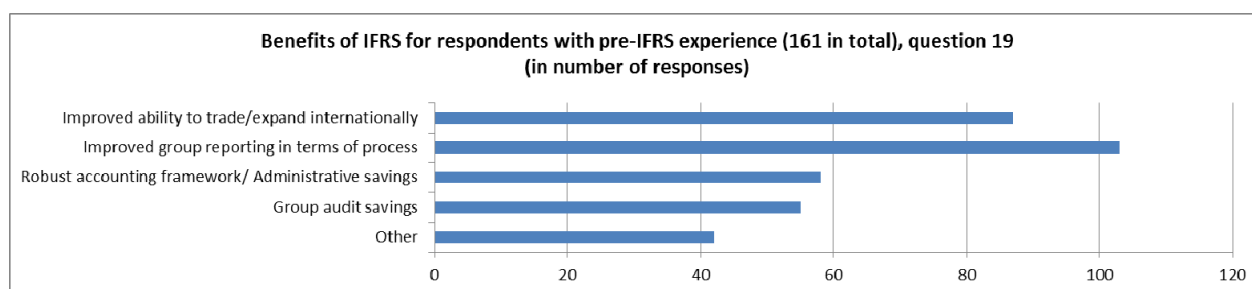
3.3.2.2. Ongoing application

In addition to the key benefits of IFRS detailed in section 3.2.1, a strong majority of respondents to the public consultation found that IFRS financial statements entail improved group reporting (with a robust accounting framework and administrative and group audit savings) and a greater ability to trade and expand internationally (see Chart 12). Other benefits, cited less often, were:

- ✓ a robust accounting framework for preparing financial statements;
- ✓ administrative savings;

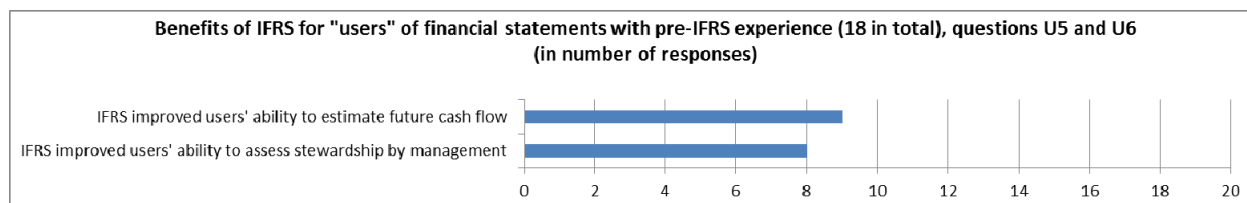
- ✓ group audit savings;
- ✓ greater credibility of EU companies' financial reports outside the EU;
- ✓ a wider international pool of finance professionals and job opportunities thanks to harmonised and higher qualifications among professionals;
- ✓ better internal communication within international companies;
- ✓ improved corporate governance and stewardship; and
- ✓ easier company acquisition/disposal.

Chart 12 — Results of the public consultation on other benefits from application of IFRS as compared with the situation before mandatory adoption or with the likely situation had IFRS not been introduced



Half of the users of financial statements responding to the public consultation considered that the use of IFRS in reporting improved their ability to estimate future cash flows and assess stewardship by management.

Chart 13 — Results of the public consultation on the benefits from application of IFRS for users of financial statements



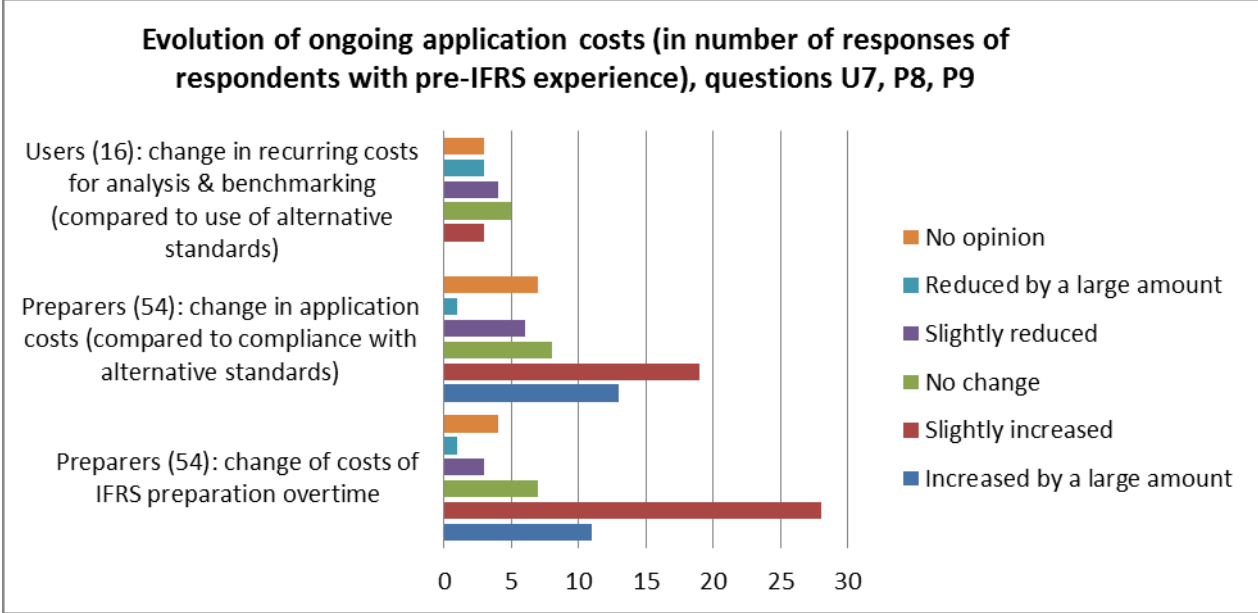
For companies preparing financial statements, the costs include staff costs and training, IT, advisory services, valuation expertise and, for some, the cost of financial information being difficult to produce, audit and explain to investors. Users of financial statements also incur staff and IT costs.

Results from the public consultation (see Chart 14) show that recurring costs were reduced for a majority of users, due to standardised items in IFRS facilitating analysis, while they were greater for a majority of preparers, in particular due to the constant need to adapt accounting and IT processes to regular amendments to IFRS, and for public authorities.

The consultation highlights some issues which continue to be debated (e.g. the high level of disclosures, the complexity of some standards, the frequency of changes to standards, the need to have common enforcement, the role of prudence in the development of standards, the use of fair values, and the impact of new standards in terms of cost).

Some experts highlighted the need to compare ongoing benefits (e.g. cost of capital) with ongoing costs (e.g. implementation costs for new standards). Others stressed that the biggest (albeit not extraordinary) costs were still to come for companies in the financial sector, with IFRS 9 on financial instruments and IFRS 4 on insurance (project still ongoing), and for other companies with IFRS 15 on revenue recognition.

Chart 14 — Results of the public consultation on assessed ongoing costs of IFRS for preparers and users of financial statements



3.3.3. Voluntary adopters

Analysis of the reasons why companies adopt IFRS voluntarily and looking at the cost/benefit ratio could also inform the overall cost/benefit analysis. However, evidence on voluntary adoption is limited (see section 3.1.3). Input was gathered from the literature, discussions in the expert group and very few responses to the public consultation from respondents using IFRS voluntarily.

Evidence in the literature suggests that it is not obvious that all companies benefit from using IFRS. The (private) costs probably exceeded the (private) benefits for at least some mandatory IFRS adopters, while the benefits may be wider and societal in nature. The empirical evidence on the impact of voluntary adoption is summarised in Hail *et al.* (2009),³⁶ among others. According to Hail *et al.* (2009), the evidence on voluntary IFRS (or IAS) adoption is somewhat mixed, but on balance suggests that voluntary adopters experienced positive capital-market effects. However, these results should be interpreted with caution. As the companies choose whether and when to adopt IFRS, it is difficult to attribute any observed economic consequences to the accounting standards *per se* and the evidence only provides an indication of the potential costs and benefits of IFRS for firms with particular characteristics. The effects may be attributable at least in part to the factors that gave rise to the IFRS adoption decision in the first place.

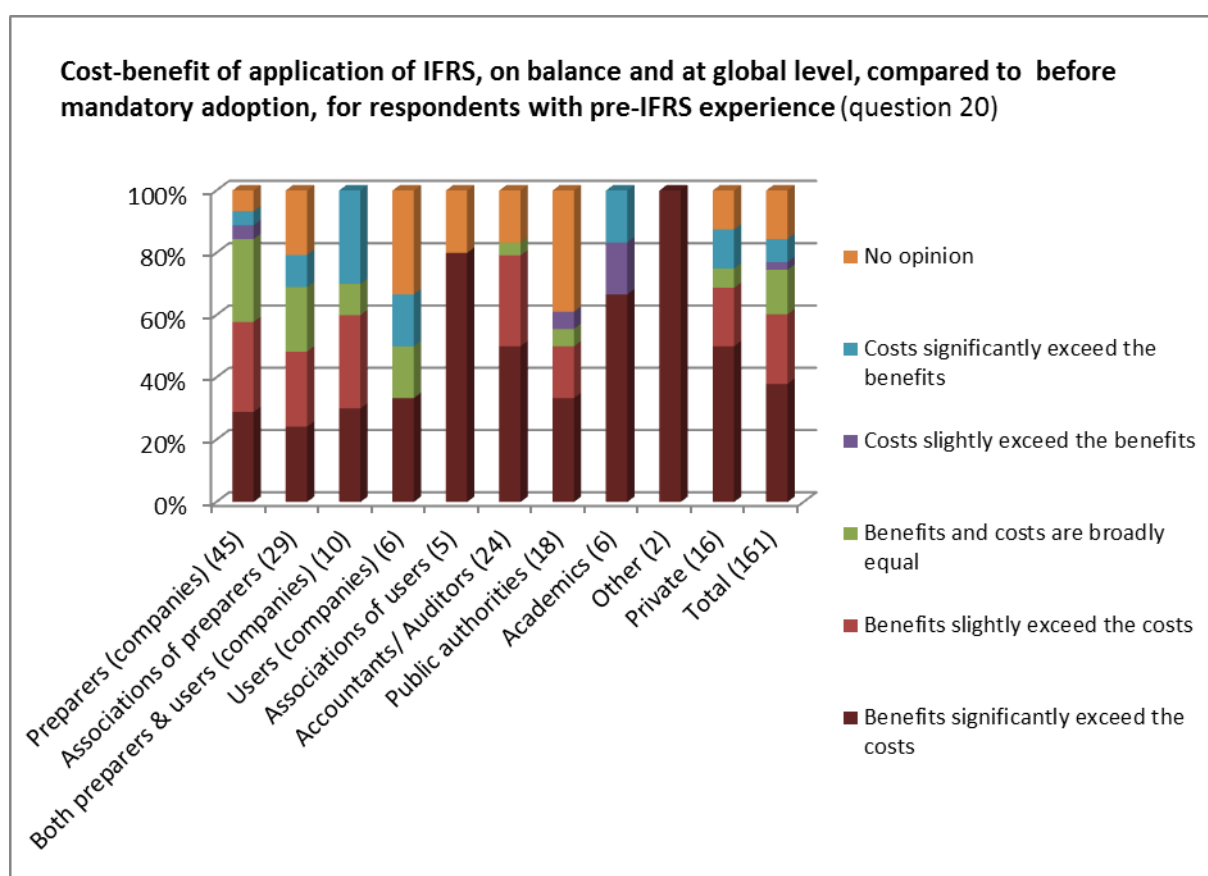
³⁶ Hail and Leuz (2009), *Global accounting convergence and the potential adoption of IFRS by the United States: An Analysis of Economic and Policy Factors*.

3.3.4. Overall cost/benefit assessment

Notwithstanding the limitations detailed in section 3.3.1, in particular regarding the quantification/monetisation of benefits, on balance the evidence from stakeholder consultations and the literature (see Appendix 5, section 8) shows benefits in terms of meeting the objectives set out in section 3.2.

There seems to be broad agreement among stakeholders responding to the public consultation and the expert group that, on the whole, the benefits of IFRS outweigh the costs. From that perspective, the IAS Regulation appears to be an effective contribution to its stated objectives of greater transparency, comparability and better-functioning capital markets.

Chart 15 — Results of the public consultation on the costs and benefits of IFRS application



One Member State that had widened significantly the use of IFRS following the entry into force of the IAS Regulation, notably by requiring IFRS for individual financial statements of listed and financial-sector companies, stated that, overall, benefits and in particular savings now far exceeded costs and difficulties at individual company level.

Another way of assessing whether the IAS Regulation operates efficiently is to analyse whether its objectives could be achieved at a lower cost. Operational costs could be reduced, for instance, by foregoing the elaborate mechanism of endorsing individual IFRS in EU law. However, this does not seem possible, as automatic entry into force of privately issued IFRS would not satisfy democratic law-making criteria.

3.4. Endorsement mechanism and criteria

3.4.1. Endorsement mechanism — process

Section 2.2.4 sets out the endorsement procedure and criteria.

The endorsement process serves to assess whether standards developed by a private body are suitable for use in the EU as part of EU law. Most respondents to the public consultation and members of the expert group considered that it is appropriate to have an endorsement process and only a small number of respondents considered that standards produced by the IASB should become law in EU Member States automatically without a legal process.

Most respondents to the public consultation and the members of the expert group considered that the endorsement process works well. One expert emphasised that there is no compelling reason to change the Regulation in this respect, but there are good reasons not to change it:

- ✓ it is well written, succinct and clear;
- ✓ opening it up to review would create regulatory uncertainty; and
- ✓ global influence is more powerful with full compliance.

Nonetheless, feedback indicated some concerns as to the length of the process:

- ✗ some companies highlighted the risk of the regulatory uncertainty caused by the process; this can affect their planning when it comes to implementing major standards;
- ✗ others referred to the need of EU companies listed in the United States to be able to use IFRS as issued by the IASB, rather than those adopted in Europe, to meet their SEC filing obligations; and
- ✗ others cited examples of minor amendments where endorsement had occurred late in the day or even after the IASB's effective date for the revised standard; some respondents and most members of the expert group thought that effective dates should be in line with those set by the IASB for international companies as the standards are not just for the EU.

One member of the expert group pointed to the recital in the IAS Regulation stating that the process should be expedient. The experts discussed the possibility of distinguishing between standards on the basis of importance. It was suggested there was room for improvement in terms of timing by all parties involved — in particular, some commented on the role of the IASB as a partner in the process; a similar comment was made in response to the consultation. One member suggested setting clear objectives for the process taking into account the IASB's effective dates.

The expert group also discussed the endorsement process for interpretations produced by the IASB Interpretations Committee. Most experts thought that interpretations should continue to be subject to an endorsement process to give them a mandatory status which is important for enforcement.

On occasion, the endorsement process has run particularly swiftly due to close cooperation between all concerned. A recent example was the 'novation of derivatives' amendment to IAS 39, published by the IASB as an exposure draft in March 2013 and endorsed by the end of that year. The IASB and EFRAG both responded quickly and efficiently so that changes advocated by the G20 concerning over-the-counter derivatives and central clearing houses,

which were incorporated into EU law through the European Market Infrastructure Regulation (EMIR), could be implemented effectively.

Following its reform in the light of the Maystadt Report, stakeholders expect that EFRAG will be able to influence the IASB's development of standards more effectively to ensure that they not only satisfy technical criteria but also respect the European public interest. Many respondents to the consultation commented on the importance of the EFRAG reforms and the expectation that they would lead to greater influence over the IASB, so that there would be fewer questions in the endorsement process as to whether standards were in the European public interest. This in itself should help make the process quicker and more efficient.

As regards the stakeholders involved in the endorsement process, some comments received suggested that the ARC could be involved at an earlier stage rather than simply voting on endorsement at the end of the process. This echoed feedback that Mr Maystadt had received from some constituents.

A small number of respondents commented that the process lacks transparency, but it was unclear whether they were fully aware of the information available. Other comments suggested that not all respondents fully understood the process; however, this may be because they find it difficult to follow how it works in practice.

3.4.2. Endorsement mechanism — flexibility

The Maystadt Report noted that the endorsement mechanism does not allow much flexibility when it comes to adopting standards developed by the IASB. In practice, the options are:

- to adopt IASB standards;
- not to adopt them; or
- to exercise the limited scope for not adopting certain provisions ('carve-out').

The IAS Regulation does not, at least explicitly, empower the Commission to otherwise change the IASB text ('carve-in').

The Maystadt Report found that several EU stakeholders would support greater flexibility, particularly as they thought this would give the EU more influence over the IASB even if there was no real appetite for using the flexibility in practice. However, not everyone agreed with this line of argument. Similarly, members of the expert group and respondents to the public consultation expressed conflicting views on this point.

The Maystadt Report discussed the advantages and disadvantages of introducing more flexibility into the IAS Regulation. In particular, it noted that the concept of regional IFRS variations runs counter to the fundamental idea that global standards bring benefits to capital markets in terms of the comparability of financial reports and their high-level of transparency.

On this point, the public consultation asked whether the IAS Regulation deals appropriately with the inevitable trade-off between promoting a set of globally accepted accounting standards and the need to ensure that these respond to EU needs. As shown in Chart 16, two thirds of the respondents that addressed this question felt that it did. They cited the benefits for European companies of being on a level playing-field with overseas competitors and of the existing equivalence arrangements with the SEC. Others feared that any changes to accounting standards in the EU could undermine investor confidence in reporting, which

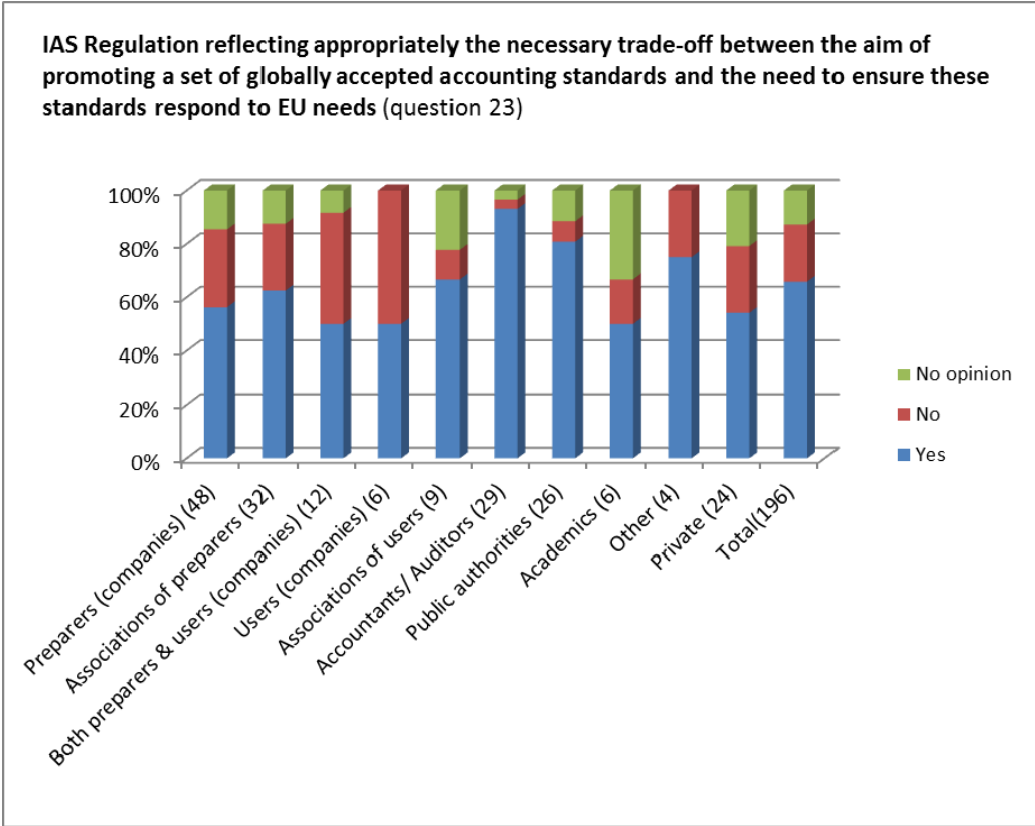
would impede economic growth. The respondents that disagreed were divided: some called for greater flexibility and others for less. Some of the former suggested that the EU should seek to renegotiate the equivalence arrangements with the SEC.

Very few members of the expert group supported the idea of giving the Commission a power of ‘carve-in’ and raised similar points to those made to Mr Maystadt and by the respondents to the consultation. They highlighted organisational challenges and the difficulty of achieving agreement on carve-in texts. However, a small number of members supported the idea of carve-ins in some instances.

One member suggested that standards could be endorsed with fewer options, so as to reduce accounting policy choices and improve comparability across Europe. Another noted that this had been tried in Australia but had not worked.

The EU has made only limited use of its ability to carve-out provisions of standards. For example, it carved out certain provisions of IAS 39 on financial instruments in relation to macro-hedging. On occasion, it has changed the effective date of standards for use in Europe to allow longer for implementation (e.g. the consolidation suite of standards, including IFRS 10). Nonetheless, it has allowed for early adoption, so that EU companies listed in the USA could comply fully with IFRS as issued by the IASB. A small number of respondents said that such changes had given rise to practical problems, e.g. as regards comparability.

Chart 16 — Results of the public consultation on the trade-off between global standards and answering EU needs



3.4.3. Endorsement criteria

The IAS Regulation sets out a number of criteria that must be met in order for a standard to be endorsed in the EU (see section 2.2.4). In practice, most standards published by the IASB have been endorsed in the EU since the Regulation was adopted.³⁷

Most members of the expert group thought that the IAS Regulation had worked well in practice from the point of view of endorsement and the criteria used. Similarly, the vast majority of respondents to the public consultation found the criteria either ‘appropriate’ (half) or ‘to some extent appropriate’ (over a third).

A small number of respondents suggested that the criteria should not be strengthened, as this would increase the risk of a standard not being endorsed. This would leave EU companies listed in the USA in the situation of not being able to comply with IFRS as issued by the IASB.

A small number of respondents to the public consultation stated that the endorsement process had failed to ensure proper scrutiny of IFRS to ensure a true and fair view, investor protection and promotion of economic stability. However, this view was not shared by members of the expert group.

The Maystadt Report recommended that the EU revise the IFRS adoption criteria by supplementing and clarifying the criteria in the IAS Regulation and explaining its policy in this field in order to facilitate analysis of the standards. Specifically, the Report recommended that two other criteria be included as components of the ‘public good’ criterion:

- accounting standards should not endanger financial stability; and
- they must not hinder the economic development of the Union.

It suggested that the Commission could alternatively issue a communication with guidelines for the interpretation of the ‘public good’ criterion.

Some experts attributed the success of the Regulation to its succinctness and the fact that not every term used is defined. One commented that the ‘public good’ criterion is excellent as it stands, as it is flexible but also sets the bar high enough. Sufficiently generic terms can be interpreted flexibly, as required in practice. It was also noted that the IASB already takes public good into account in its work to develop new standards.

Some members of the expert group cautioned against trying to introduce any very detailed definitions into the Regulation as these could make it more difficult to endorse a standard. Similarly, respondents to the public consultation, while expressing concern about the difficulty of interpreting the term ‘European public good’, also registered doubts as to how any new terms would be interpreted.

To summarise, most members of the expert group did not recommend making changes to the IAS Regulation itself, but preferred that the Commission should identify areas for EFRAG to focus on case by case.

³⁷ The very limited exceptions include IFRS 9 (issued by the IASB in 2010), where the Commission preferred to wait for the complete standard, IFRIC 3 on emission rights, for which EFRAG issued negative endorsement advice and which the IASB subsequently withdrew, and the carve-out on IAS 39 on financial instruments.

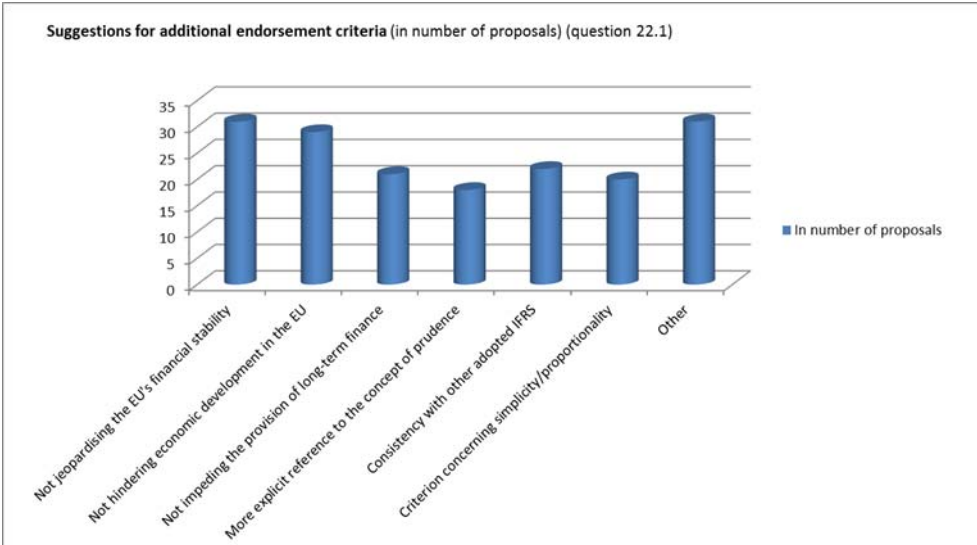
Following its reform, EFRAG will enhance its consideration of the public good criterion in its work to provide the Commission with endorsement advice. In the context of the endorsement of IFRS 9 on financial instruments, the Commission has already asked ARC members to explain their concerns. The views expressed and incorporated into the Commission’s request to EFRAG for endorsement advice on this standard covered some issues that arguably fall under the European ‘public good’ criterion.

3.4.3.1. Discussion on possible new endorsement criteria

The consultation included a question on a number of possible new criteria that could clarify or supplement existing criteria in the Regulation. While some respondents would like to see other criteria included in the Regulation, there was no clear majority view calling for any one criterion. As illustrated in Chart 17, there was support for:

- ✓ not jeopardising the EU’s financial stability;
- ✓ not impeding economic development in the EU;
- ✓ not impeding the provision of long-term finance;
- ✓ consistency with other adopted IFRS;
- ✓ simplicity/proportionality; and
- ✓ prudence.

Chart 17 — Results of the public consultation on suggestions for additional endorsement criteria



Note: respondents were free to select more than one criterion

These proposals are discussed below, listed in descending order of selection by respondents.

Financial stability

Respondents to the consultation and members of the expert group were similarly divided on the need for an explicit criterion on financial stability. Those against saw the role of the financial statements as providing transparent information to the market and argued that financial stability concerns should be the responsibility of others, such as prudential

regulators; providing supervisors with information to enable them to fulfil their prudential responsibilities should not be blurred with reporting useful information to the market.

Economic development and long-term finance

Some respondents to the public consultation and some members of the expert group thought it would be useful to follow Mr Maystadt's recommendations and consider economic development when determining whether a standard is conducive to the European public good. However, one expert questioned how financial reporting could hinder the EU's economic development.

Another expert commented that it would not be realistic to include the needs of long-term or other investors in the endorsement process, because the IASB is closely aligned with the USA and long-term considerations do not form part of the US approach. However, this makes IFRS less relevant to capital markets and it is important to ask how to deal with factors such as long-term investment. Another disagreed with this view, arguing that IFRS meet the needs of long-term investors who want confirmation of past events; this gives them information about management's stewardship. Volatility and risks should be evident from financial reporting.

Respondents also suggested including a criterion for a level playing-field with the rest of the world in order not to jeopardise the competitiveness of EU companies. However, one member of the expert group stated that convergence between IFRS and US accounting standards was not necessarily synonymous with the European public good.

Simplicity/proportionality

Some respondents to the consultation considered that there should be a specific criterion in the IAS Regulation for standards to be simple and proportionate. Those that did not select this criterion did not generally feel compelled to comment. However, many respondents referred elsewhere in their responses to the complexity of IFRS. One question in the consultation tackled this question explicitly and a majority of respondents rated the complexity and understandability of IFRS as reasonable given that companies have complex business models and transactions (see section 3.2.3, Chart 10).

To some extent, the notion of simplicity might be considered to be inherent in the existing criterion of understandability. Similarly, the issue of proportionality might be considered to be covered by an effects analysis, since many IFRS standards contain specific provisions to make compliance with the principles less onerous in particular circumstances.

Prudence

Some respondents to the consultation thought that the Regulation should include a specific criterion for prudence. However, others considered that this was already covered and did not see a need for a new criterion. Others argued that prudence should not be included. One member of the expert group commented that (like long-term considerations) prudence is not part of the US accounting framework, so IFRS would be less relevant to capital markets if they were to be based on prudence.

EFRAG and ARC discussions on the concept of prudence clearly demonstrate that inclusion of the term would give rise to further debates about its exact meaning.

Notwithstanding these discussions in the context of the endorsement criteria, the debate in Europe³⁸ on the IASB's *Conceptual Framework* project and feedback during the evaluation of the Regulation have shown that many European stakeholders believe that the concept of prudence has a role of fundamental importance in financial reporting (see section 3.7.1).

Over the years, established European Court of Justice (ECJ) case-law on the Accounting Directives has systematically stated that 'the application of the principle that a true and fair view must be given must, as far as possible, be guided by the general principles contained in Article 31 of the Fourth Directive', where the principle of recognition and measurement on a prudent basis is of particular importance. Article 6 and in particular 6(1)(c) of the new Accounting Directive (2013/34/EU) maintain the approach of the Fourth Accounting Directive in that they do not define prudence but highlight some aspects of 'a prudent basis'.

One of the IAS Regulation criteria for adopting international accounting standards is that they should not be contrary to the 'true and fair view' principle as set out in the Accounting Directive. Therefore, in the light of ECJ case-law, the conclusion could be drawn that the need to respect prudence is implicitly required by the IAS Regulation. However, the principle of prudence does not prevent the use of fair value, as the Accounting Directive (Article 8) requires Member States at least to permit companies to measure financial instruments at fair value in their consolidated financial statements.

To date, no case has been brought before the ECJ to challenge the validity and legality of the IAS Regulation and the Commission regulations endorsing IFRS.

Business model

Other criteria suggested by respondents included not impeding management practices and the role of the business model. The public consultation included a specific question on the ability of financial statements to portray different business models under IFRS. Respondents were divided as to whether IFRS are sufficiently flexible in this regard, mainly because of the ongoing debate on accounting for insurance contracts.

Other factors

The current endorsement process applies standard by standard, but many respondents (citing the interaction between IFRS 9 on financial instruments and the revisions to IFRS 4 on insurance contracts) commented that this might not be appropriate. It was suggested that any new standard or amendment should be assessed in the context of its interaction with other IFRS.

Others respondents referred to a need to take explicit account of whether a new standard would improve the quality of financial reporting. There was some discussion on this point in an expert group meeting but views were mixed.

One member of the expert group stressed that the endorsement criteria should be weighted equally — no one criterion outweighs another, but appropriate judgment and scrutiny are called for to strike the right balance.

³⁸ *Getting a better framework – prudence*, bulletin from EFRAG and the national standard-setters of France, Germany, Italy and the UK, 11.4.2013.

3.4.4. Effects analysis

The financial crisis proved that accounting standards can have economic consequences. Investors take decisions on the basis of financial information and, if they lack confidence in that information, markets may not be efficient. Companies may change the way they behave in order to avoid particular accounting outcomes, e.g. the fact that accounting reveals the true cost of an arrangement or transaction may lead a company to find a less costly alternative. This indicates that the effects of a standard should be properly understood before it is endorsed in EU law.

In the EU, impact assessment is an essential tool to ensure that EU legislation is drawn up on the basis of transparent, complete and balanced information. The Commission Services together with EFRAG, prepares effects studies for new accounting standards and interpretations before they are endorsed. These set out the accounting issues involved, the results of stakeholder consultations conducted by EFRAG and analysis of the effects of using the new rules in the EU.

The Maystadt Report encouraged EFRAG to pursue its efforts to produce impact assessments corresponding to the needs of users and of the European legislator, in cooperation with national standard-setters. This entails analysis of the effects of IFRS, an assessment as to whether they improve the quality of financial information and an exploration of alternative options in comparison with those considered by the IASB. EFRAG and the other European bodies concerned were encouraged to work in a more coordinated manner when performing ‘field tests’.

The role of impact assessments in the IASB’s due process was formalised in 2013 in its *Due Process Handbook*. Further work was conducted in this area with a consultative group of independent private- and public-sector experts, including representatives from Europe. The November 2014 *Report of the effects analysis consultative group to the Trustees of the IFRS Foundation* advises the IASB on how it should assess the effects of changes when it develops IFRS, and on how and when to communicate on these. The Trustees welcomed the report and undertook to work with the IASB to further embed effects analyses in its due process, from an early stage and in a fully transparent way. The Commission also welcomed this, as Europe was calling for such analysis to be conducted before publication of any new standard.

In a nutshell, the Report recommends that future IASB effects analyses should explain in an open and transparent manner and throughout the project cycle why changes will improve the quality of general-purpose financial reports and why the IASB considers those changes to be justifiable. The group considered that the IASB’s role should not go beyond its objectives of quality of financial information for the purposes of making decisions from an investor’s perspective. The IASB is therefore not expected to analyse broader economic consequences, country-specific impacts (e.g. taxation, company law) or implications for prudential frameworks. However, the Report recommends that it maintain close contacts with all stakeholders, including the Financial Stability Board, national standard-setters and supervisors, to allow time for them to assess the impacts of the proposed changes in their areas of responsibility and for the IASB to organise mutually beneficial fieldwork.

Recent attempts from the IASB to improve impact analysis should be encouraged. The Commission expects the planned improvements to lead to better analysis and more efficient fieldwork coordination between the IASB, EFRAG and national standard-setters. However, as a global body, the IASB does not provide full effects analysis on a jurisdictional basis and this

is still too limited in scope. Moreover, EFRAG cannot rely exclusively on analyses carried out by the IASB and there is a need to go beyond the scope of the IASB's effects analysis and to take due account of the specificities of the European economy.

3.5. Consistent application of IFRS in the EU

In order to ensure a high degree of transparency and comparability in financial statements and hence the efficient functioning of the EU capital market, it is essential that the harmonised accounting rules are applied correctly and consistently.

The importance of proper and rigorous enforcement of IFRS for investor confidence in financial markets was recognised in the recitals of the IAS Regulation.

3.5.1. Enforcement

3.5.1.1. Background – organisation of IFRS enforcement in Europe

Under the Transparency Directive, it is for individual Member States to enforce accounting standards, at national level. Each has to designate a competent authority for the enforcement of financial information. Other organisations can carry out enforcement activities, either in their own right or on behalf of the competent authorities, provided that these delegated bodies are supervised by, and report to, the relevant competent authority.

Enforcement structures vary across Member States. As explained by ESMA in its 2014 report on activities of the IFRS enforcers,³⁹ 'whereas in the majority of countries enforcement is carried out by the central competent administrative authority, in some countries⁴⁰ enforcement is performed by designated bodies or by a combination of public authorities and private bodies. Other countries choose⁴¹ to divide enforcement responsibilities between different administrative authorities depending on the type of issuer'.

ESMA's mandate is to enhance supervisory convergence and ensure the consistent application of IFRS in the EU. It therefore plays a key role in coordinating the work of national enforcers and developing a common European approach on the enforcement of financial information.

The supervisory toolkit to enforce IFRS at national level

National enforcers can take a range of corrective and other actions in response to infringements of relevant reporting requirements detected through the review of interim or annual financial statements. Depending on national law in the enforcer's jurisdiction, in cases where the infringement is considered material this could include issuing revised financial statements accompanied by a new audit report, public corrective note or other public communication, and correction in the subsequent financial statements.

In its 2014 report, ESMA concluded that IFRS enforcement activity at Member State level remained stable *vis-à-vis* the previous year. Certain deficiencies were identified, in particular as regards the impairment of non-financial assets, the recognition and measurement of deferred tax assets, the distinction between a change in an accounting policy and a change in

³⁹ Report on the activities of the IFRS enforcers in Europe in 2013 (ESMA/2014/551; 23.5.2014).

⁴⁰ Austria, Germany, Ireland, Sweden and the United Kingdom.

⁴¹ Denmark, Portugal and Slovenia.

an accounting estimate, and recognition of financial liabilities. Where an infringement was identified, national enforcers took appropriate enforcement action.

The supervisory toolkit to enforce IFRS at European level

Basing itself on the requirements of the Transparency Directive, in 2003 and 2004, ESMA's predecessor, the CESR, established a framework for enforcement activity by issuing 'enforcement standards', which although not legally binding have constituted the basis for the harmonisation of supervisory practices on financial information in the EU.

In 2014, ESMA issued enforcement guidelines for financial information published by listed entities in the EU.⁴² The aim is to strengthen and promote greater supervisory convergence in enforcement practices among EU accounting enforcers. The guidelines set out the principles to be followed by enforcers throughout the enforcement process by defining objectives, the characteristics of the enforcers and some common elements in the process. It is still too early to assess the impact of the guidelines.

ESMA coordinates national enforcement activities primarily through European enforcers coordination sessions (EECS), gathering national accounting enforcers on a regular basis to discuss enforcement cases and identify issues that need further coordination or action at European level in order to improve the quality of financial statements.

In order to facilitate the sharing of enforcement decisions and experience, ESMA has set up an internal database where European enforcers submit certain enforcement decisions that meet criteria specified in the enforcement standards. It regularly publishes enforcement decisions to inform market participants on accounting treatments that European enforcers regard as compliant with IFRS.

In its 2014 report, ESMA notes that, while the quality of IFRS financial statements continued to improve as a result of the significant experience gained by preparers since the first application in 2005, there is still room for improvement in certain areas. In a separate review of financial institutions' IFRS statements,⁴³ ESMA observes wide variability in the quality of information provided and identifies cases where the information provided could be enhanced. However, enforcement activity is not always an indicator of the quality of IFRS financial statements, as enforcement action is taken to drive up overall quality regardless of whether the starting point is already good.

3.5.1.2. Findings of the evaluation

The Commission's literature review confirmed the critical role of enforcement in achieving the desired outcomes of IFRS adoption in the EU. It found that the activities of EU enforcers, including their interaction in the EECS, have made a significant contribution to uniform application of IFRS.⁴⁴ However, it also highlighted wide variability in the approaches and methods used.

⁴² *ESMA guidelines on enforcement of financial information*, final report (ESMA/2014/807; 10.7.2014).

⁴³ *Review of accounting practices – Comparability of IFRS financial statements of financial institutions in Europe* (ESMA/2013/1664; 18.11.2013).

⁴⁴ Berger, A., 'The development and status of enforcement in the European Union', *Accounting in Europe* 7 (1), (2010), pp. 15-35.

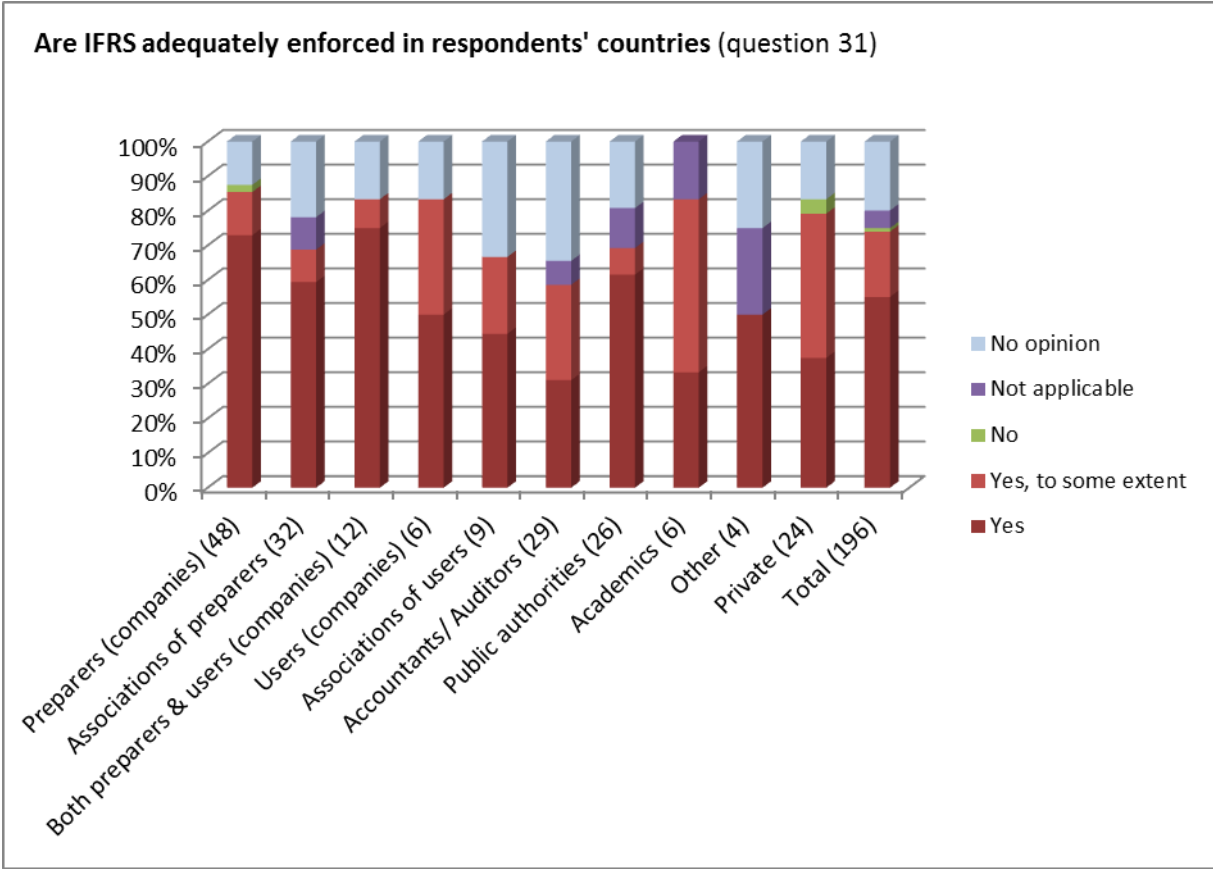
A majority of respondents to the consultation felt that there were proper mechanisms in place to ensure adequate enforcement of IFRS in each country. In addition, most of those who had a view found that IFRS had been adequately enforced locally. There were no significant differences between responses from companies preparing financial statements and others in this regard (see Chart 18).

It was widely acknowledged that ESMA had an important role in encouraging consistency and coherence in enforcement across the EU and in this respect its coordinating activities were broadly supported by respondents. However, a large majority of stakeholders were of the opinion that enforcement decisions should remain with the national enforcement bodies, which were best placed to tailor their enforcement approach to the specific requirements of the national regulatory framework.

Feedback from the public consultation suggested that there is generally little appetite for EU legislation on penalties and enforcement activities. Some experts thought that ESMA's role could be strengthened through 'soft law' leaving Member States some discretion as to how they achieve enforcement (on the basis of their own history and practice), especially now that the system is more mature. One view expressed was that there should be a single European enforcer, but this was not widely shared.

The feedback revealed no critical difference in enforcement among Member States. Any differences were judged as having little or no impact on transparency and comparability. In addition, any effect these had on stakeholders' practice in applying IFRS or analysing financial statements was negligible or limited. Similarly, in the opinion of most, any impact that national law requirements had on the application of IFRS in their countries was also negligible or limited. Certain differences have arisen as a result of legacy reporting on the transition from local GAAPs to IFRS, but these should reduce over time and on adoption of new IFRS. Some experts stressed that there might be a need for more academic research on differences in enforcement among jurisdictions to assess their actual level. They referred to research findings that there has always been variability in enforcement between countries, in particular before IFRS were introduced, and that the very fact that IFRS are principles-based leaves scope for this.

Chart 18 — Results of public consultation on national enforcement



Some stakeholders felt that enforcement became more difficult with the introduction of IFRS and attributed the extra difficulty to different factors (e.g. increased level of activity required, greater complexity of business transactions, the impact of the financial crisis and the fact that the IFRS are principles- rather than rules-based). Others indicated that enforcement became stronger and more effective with proper mechanisms in place that did not exist prior to the adoption of IFRS.

3.5.2. Interaction with the IFRS Interpretations Committee

The IFRS IC is the interpretative body of the IASB, which provides preparers, users and enforcers with guidance on IFRS. Its objective is to foster a common understanding of IFRS to enhance the comparability of financial statements throughout the world and to reduce diversity in practice.

It is very important that enforcers work closely with the IFRS IC to ensure consistent application of IFRS. While not an official observer to the IFRS IC, ESMA regularly identifies, in its coordinating work, areas where interpretations of accounting standards vary or there is a lack of guidance and, where appropriate, it refers such matters to the IFRS IC. Respondents to the public consultation appreciated ESMA’s greater role in interacting with the IFRS IC in this way. ESMA also takes part in IFRS IC outreach activities.

In consultations, there was a predominant view among stakeholders that enforcement should be clearly separate from standard-setting and interpretation, and any issues identified in the course of enforcement should be reported to the IFRS IC for consideration at global level.

Also, many stakeholders did not see a need for more guidance on how to apply the IFRS. This is in line with the principle-based nature of IFRS, the scope for judgment in the application of some requirements and the fact that interpretations should be limited, as they have the same importance as the standards themselves. Also, stakeholders thought that enforcement through additional jurisdictional guidance tended to undermine global standards.

Some stakeholders were in favour of additional interpretative guidance from the IFRS IC. In this respect, some believed that it should be more responsive in terms of addressing issues raised by constituents and act promptly to help ensure more consistent application of IFRS. However, some regarded this as challenging due to the IFRS IC's comparatively limited resources and the complexity of many of the issues that it has to deal with.

3.6. Coherence of EU law

3.6.1. Link with other EU legislation

The IAS Regulation interacts with many other pieces of EU legislation.

3.6.1.1. Link between IAS Regulation and other legislation

The Regulation explains that the reporting provisions of the Accounting Directives were insufficient to ensure the high level of transparency and comparability of publicly traded companies' financial reporting that would be necessary for an integrated capital market. The evidence shows that this is still the case today. Hence there is strong interaction between the IFRS and other EU or national legislation on accountancy-related matters, including specific accounting requirements for banks and insurance companies, capital maintenance rules, and tax rules. This other legislation generally applies to all limited liability companies' financial statements, including where IFRS are applicable.

There are overlaps between the IFRS and various accounting directives and national GAAPs, particularly as regards layouts, deferred taxes, valuation, disclosures in the notes, and conditions triggering the preparation of consolidated financial statements. However, potential frictions have so far been overcome through proper implementation by Member States and have not resulted in serious disruption for companies.

Generally speaking, the non-IFRS *acquis* determines when and how IFRS financial statements have to be prepared.⁴⁵ However, it also imposes requirements on:

- extra disclosures in the notes (e.g. information on audit fees, number of employees, etc.);
- how financial statements are to be handled (e.g. audit and publication); and
- additional statements (e.g. management report, corporate governance statement, etc.).

Recent amendments to the standard on consolidated financial statements (IFRS 10) to exempt from consolidation groups in which the parent is an investment entity have drawn renewed attention to the interaction between the Accounting Directives and the IFRS. As highlighted in discussions in the ARC and with national standard-setters and experts, these differ as

⁴⁵ In particular, Article 4(3) of Directive 2004/109/EC (the 'Transparency Directive') states that where the issuer is required by the Accounting Directive to prepare consolidated accounts, these are to be drawn up in accordance with the IFRS.

regards the scope of consolidated financial statements and the event that triggers them. These differences pose difficulties for the correct application of the law and raise the issue of the status of separate financial statements, as opposed to the consolidated or individual statements required by the Directive. So far, Member States' interpretations and implementing measures have made it possible to overcome such issues, but a small number of stakeholders argue that they could become more pervasive in future, in which case more time and commitment will be needed to resolve them.

Capital maintenance and dividend distribution rules have often been cited as a source of legal challenge in certain jurisdictions where the Member State allows or requires companies to prepare their individual annual financial statements in accordance with IFRS. Some stakeholders have stated that the use of fair value measurement may affect the level of companies' distributable profit so that dividends could include 'unrealised' gains. These stakeholders see this as a critical issue, especially in the financial sector. This situation is the consequence of Member States' use of the above-mentioned option. The European legislative framework offers great scope for action at national level, should a Member State decide to address this point. As shown in section 3.1.1, Member States' approaches in this area vary widely.

3.6.1.2. Link between IAS Regulation and prudential requirements

The main interaction referred to by respondents to the public consultation was between the IAS Regulation and prudential requirements for the banking and insurance sectors. Areas of tension included accounting for financial instruments (in particular, impairment aspects), insurance contracts and the definition of equity. Some respondents explained that, as IFRS are principles-based and not industry-specific, banks have significant flexibility and this may lead to inconsistent application of IFRS principles.

The Maystadt Report recommended that the criterion of accounting standards not endangering financial stability should be included explicitly or implicitly in the IAS Regulation as part of what is meant by European public good. Any new standard would then be assessed against this criterion in the endorsement process. However, although there was some support for this recommendation, others saw financial stability as a matter for the prudential regulators.

In meetings of the expert group, some experts stressed that the survey of literature on the financial crisis showed that financial reporting and prudential reporting have different objectives. This is not problematic *per se*, because prudential regulators can adjust accounting numbers for prudential purposes, e.g. by applying prudential filters. Also, although all discussion on the pro-cyclical impact of IFRS focuses on accounting standards, as if they were the only factors affecting the markets, prudential requirements play a critical role. The distinction between the two is crucial, because market movements could be destabilising if they directly feed capital requirements, for example. Other experts expressed concern about prudential regulators giving guidance or instructions on accounting matters which could affect information to be reported to the market.

By contrast, other members of the expert group recognised the need for debate and dialogue with prudential regulators, including the ECB, on the accounting applicable to banks. One highlighted that prudential rules are effective only if financial statements are adequate. Another noted that, because IFRS are not industry-specific, there is a need for guidance on their application in some areas. He pointed to the work of the Basel Committee on loan loss

provisioning and noted that the Committee is very aware of the fact that its work should be consistent with relevant standards.

The IASB's *Conceptual Framework* states that the objective of general-purpose financial reporting is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The list of users excludes prudential regulators. However, in the case of (particularly large, listed) banks, the IFRS-based financial information is the starting point for most prudential regulation. This would imply a need to ensure that financial information is fit for that purpose, while recognising that prudential regulators may demand other information and even, if necessary, make capital adjustments to take into account the starting point provided by financial statements provided under IFRS.

3.6.2. Internal coherence of IAS Regulation and implementing regulations

All standards are translated into the official EU languages before they are adopted.

The set of IFRS as adopted by the EU was codified in a legally binding Commission regulation in November 2008 and Regulation (EC) No 1126/2008 had been amended 44 times by the end of 2014. The Commission draws up a non-binding consolidated version of the current standards enacted by the EU,⁴⁶ in all EU languages, which is updated on average twice a year. The latest was published in April 2015 and the next will be available in July 2015. The consolidated versions include currently applicable standards enacted by the EU, but not standards that are not yet binding but can be implemented before the application date (early application).

3.6.2.1. Consolidation

Consultations with stakeholders and experts showed that many stakeholders are not aware of the availability of the consolidated and regularly updated versions of the legislation adopted in the EU. Suggested improvements included:

- covering standards that allow for early application;
- adding sections on ‘basis for conclusions’ and ‘implementation guidance’, including ‘illustrative examples’; and
- improving user-friendliness, e.g. with built-in search functions and hyperlinks.

Practical difficulties in the consolidation process stem from the fact that the EU adopts unaltered the standards drafted by the IFRS Foundation. Terminology used by the Foundation does not meet the EU guidelines for drafting legislation, especially as regards types of amendment (e.g. replacement, insertion, addition). Also, the EU does not adopt the set of editorial corrections published by the Foundation. As a result, discrepancies arise between the Foundation's and the EU's consolidated texts, and some users of the EU consolidated version contact Commission helpdesks to clarify their understanding of certain provisions.

⁴⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02008R1126-20150112>.

3.6.2.2. Translation

Stakeholders consulted through the public consultation and members of the expert group and the ARC identified a need to improve the quality of some of the language versions of endorsed standards. The way standards are translated can affect the application of IFRS.

The main concerns expressed were that:

- ✗ readers must often rely on the original English texts;
- ✗ terminology is not always used consistently;
- ✗ there are differences between translations provided by the IASB and those provided by the EU.

These concerns referred particularly to German texts, but also to (in alphabetical order) Bulgarian, Czech, Danish, French, Greek, Italian, Lithuanian, Spanish, and Swedish versions.

It was suggested that experts with an economic and accounting background be asked to review translations.

For 44 regulations adopted by the EU since 2008, 17 corrigenda and two correcting acts have been published and another request for a corrigendum is being analysed. The languages concerned were Bulgarian, Dutch, Finnish, French, German, Italian, Polish, Spanish and Swedish.

3.6.2.3. Coherence of standards

On a different aspect of internal coherence (see section 3.4.3), some stakeholders questioned whether there is a need for more assurance, beyond the IASB's due process, that new standards or amendments are coherent with the existing body of IFRS.

3.7. Governance of bodies involved in standard-setting with European impact

3.7.1. IFRS Foundation

The IFRS Foundation is an independent private organisation that acts as accounting standard-setter for more than 100 countries. Its governance arrangements have attracted a great deal of interest and scrutiny. In Europe, where IFRS have the status of EU law, the question of the Foundation's public accountability has particular resonance for many stakeholders.

Organisational structure

The IFRS Foundation has a three-tier governance structure favouring transparency, segregation of duties and adequate oversight:

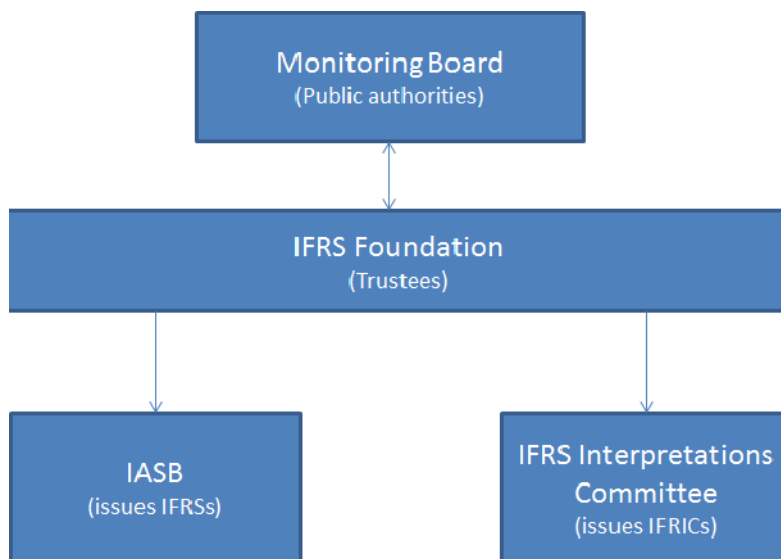
- the IASB is the Foundation's technically independent standard-setting body. Its members:
 - are appointed and overseen by the Foundation's Trustees come from different geographical and professional backgrounds; and
 - must act in the public interest and be adequately qualified for the job;

- the Trustees are responsible for:
 - securing adequate funding;
 - setting up operating procedures; and
 - making key appointments within the organisation.

They must demonstrate a firm commitment to the Foundation/IASB and should also come from different geographical and professional backgrounds;

- the IFRS Foundation Monitoring Board;
 - is made up of the International Organisation of Securities Commissions, the European Commission and capital market authorities from the United States, Japan, Brazil and Korea;
 - appoints and oversees the Trustees and takes part in the selection of the IASB chairperson;
 - ensures that the Foundation is subject to public oversight;
 - oversees financing and due process arrangements; and
 - can refer matters of broad public interest to the IASB for further consideration.

Chart 19 — IFRS Foundation’s current structure (simplified)



Procedures

The IFRS Foundation operates under well-developed and transparent procedures with regard to most aspects of its day-to-day business. With regard to standard-setting, all IASB meetings are public, working papers are published on its website and draft standards put to public consultation. All IASB members are selected through an open procedure and in accordance with transparent criteria. Finally, Trustees, IASB members and staff are subject to a ‘conflict of interest’ policy that requires them to disclose any interest, including financial interests.

In the period under review, the IASB made a number of changes to its procedures:

- creating a useful consultative forum, the Accounting Standards Advisory Forum (ASAF), with European representation;

- embedding effects analysis in due process and recommendations from a consultative group to the Trustees on the methodology to be implemented by the IASB (see section 3.4.4); and
- introducing post-implementation reviews of standards (already under way).

Also, in response to demand from stakeholders, including European concerns, the IASB is developing a *Conceptual Framework*, which will improve financial reporting by providing a complete and updated set of concepts to use in the future development or revision of standards. The IASB issued an exposure draft of the *Conceptual Framework* on 28 May 2015. This will address a number of important matters, such as reinstating the concept of prudence as an important element in financial reporting.

Funding

In 2013, the IFRS Foundation was financed through contributions (approximately 90% of its total income) and self-generated profits from publications and related activities (10%).

As regards contributions, the Foundation aims to establish (compulsory) national financing arrangements in proportion to countries' GDP. These would be based either on levies on companies or public sources of funding. However, establishing such arrangements has so far proved challenging, as many countries refuse to support the Foundation (even though they use IFRS) or do not pay their fair share. As a result, the Foundation continues to rely on voluntary contributions, often from the private sector. In 2013, for instance, audit companies were responsible for approximately 30% of the Foundation's total contributions. Many stakeholders point out in this context that overreliance on voluntary contributions from private companies may expose the Foundation to conflicts of interest.

The EU compares well with other financial backers of the IFRS Foundation. In 2013, the EU and individual Member States were responsible for about 15% and 20% of total contributions respectively. In 2014, the EU earmarked around EUR 30 million in funding to the Foundation for the following seven years. Added to direct contributions from the Member States, this commitment from the EU budget will provide the Foundation with a stable source of funding and reduce its reliance on the private sector.

However, not all countries have established national funding arrangements in proportion to their GDP. The United States, for instance, a country declaring strong support for IFRS and holding many key positions in the Foundation, continues to contribute on an *ad hoc* basis, usually far less than its fair share.

Work in progress

The IFRS Foundation is bound by its constitution to review its organisational structure every five years. It has carried out several such reviews, significantly improving its organisation over the years, e.g. by creating the Monitoring Board or clearly segregating the tasks of the IASB Chairman and the Foundation's Executive Director. It will launch its next governance review in 2015. At the end of 2014, a tentative list of topics for this review included:

- the optimum size of the IASB;
- the Foundation's intellectual property rights as a potential source of revenue; and
- the relationship between the Foundation and the Monitoring Board.

The Commission has always argued for the Monitoring Board to be more active and focus on strategic issues. In 2014, for instance, the Commission initiated several Board discussions on a number of important topics, such as the reporting needs of long-term investors or the Foundation's dual registration in the USA and the UK. However, most Board members have argued that the Board's role should be limited to overseeing the Foundation. Its future role remains to be determined, therefore.

3.7.2. EFRAG

The Maystadt Report recommended strengthening the EU's contribution to achieving global and high-quality accounting standards by enhancing the role of EFRAG.

In July 2014, the Commission submitted a report⁴⁷ to the European Parliament and the Council on the progress achieved in the implementation of the reform of the EFRAG following the recommendations of the Maystadt Report. The Commission came to a favourable conclusion on the progress made and noted that the revised EFRAG statutes and internal rules, as approved by the EFRAG General Assembly on 16 June 2014, reflected the Maystadt recommendations as closely as feasible.

The reform took effect on 31 October 2014, when the revised statutes and internal rules came into force. It involved establishing a new Board, EFRAG's new decision-making body, with a view to strengthening the legitimacy of its positions and contributing to the objective of Europe speaking with one voice. The Board is responsible for approving all comment letters on IFRS, endorsement advice for the Commission and EFRAG positions, on the basis of a consensus-based decision-making process.

The Board includes a President nominated by the Commission after consulting the European Parliament and the Council, eight members appointed by the national standard-setters and eight members representing private stakeholders. The ECB and the ESAs were granted observer status with speaking rights. The Commission is an observer.

The new governance structure became operational on 31 October 2014. The Commission is in the process of nominating the new President.

⁴⁷ Report from the Commission to the European Parliament and the Council on *The progress achieved in the implementation of the reform of EFRAG following the recommendation provided in the Maystadt report* (COM(2014) 396 final; 2.7.2014).

References

Expert group on the evaluation of the IAS Regulation, minutes of meetings

[\(\[http://ec.europa.eu/internal_market/accounting/governance/committees/evaluation/index_en.htm\]\(http://ec.europa.eu/internal_market/accounting/governance/committees/evaluation/index_en.htm\)\)](http://ec.europa.eu/internal_market/accounting/governance/committees/evaluation/index_en.htm)

Public consultation on the impact of IFRS in the EU

[\(\[http://ec.europa.eu/internal_market/consultations/2014/ifrs/index_en.htm\]\(http://ec.europa.eu/internal_market/consultations/2014/ifrs/index_en.htm\)\)](http://ec.europa.eu/internal_market/consultations/2014/ifrs/index_en.htm)

Glossary

ARC	Accounting Regulatory Committee
ASAF	Accounting Standards Advisory Forum
EBA	European Banking Authority
EC	European Commission
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European supervisory authorities
ESMA	European Securities and Markets Authority
EFRAG	European Financial Reporting Advisory Group
FASB	Financial Accounting Standards Board (US accounting standard-setter)
GAAP	generally accepted accounting principles
IAS	International Accounting Standards (now referred to as International Financial Reporting Standards or IFRS)
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by the IFRS Interpretations Committee
IFRIC IC	International Financial Reporting Standards Interpretations Committee
IFRS	International Financial Reporting Standards (previously referred to as International Accounting Standards or IAS)
IFRS Foundation	International Financial Reporting Standards Foundation (legal successor of the International Accounting Standards Committee Foundation, the IASCF), oversight body of the IASB
PIEs	public interest entities within the meaning of the Accounting Directive (2013/34/EU)
SEC	US Securities and Exchange Commission (US securities regulator)
SIC	SIC Interpretations were previously issued by the Standard Interpretations Committee (SIC) and were subsequently endorsed by the IASB
SMEs	small and medium-sized enterprises
US GAAP	United States Generally Accepted Accounting Principles

Appendix 1 — Intervention logic for the evaluation of Regulation (EC) No 1606/2002 (IAS Regulation)

Legal basis: Regulation (EC) No 1606/2002 (IAS Regulation)	Expected results	Impacts		Overall impacts
Adoption and use of IFRS: 1/ consolidated financial statements of EU companies listed on an EU regulated market (Art. 1) 2/ option for Member States to permit or require application to annual accounts and to unlisted companies (Art. 5)	Harmonisation of financial information	Increase cross-border transactions	Leading international reference of high-quality international accounting standards	Efficient functioning of the EU capital market and of the internal market Completion of the internal market for financial services Stability of the financial market Competitiveness of the EU capital market / eliminate barriers
	Avoid unnecessary regulation	High degree of transparency and comparability of financial statements	Protection of investors / maintenance of confidence in the financial markets	
	Decrease cost of capital and administrative burden for international companies Burdensome for EU SMEs wishing to go public	One-off cost of implementation; cost for transparency and quality		
Governance: - endorsement mechanism with criteria (Art. 3) - accounting technical committee (EFRAG) for support and expertise (recital 10) - accounting regulatory committee (ARC) for assistance (Art. 6, 7)	Quality standards endorsed for EU	Eased cross-border provision of professional services (accounting/auditing)	Complexity and instability of standards	
	National enforcement regime to be coordinated (ESMA)	Decrease of influence of EU on the standard-setting process / loss of sovereignty/ use of carve-out, with possible negative consequences	Impact on financial stability / possible financial volatility	
	EU views taken into account before endorsement	Stronger EU coordination	Influence on managerial behaviour	
Context	Member State action	External factors		
Equivalence mechanism	Enforcement arrangements (Member States, coordination by ESMA) (recital 16)	G20 requests for convergence	National taxation legislation	
	Option selected (Art. 5)	(country-)specific economic conditions	Company law — Directive 2012/30/EU (capital maintenance)	
Financing of organisations (IASB, EFRAG)	Participation of national standard-setters			
IASB/IFRIC — private body — developing the standards	Financing of organisation (IASB, EFRAG)	Specific industry constraints	Prudential and regulatory requirements for certain types of company	

Appendix 2 — Detailed overview of Member States' use of options, per type of business (as of end 2013)

Country	Listed undertakings								Other undertakings								
	Annual financial statements								Consolidated financial statements				Annual financial statements				
	IFRS permitted			IFRS required					IFRS permitted		IFRS required		IFRS permitted			IFRS required	
	Financial		Non-financial	Financial		Non-financial			Financial	Non-financial	Financial		Non-financial	Financial		Non-financial	
Bank	Insurance	Other	Bank	Insurance	Other	Other	Bank	Insurance	Other	Bank	Insurance	Other	Bank	Insurance	Other	Other	
Belgium						X ⁽²⁾				X							
Bulgaria					X ⁽³⁾					X				X			X
Czech Republic					X					X				X ⁽²¹⁾			
Denmark				X						X						X	
Germany		X ⁽⁵⁾								X				X ⁽¹⁾			
Estonia					X					X				X			X
Ireland		X								X ⁽⁷⁾				X ⁽⁷⁾			
Greece					X					X ⁽⁶⁾	X			X ⁽⁶⁾		X	X
Spain										X							
France										X							
Croatia					X					X ⁽¹⁶⁾⁽¹⁷⁾							X ⁽¹⁶⁾
Italy			X	X ⁽⁴⁾	X	X				X ⁽⁸⁾	X	X	X ⁽¹²⁾⁽¹³⁾	X ⁽¹³⁾			X ⁽¹²⁾⁽¹³⁾
Cyprus					X									X			X
Latvia					X ⁽¹⁵⁾					X ⁽⁹⁾						X	
Lithuania					X					X	X		X			X	X
Luxembourg		X								X				X			
Hungary										X							
Malta					X					X				X ⁽¹⁸⁾⁽¹⁹⁾			X ⁽¹⁸⁾⁽¹⁹⁾
Netherlands		X								X				X ⁽²⁶⁾			
Austria										X							
Poland		X								X ⁽²⁴⁾⁽²⁵⁾	X			X ⁽²⁴⁾⁽²⁵⁾			
Portugal		X			X ⁽⁴⁾⁽⁵⁾			X ⁽⁴⁾		X	X		X	X ⁽⁴⁾		X ⁽²¹⁾	
Romania				X				X		X	X		X ⁽¹⁴⁾			X	
Slovenia			X ⁽¹⁰⁾⁽²²⁾		X			X ⁽²¹⁾		X ⁽¹⁰⁾	X				X ⁽¹⁰⁾		X
Slovakia		X								X				X	X ⁽²⁷⁾	X	X ⁽²³⁾
Finland	X			X						X				X ⁽⁶⁾			
Sweden										X							
United Kingdom		X								X ⁽¹¹⁾				X ⁽¹¹⁾			

Legend X Option is applied
Footnotes indicate restrictions

Footnotes

⁽¹⁾ Annual accounts have to be prepared based on national GAAP but IFRS based annual accounts may be published

⁽²⁾ closed ended real estate funds

⁽³⁾ exemption for SMEs and newly established enterprises (can choose IFRS) and for entities in liquidation or declared bankrupt

⁽⁴⁾ only when there is no consolidated accounts

⁽⁵⁾ if local GAAP is applied, reconciliation with IFRS to be published

⁽⁶⁾ undertakings with mandatory audit only

⁽⁷⁾ exception for companies not within the scope of the Accounting Directive

⁽⁸⁾ exception for companies who can prepare abridged accounts (SMEs)

⁽⁹⁾ stock companies, limited liability companies, co-operatives.

⁽¹⁰⁾ 5 years minimum

⁽¹¹⁾ except charity (not for profit)

⁽¹²⁾ supervised undertakings only

⁽¹³⁾ undertakings with financial instruments widely distributed among the public

⁽¹⁴⁾ non-banking financial institutions

⁽¹⁵⁾ undertakings listed on the main market

⁽¹⁶⁾ large undertakings

⁽¹⁷⁾ listed undertakings

⁽¹⁸⁾ some regulated entities

⁽¹⁹⁾ undertakings of a certain size

⁽²⁰⁾ for groups in which there is a listed undertaking

⁽²¹⁾ when consolidated financial statements are prepared under IFRS

⁽²²⁾ except when consolidated financial statements are prepared

⁽²³⁾ public interest entities only

⁽²⁴⁾ undertakings having filed for admission to public trading

⁽²⁵⁾ any parent company being a subsidiary of another parent undertaking preparing its consolidated accounts under IFRS

⁽²⁶⁾ not when consolidated financial statement are prepared under national law

⁽²⁷⁾ security issuers, payment institutions, electronic institutions, security traders

Appendix 3 — Evolution of the use of Member States' options compared to Commission review in 2008

EU non-publicly traded undertakings' consolidated financial statements

Bulgaria, Cyprus and Slovakia require the use of IFRS in the consolidated financial statements of all non-publicly traded undertakings. Croatia, Germany, Italy, Malta and Spain also require IFRS for some companies in all sectors⁴⁸ (depending, for example, on size, listing characteristics of one undertaking in the group, supervision, financial instruments widely available to the public).

Belgium, Estonia, Greece, Latvia, Lithuania, Poland, Portugal, Romania and Slovenia require some financial institutions to prepare consolidated financial statements in accordance with IFRS.⁴⁹ Slovenia plans to extend to all companies the requirement to use IFRS in consolidated financial statements.

Since 2008,⁵⁰ requirements have changed significantly in Greece, Portugal and Spain.

The use of IFRS is permitted for the consolidated financial statements of non-publicly traded undertakings in almost all EU countries and under certain conditions in seven (Greece, Italy, Latvia, Poland, Romania, Slovenia and the UK).⁵¹ Only Croatia does not allow non-publicly traded undertakings to use IFRS for consolidated financial statements and Lithuania excludes their use by insurance companies.

Individual annual financial statements of publicly traded undertakings (regulated markets)

IFRS are required for the annual financial statements of publicly-traded undertakings in all industries in seven Member States (Croatia, Cyprus, the Czech Republic, Estonia, Greece, Lithuania and Malta) and with some restrictions in others (Bulgaria, Italy, Latvia, Portugal, Romania and Slovenia).⁵² The requirement to use IFRS is limited in Belgium and Denmark.⁵³

⁴⁸ **Croatia:** large and listed undertakings; **Germany:** undertakings pending admission to trading on a regulated market; **Italy:** insurance companies, bank and other financial institutions supervised and with financial instruments widely distributed among the public, non-financial companies only when financial instruments widely distributed among the public; **Malta:** all financial companies and certain non-financial companies (some regulated entities and undertaking of a certain size); **Spain:** all groups where there is a listed undertaking.

⁴⁹ **Belgium, Estonia, Latvia and Slovenia:** all financial institutions; **Greece, Lithuania and Portugal:** bank and other financial services (excluding insurance); **Poland:** banks; **Romania:** credit institutions and non-banking financial institutions.

⁵⁰ **Report** from the Commission to the Council and the European Parliament on the operation of Regulation (EC) No 1606/2002 of 19 July 2002 on the application of international accounting standards (COM(2008) 215).

⁵¹ **Greece:** undertakings with mandatory audit only; **Italy:** all but companies who can prepare abridged accounts (SMEs); **Latvia:** stock companies, limited liability companies, cooperatives; **Poland:** undertakings pending admission to trading on a regulated market or where they are a parent undertaking within the scope of consolidation of a group using IFRS; **Romania:** non-financial sector; **Slovenia:** application of IFRS for five years minimum; **UK:** not applicable to charities (not for profit).

⁵² **Bulgaria:** exemption for SMEs and newly established enterprises and for entities in liquidation or declared bankrupt; **Italy:** requirement applies to all companies, except insurance companies which also produce consolidated accounts; **Latvia:** for undertakings listed on the main market only; **Portugal:** except when consolidated accounts are published; **Romania:** credit institutions and non-financial sector; **Slovenia:** banks, insurance companies and listed companies which are obliged to consolidate.

⁵³ **Belgium:** closed ended real-estate funds only; **Denmark:** non-financial undertakings except when consolidated accounts are published.

Some of the countries applying restrictions (Portugal, Slovenia and Denmark) also allow the use of IFRS for other types of undertaking, as detailed below. .

IFRS are permitted in the annual financial statements of listed undertakings in all other countries except Austria, France, Spain, Sweden and Hungary (which has plans to permit or require IFRS for certain undertakings). In Denmark and Finland, use is permitted for certain undertakings only.⁵⁴ In Germany, listed undertakings have to prepare financial statements based on national GAAP but they may publish IFRS financial statements instead to fulfil publication requirements.

Apart from Bulgaria, Croatia and Romania that were not covered by the overview in the 2008 report, the situation has changed for Belgium, Denmark and Portugal, for which the requirement to use IFRS for financial statements of listed companies has been extended. Poland, Portugal and Slovakia have allowed the use of IFRS.

Individual annual financial statements of non-publicly traded undertakings

IFRS are required for the annual financial statements of some other types of undertaking in 13 countries. Bulgaria and Cyprus require their use for all types of company, but the others (Belgium, Croatia, Estonia, Greece, Italy, Lithuania, Latvia, Malta, Romania, Slovenia and Slovakia) require it for certain types only.⁵⁵ As with the consolidated accounts of non-publicly listed companies, IFRS generally apply to financial institutions (Belgium, Estonia, Greece, Lithuania, Latvia, Romania and Slovenia).

Of the countries requiring IFRS for specific types of company only, some also permit their use for other types. Estonia, Malta and Slovenia permit this for all other types of company, while others (Greece, Lithuania and Italy) do so for some only.⁵⁶

Slovenia plans to extend the requirement to use IFRS to all companies obliged to prepare consolidated accounts. In addition, IFRS are permitted in the annual financial statements of all undertakings in Luxembourg. All other countries⁵⁷ except Austria, France, Spain, Sweden and Hungary (which has plans to permit or require IFRS for certain undertakings) permit them for some undertakings only. In Germany, like publicly traded undertakings, other undertakings have to prepare financial statements based on national GAAP, but they may publish IFRS financial statements instead to fulfil publication requirements.

⁵⁴ **Denmark:** non-financial undertakings only; **Finland:** all undertakings but insurance companies.

⁵⁵ **Belgium:** closed ended real estate funds only; **Croatia:** large undertakings; **Estonia** and **Latvia:** financial sector; **Greece** and **Lithuania:** financial sector except insurance companies; **Italy:** bank and other financial institutions (except insurance companies) supervised and with financial instruments widely distributed among the public, non-financial companies only when financial instruments widely distributed among the public; **Malta:** all financial companies and certain non-financial companies (some regulated entities and undertaking of a certain size); **Romania:** for credit institutions only; **Slovakia:** for all types of company except for insurance services and non-financial companies where only public interest entities are concerned; **Slovenia:** for banks and insurance companies.

⁵⁶ **Greece:** companies with mandatory audit only; **Lithuania:** non-financial companies only; **Italy:** all but companies who can prepare abridged accounts (SMEs).

⁵⁷ **Czech Republic:** only when consolidated statements are prepared under IFRS; **Denmark:** non-financial companies only; **Finland:** companies with mandatory audit only; **Netherlands:** all but companies with consolidated financial statements prepared under national law; **Poland:** undertakings pending admission to trading on a regulated market or where they are a parent undertaking within the scope of consolidation of a group using IFRS; **Portugal:** for insurance companies only when there are no consolidated accounts and for companies in the non-financial sector when consolidated financial statements are prepared under IFRS; **UK:** certain companies (building societies, limited liability partnerships, certain banking and insurance undertakings and certain partnerships to which Part 15 of the Companies Act 2006 is specifically applied).

The main changes since 2008, apart from Bulgaria, Croatia and Romania that were not covered by the overview in the 2008 report, relate to the Czech Republic and Slovakia, where IFRS are now permitted. Also, requirements to use IFRS for all or certain types of company have recently been introduced in Belgium, Greece, Latvia and Slovakia.

Appendix 4

Statistics on non-listed companies reporting under IFRS

Number of non-listed companies reporting under IFRS in sample (2003),
breakdown by Member State

Member State	Unlisted companies	
	No. of companies in sample	No. of IFRS reporters
Austria	33	21
Belgium	30	9
Bulgaria	17	15
Croatia	18	13
Cyprus	26	20
Czech Republic	26	7
Denmark	55	7
Estonia	10	8
Finland	27	7
France	101	8
Germany	226	48
Greece	21	3
Hungary	15	5
Ireland	22	0
Italy	51	7
Latvia	17	11
Lithuania	13	8
Luxembourg	45	8
Malta	5	5
Netherlands	73	22
Poland	73	21
Portugal	11	0
Romania	29	12
Slovakia	11	1
Slovenia	8	3
Spain	46	2
Sweden	113	9
United Kingdom	529	16
TOTAL	1651	296

**Number of non-listed companies reporting under IFRS in sample (2013),
breakdown by Member State:**

EU Member States	Unlisted companies	
	No. of companies in sample	No. of IFRS reporters
Austria	24	18
Belgium	17	13
Bulgaria	8	8
Croatia	6	6
Cyprus	17	17
Czech Republic	23	17
Denmark	30	19
Estonia	3	3
Finland	17	12
France	120	64
Germany	137	66
Greece	7	7
Hungary	4	3
Ireland	45	25
Italy	41	37
Latvia	14	13
Lithuania	5	5
Luxembourg	63	40
Malta	4	4
Netherlands	86	62
Poland	8	8
Portugal	11	9
Romania	3	3
Slovakia	3	3
Slovenia	12	12
Spain	38	25
Sweden	80	55
United Kingdom	323	209
TOTAL	1149	763

Appendix 5

A review of the literature on the impact of the mandatory adoption of IFRS in the EU

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1. Introduction

This annex provides a summary of the available empirical evidence of the impact of the mandatory adoption of International Financial Reporting Standards (IFRS) in the EU, in accordance with Regulation (EC) No 1606/2002 (the IAS Regulation).

A rich body of academic literature has emerged on the consequences of IFRS adoption and it is beyond the scope of this note to review each paper in detail. Rather, the aim is to provide an overview and highlight the main findings available to assist the evaluation of the impact of the IAS Regulation. The focus is on the general impact of mandatory IFRS adoption in Europe, as opposed to that of specific accounting standards.

The annex draws from existing literature reviews on the topic⁵⁸ and summarises the results of the main papers that have been identified in a comprehensive search of published (and some unpublished) studies.⁵⁹ This includes the academic studies of the INTACCT network set up in 2007, with funding from the European Commission, to advance academic research on IFRS.⁶⁰

Box 1: Summary of main findings

In line with the stated objectives of the IAS Regulation, there is evidence suggesting that mandatory IFRS adoption in the EU resulted in:

- a higher degree of transparency of financial reporting, as measured in the literature, through improved accounting quality and disclosure, more value-relevant reporting and more accurate market expectations and analyst forecasts;
- greater comparability of financial reporting across countries and industries, although differences persist; and
- improved capital market outcomes, as measured by higher liquidity, lower cost of capital and increased cross-border investment.

However, not all academic research supports these conclusions. While most studies show positive capital market effects, the results as regards transparency and comparability are more mixed. In particular, enforcement regimes and firms' incentives to issue high-quality financial reports are shown to play a determining role in achieving the intended effects of IFRS adoption. The IAS Regulation reduced differences in accounting standards applied across the EU, but the same degree of uniformity does not exist in countries' enforcement frameworks and firms' reporting incentives.

The literature focuses on assessing the expected benefits of IFRS adoption, but there is little evidence on costs. Available survey evidence shows significant costs in the adoption period for IFRS reporters, especially smaller firms, but lower additional recurring costs (although implementation costs continue

⁵⁸ See for example ICAEW (2014; updated and republished in 2015), Brown (2011, 2013), Brüggemann *et al.* (2012), Pope and McLeay (2011), Tarca (2012), Hail *et al.* (2010) and Brown and Tarca (2012).

⁵⁹ The literature review covers mainly studies published until 2014 that empirically evaluate the impact of mandatory IFRS adoption in the EU. There are many studies on voluntary IFRS adoption, e.g. by non-listed companies, but these are not considered in this review (apart from a brief reference in section 8). While some of the studies include non-EU evidence, purely non-European evidence is excluded from the review. Also, the focus is on literature published in English and empirical evaluations of mandatory IFRS adoption in the EU.

⁶⁰ Among other topics, the INTACCT research covered IFRS compliance and enforcement and the economic consequences of IFRS adoption (for a review of INTACCT studies, see Pope and McLeay (2011). Further information on published INTACCT research and working papers can be found at www.intacct-research.org and cordis.europa.eu/result/report/rcn/52453_en.html.

for new standards). It is difficult to set these (private) costs against the wider (societal) benefits assessed in the literature.

2. Overview of objectives and expected benefits

The IAS Regulation places an obligation on European companies whose securities are admitted to trading on a regulated market in the EU to prepare their consolidated accounts, as of 1 January 2005, in line with IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the EU.

The IAS Regulation (Article 1) expresses its objectives as follows:

This Regulation has as its objectives the adoption and use of international accounting standards in the Community with a view to harmonising the financial information presented by companies ... in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market.

Thus, the intended effects of mandatory IFRS adoption are greater transparency and comparability in European financial reporting, which should allow capital markets to function more efficiently. More detail on the potential benefits and the link between transparency, comparability and capital market outcomes at conceptual level is provided in Box 2.

This review of the literature therefore focuses on the empirical evidence available as to whether IFRS adoption has had the desired impact on:

- the transparency of financial statements (section 5);
- the comparability of financial statements (section 6); and
- the efficiency of capital market functioning, in particular in terms of market liquidity, cost of capital and cross-border investment (section 7).

While IFRS adoption has the potential to deliver significant economic benefits, the realisation of these benefits also depends on reporting practices in different countries and firms' reporting incentives, especially since the IFRS regime allows for a degree of discretion (section 4).

IFRS adoption also imposes costs. The empirical evidence on costs is reviewed in section 8.

The literature on IFRS in the context of the recent financial crisis is summarised in a separate annex.

Box 2: Theoretical background — the potential benefits of financial reporting standards

The following sets out why, at conceptual level, financial reporting can have important economic consequences if it improves the transparency and quality of financial disclosures and enhances the comparability of reporting across firms and countries.⁶¹

There are various mechanisms by which improved transparency and disclosure in financial reporting can enhance capital market outcomes:

- Improved disclosure reduces uncertainty as to a company's prospects and any advantages that insiders may have through holding information that is not available to the market. Inadequate disclosure gives rise to information asymmetries between investors. Less-informed investors may

⁶¹ This summarises the discussion in Leuz and Wysocki (2008) and Hail *et al.* (2010), who provide detail and references to the underlying theoretical and empirical studies.

be less willing to trade with better-informed investors. As a result, they demand a lower price at which they are willing to buy a security, and they may be more reluctant to trade at all. Better disclosure can mitigate this ('adverse selection') problem and increase market liquidity by reducing asymmetric information and levelling the playing-field between investors.

- Greater liquidity reduces firms' cost of capital, as investors require lower returns from more liquid stocks (the 'liquidity premium'). Better disclosure can also reduce the cost of capital by lowering investors' estimation risk and the return they require for bearing this risk, by making it easier for investors to estimate firms' future cash flows.
- More transparent and better financial disclosure may also improve risk-sharing in the economy by making investors more willing to hold certain securities, which again reduces the cost of capital.
- Higher-quality reporting facilitates monitoring by investors, which in turn can improve firms' ability to raise external capital and also enhance managerial decision-making.
- Better information on any particular firm has wider benefits, as it provides useful benchmarks that help investors evaluate other firms' performance, thus lowering the cost of monitoring.

Even without improvements in accounting quality, greater comparability on the basis of common reporting standards makes financial reporting more useful, as investors and other stakeholders find it easier and less costly to compare across firms and countries.

- More comparable reporting is likely to make it easier to differentiate between less and more profitable firms or low-risk and high-risk firms. Apart from cost savings for investors in processing and analysing information, this is likely to increase liquidity and lower the cost of capital, by reducing information asymmetries and estimation risks.
- Cross-border investment is facilitated. The widening of firms' investor base may in turn enhance liquidity, improve risk-sharing and lower the cost of capital.
- Greater comparability may improve corporate decision-making, e.g. by giving firms a better understanding of their competitors within or across countries or by facilitating contracting with suppliers and customers in other countries.
- To the extent that financial reporting by one firm confers benefits on other firms, the benefits of comparability increase as more firms subscribe to the common standard and report on a comparable basis. As individual firms are unlikely to take account of the positive effects ('externalities') that arise from their own accounting choice for the wider economy, this provides the rationale for a standard-setter to mandate the common standard.

There are other potential benefits of adopting a common accounting standard, such as the ability to share with other countries the costs of standard-setting and of securing compliance with accounting standards, or increased labour-market mobility for accounting professionals.⁶²

3. Challenges in the empirical measurement and interpretation of results

Empirical work on the impact of IFRS adoption faces considerable measurement challenges, which affect the interpretation of results. According to Pope and McLeay (2011) and others, the main research challenges and interpretation problems can be summarised as follows:

- *Measuring the relevant outcomes* — accounting transparency and comparability as well as capital market outcomes defy easy measurement. Academic researchers focus on measures that can be observed on the basis of available data, but these may only proxy the outcomes of interest. For example, there is no single, simple measure of

⁶² See, for example, Brown (2013).

accounting quality. Market liquidity and cost of capital are also concepts that are inherently difficult to measure.⁶³

- *Identifying the causal effects of IFRS adoption* — another challenge is to isolate the effect of IFRS adoption from other concurrent changes that may impact on the outcomes of interest. For example, many institutional changes occurred around the time of IFRS adoption in the EU, such as the introduction of the Market Abuse Directive and the Markets in Financial Instruments Directive (MiFID), changes in corporate governance rules and adjustments in enforcement frameworks. These need to be controlled for appropriately to ensure that any measured changes in market outcomes can indeed be causally attributed to IFRS adoption. As further discussed in section 4, many academic studies note the particular difficulty of isolating the impact of IFRS adoption from concurrent changes in enforcement frameworks.⁶⁴
- *Controlling for financial reporting differences* — Changes in accounting or market outcomes are more likely to occur where the differences between local GAAP and IFRS are large. If the local GAAP that IFRS replace are close to IFRS, then one would not expect major IFRS related effects on the outcome variables of interest. However, research shows that it is difficult to classify countries in this respect.⁶⁵ Moreover, the IFRS are principles-based and applied differently across and within countries, depending on the effectiveness of the enforcement framework and preparers' incentives to comply (see section 4). These differences make it difficult to fully isolate the impact of mandatory IFRS adoption.
- *Selecting representative samples* — restricted data availability means that the empirical research on IFRS adoption focuses mostly on larger firms, so the results may be biased and not representative for smaller firms.
- *Measuring the transition* — a number of academic studies seek to identify the impact of IFRS adoption by looking at changes in the transition period. However, there was not an overnight switch in 2005 from a pre-IFRS environment to IFRS. Some EU companies were already reporting on an IFRS basis before it became mandatory.⁶⁶ Also, some effects of IFRS adoption may have been anticipated by the market and hence reflected in market prices beforehand. In addition, some firms released information in advance of actual results so as to prepare the market for what was to come or adjust reporting to smooth the transition to the new standards. Such transition effects complicate efforts to compare accounting and market outcomes before and after mandatory IFRS adoption.

Researchers use different approaches and measurement techniques to overcome these problems. It is therefore not surprising that findings differ considerably between studies, as highlighted below.

⁶³ Survey-based evidence also has challenges, as it relies on respondents' subjective evaluations of impacts rather than objectively measurable outcomes.

⁶⁴ 'Enforcement framework' is interpreted broadly in the literature to include all institutions and procedures employed to ensuring compliance with the requirements, e.g. including corporate governance, auditors, regulators, and courts.

⁶⁵ Bae *et al.* (2008) and Ding *et al.* (2007) attempt to map countries according to the degree of difference between local GAAP and IFRS. The two studies result in different rankings of countries, depending on the approach used.

⁶⁶ For example, Germany permitted the use of IAS (or US GAAP) reporting for listed companies as of 1998.

Much of the research into the benefits of IFRS adoption focuses on the period immediately after adoption, as this is when the effects are likely to be most easily detectable. As Brüggemann *et al.* (2012) point out, ‘the results of the literature on intended consequences could simply be artefacts of the short history of mandatory IFRS adoption, reflecting a combination of idiosyncratic, transitory effects of first-time adoption and low statistical power due to relatively short analysis periods’. Also, IFRS are not static. New standards are introduced and existing standards revised from time to time, so early results may no longer hold. Research on the continuing benefits of IFRS is scarce. The evidence there is does not suggest a decline in the benefits of IFRS adoption, but there appears to be a need for further research into the long-term impacts of IFRS, including consideration of the financial crisis (see also specific paper on IFRS and the crisis). At the same time, such research faces significant challenges, as the longer the period studied the more difficult it is to control for confounding factors and isolate the causal effect of IFRS adoption.

4. Empirical evidence: adoption and compliance

The European Commission’s 2008 report⁶⁷ on the operation of the IAS Regulation concluded that, while IFRS adoption had been a challenge for all stakeholders, it was achieved without disrupting markets or reporting cycles. The IAS Regulation has been effective in achieving the core objective of all publicly traded entities in the EU preparing consolidated financial statements in accordance with IFRS. IFRS are also used outside consolidated financial statements of publicly traded entities, but allowing Member States discretion on extending their scope has inevitably resulted in differences in application across the EU, depending on national economic and legal environments.

IFRS have also been widely adopted outside Europe. As noted by Brown (2013), ‘at the simplest level, there must be significant expected benefits to adopting IFRS because the usage of IFRS continues to spread among sovereign nations’. More than 100 jurisdictions now require IFRS for most or all domestic listed companies (see Box 3). While this evaluation of the IAS Regulation is mainly concerned with the mandatory adoption of IFRS in the EU, the impacts should be understood in the context of the wider move towards IFRS as a global accounting standard. Also, some of the evidence in the literature applies to both EU and non-EU countries.

Box 3: International adoption of IFRS

The decision by the EU to adopt IFRS provided a major impetus for the acceptance and spread of IFRS, including to countries such as Australia, New Zealand, Hong Kong and South Africa. Most of these adoptions were effective in 2005. Public expressions of support for the concept of global accounting standards were soon forthcoming from the G20, the World Bank, the International Monetary Fund (IMF) and the Basel Committee, among other groups concerned with the global financial system.

The current state of IFRS application is summarised by Pacter (2014), based on detailed country profiles compiled by the IFRS Foundation:⁶⁸ nearly all of the 130 jurisdictions studied have made public commitments to supporting global accounting standards in the form of IFRS. The majority (105 of the 130 jurisdictions studied), including several that do not have stock exchanges but require IFRS for banks and other publicly accountable entities, require IFRS for all or most listed companies. Of the remaining countries, some permit IFRS for at least some listed companies or are in the process of adopting IFRS. According to Pacter (2014), the combined GDP of IFRS jurisdictions is

⁶⁷ COM(2008) 215 final.

⁶⁸ <http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx>.

USD 40 trillion, or more than half of world GDP. While the EU remains the single biggest user of IFRS, the combined GDP of IFRS jurisdictions elsewhere (USD 23 trillion) is now greater than that of the EU itself (USD 17 trillion).

The expected benefits of adopting IFRS do not come simply from stating that the accounting standards have been adopted. IFRS provide financial statement preparers with room for manoeuvre in the application of the standards due to explicit options, discretion in interpretation and the need for estimates that are inherent in financial reporting. Hence, the application of IFRS may vary from one firm to another or from one country to another. Also, investors make implicit judgments about how reliable the information is and whether financial reporting actually complies with the standards in practice. One main finding in the literature is that the quality of financial reporting, and therefore the benefits of adopting a particular set of accounting standards, depends on the strength of preparers' incentives to comply and make high-quality disclosures. These incentives depend to a large extent on the relevant institutions, including corporate governance, auditors and the enforcement framework.

Early evidence presents a fairly optimistic picture of the quality of first-time implementation and the degree of compliance with IFRS in Europe in the period immediately after 2005. For example, in a study conducted on behalf of the European Commission, ICAEW (2007) documents a high level of self-reported compliance with IFRS. Only two companies in a sample of 200 disclosed lack of full compliance with IFRS. Clean audit reports support the other 198 companies' claims to be in compliance.

However, subsequent evidence suggests that IFRS compliance could still be improved. In its annual reports on IFRS enforcement activities in Europe, the European Securities and Markets Authority (ESMA) notes that, while the quality of IFRS financial statements continued to improve as a result of the significant experience gained by preparers following the first application of IFRS in 2005, there is still room for improvement in certain areas.⁶⁹ In a separate review of financial institutions' IFRS statements, ESMA (2013) observes wide variability in the quality of information provided and identifies cases where the information provided could be improved.

As regards the academic literature, Glaum *et al.* (2013) report non-compliance for a sample of European companies, focusing on disclosures required by IFRS 3 (business combinations) and IAS 36 (impairment of assets). The authors find that compliance levels are determined jointly by company-level variables (e.g. extent of experience with IFRS, type of auditor, existence of audit committee, ownership structure, issuance activity) and country-level variables (e.g. strength of enforcement system, size of stock market, national culture). Variation in the level of compliance is also reported in Verriest *et al.* (2013) and Goh *et al.* (2010).

IFRS accounts are still influenced by national accounting traditions. The ICAEW (2007) study for the European Commission already highlighted that the generally principles-based set of standards presented challenges and led to instances of inconsistent application. It also showed that the requirements of national legislation and regulators and the enduring strength of national accounting traditions meant that 'local accents' are found in IFRS reporting in the EU. The tendency of firms to refer to their previous local GAAP when making judgment calls and exercising discretion is also reported in other studies (e.g. KPMG (2006) and Christensen and Nikolaev (2009)).

⁶⁹ *Activities of the IFRS enforcers in Europe in 2013*, ESMA (2014).

Nobes (2006, 2013) examines the factors explaining the differences in the way IFRS are applied across countries, including differences in national implementations of IFRS, variations in language and optional treatments permitted under IFRS that allow previous cross-country differences in usage to continue after IFRS adoption. Kvaal and Nobes (2010) find cross-country variation in IFRS policy choices in the adoption year, which is largely determined by pre-IFRS national reporting practices. In a follow-up study (Kvaal and Nobes (2012)), they confirm that these country-specific patterns persist several years after mandatory IFRS adoption.

As regards the role of enforcement, Berger (2010) concludes that the activities of EU enforcers, including their interaction in the European Enforcement Coordination Sessions (coordinated by ESMA), have made a significant contribution to uniform application of IFRS. However, he notes that enforcement approaches and methods vary widely. The studies reviewed in the following sections also highlight the critical role of enforcement in achieving the desired outcomes of mandatory IFRS adoption in the EU.

Adopting a new set of accounting standards involves a learning process and effective compliance with the new standards can therefore be expected to improve over time. As Brown (2013) explains, ‘standard-setters, preparers and those who issue guidance to them, auditors, analysts and other users of financial statements, and regulators, can all take a significant amount of time to adapt to the new standards’. In line with the learning effect, Brown *et al.* (2013) provide evidence from a sample of IFRS adopters in selected EU countries and Australia that firms did become progressively more transparent following IFRS adoption.

Because of remaining differences in the level of compliance and the application of IFRS within and across countries, the benefits of IFRS adoption are likely to vary. The evidence reported below confirms that observed changes in accounting and market outcomes as a result of IFRS adoption depend on preparers’ incentives and supporting institutions, and that positive effects are often the result of a combination of improved standards, stronger enforcement and better compliance.

5. Empirical evidence: impact on transparency

Different approaches have been taken to assess empirically the impact of IFRS adoption on financial reporting transparency in the EU:

- measuring improvements in accounting quality using various indicators (section 5.1);
- conducting value-relevance studies to assess whether share prices have become more closely tied to accounting fundamentals (section 5.2); and
- assessing whether market expectations and analyst forecasts have become more accurate (section 5.3).

Overall, there is evidence that mandatory IFRS adoption has had a positive impact on the transparency and quality of financial reporting. However, the evidence is not unequivocal: the impact differs between firms and countries, and depending on the measurement approach.

5.1. Accounting quality

Early survey evidence collected by ICAEW (2007) in the study for the European Commission shows that most investors, preparers and auditors surveyed thought that IFRS had improved the quality of consolidated financial statements. The introduction of IFRS was also seen as having increased transparency in several specific areas, including derivative instruments, off-balance sheet items more generally, securitisation, pension obligations, stock options and segment reporting. A French industry study of investors’ views of IFRS implementation in

2007 confirmed that the richness of information provided under IFRS was generally positively received, although some users complained about the sometimes cumbersome nature of the resulting financial statement developments and disputed the relevance of some of the information provided.⁷⁰ While some considered the understandability of financial data to have suffered since IFRS adoption, the investors covered by the study recognised more or less unanimously that financial statements were more reliable than before.

Academic researchers have adopted a number of different measures of accounting ‘quality’ to assess the impact of IFRS adoption. These often seek to capture the extent of earnings management or profit manipulation, e.g. as measured by the level of disclosure, the extent of income smoothing from year to year or the level of discretionary accruals adjustments when calculating net income.

While there is evidence of improved accounting quality following IFRS adoption, the research findings are mixed overall. As summarised in Brown (2011), ‘it is obvious that not all studies have reached the same conclusion. Different samples and different proxies for ‘quality’ must explain much of the confusion in the literature’.

Daske and Gebhardt (2006) conclude that the quality of disclosures had improved under IFRS in Austria, Germany and Switzerland, which in 2004 accounted for more than half of the companies known to have (voluntarily) adopted IFRS at the time. As regards mandatory adoption, Atanassova (2008) reports significant improvements in the quality of Bulgarian banks’ disclosures after the switch to IFRS. Working with a broader EU sample, Verriest *et al.* (2013) investigate the quality of IFRS adoption disclosures relating to the previous year’s reconciliations from local GAAP to IFRS, and more general IFRS disclosure and recognition choices. They find that disclosures are of higher quality when firms have strong corporate governance. They also find that, while disclosure levels improve generally on average with the introduction of IFRS, firms with higher quality governance make more extensive disclosures on the financial statement effects of specific standards.

Goh *et al.* (2010) confirm that disclosure standards differ across firms, depending on managerial incentives. In particular, they find that the quality of disclosures improves depending on certain factors, such as the extent of analyst following, the importance of stock options in CEO compensation, US and UK institutional ownership, board size and the use of English in financial statements. The overall level of disclosure quality is associated with factors relating to the benefits of disclosure, and decreases when the benefits to public disclosure are likely to be lower, for example, when the CEO or family blocks hold large ownership stakes.

Studies that examine other aspects of accounting quality also highlight the importance of managerial incentives to comply with IFRS. For example, Christensen *et al.* (2008) examine the extent of earnings management and timely loss recognition before and after adoption of IFRS by German companies. Greater improvements were observed among companies that adopted IFRS early (voluntarily) than those that resisted adoption (i.e. chose not to adopt IFRS until required to do so in 2005).⁷¹

Capkun *et al.* (2011, 2013) present evidence of earnings management during the IFRS transition period, which they attribute to the increased flexibility of IFRS and lack of clear

⁷⁰ See, for example, FFSA/AFG (2007), which contains the results of structured interviews with investors and users of IFRS.

⁷¹ Earlier studies on IFRS adoption in Germany found no evidence of improvements in accounting quality, as proxied by various measures of earnings management (Van Tendeloo and Vanstraelen (2005), Goncharov and Zimmermann (2007)).

guidance in implementing the standards. The increase in earnings management following mandatory IFRS adoption is particularly pronounced in countries that exhibit less local GAAP flexibility. Garcia-Osma and Pope (2011) also examine earnings management behaviour for a sample of European companies, showing that earnings management is significantly associated with abnormal adjustments in the IFRS transition period. They also find that earnings management depends on country-level incentives relating to the strength of enforcement and legal institutions.

In a relatively broad sample of firms from 20 countries where IFRS were adopted in 2005, Ahmed *et al.* (2013) find no evidence of accounting quality improvements *vis-à-vis* a benchmark group of firms from countries that did not adopt IFRS. Instead, relative to the benchmark firms, they find that IFRS firms exhibit increases in income smoothing and aggressive reporting of accruals, and less timely loss recognition.

Chen *et al.* (2010) use five indicators to compare changes in accounting quality among companies in 15 European countries following adoption of IFRS, with mixed results depending on the indicator. On the one hand, earnings smoothing evidently increased while loss recognition was less timely, suggesting that quality had deteriorated following IFRS adoption. On the other hand, the absolute size of discretionary accruals declined and there was less managing of earnings towards targets, suggesting that quality had increased.

In their literature review, Brüggemann *et al.* (2012) refer to other studies which find that mandatory IFRS adoption has no significant impact or even a negative effect on earnings management.

Studies showing a more positive impact of IFRS adoption include Barth *et al.* (2008), who find that accounting quality improved for a sample of companies in 21 countries, in that there was less earnings management and more timely loss recognition. Zéghal *et al.* (2011) report that the use of IFRS is associated with less earnings management for French firms in 2003-2006, particularly for those with higher corporate governance and more involvement in foreign financial markets. Aussenegg *et al.* (2008) use 15 proxies of earnings management in 17 European countries to show that there was less earnings management post-adoption in central European countries, but no change for companies in the UK, Ireland and northern Europe.

Houqe *et al.* (2012) examine the effects of mandatory IFRS adoption and investor protection on the quality of accounting earnings in 46 countries around the world. The results suggest that earnings quality increases in countries with strong investor protection. In another comprehensive study based on firms from 32 countries between 2000 and 2006, Cai *et al.* (2008) show that the extent of earnings management declined over time in IFRS-adopting countries and was less prevalent in countries with stronger enforcement.

In a more recent study, Cai *et al.* (2014) also take into account the degree of divergence between the relevant national accounting standards and IFRS prior to the adoption of IFRS. They find that countries with a higher degree of divergence experience a greater decline in earnings management following IFRS adoption. More specifically, high-divergence countries with higher levels of enforcement benefit the most, followed by high-divergence countries with lower levels of enforcement. Lower-divergence countries with higher levels of enforcement do not significantly benefit from IFRS adoption. Lower-divergence countries with lower levels of enforcement do not benefit at all. The results support the view that

countries with lower-quality local accounting standards prior to IFRS adoption benefit more from IFRS adoption.⁷²

5.2. Value relevance

Other studies assess the impact of IFRS on accounting transparency and quality by looking at the ‘value relevance’ of IFRS to investors. These studies look for correlations between accounting disclosures (e.g. earnings, book value of equity) and (changes in) share prices. A closer correlation between disclosures and prices following IFRS adoption is interpreted as evidence of improvement.⁷³

Devalle *et al.* (2010) examine whether value relevance increased following the introduction of IFRS, using companies listed on five European stock exchanges: Frankfurt, Madrid, Paris, London and Milan. They find that the influence of earnings on share price increased following the introduction of IFRS in Germany, France and the UK, but that the influence of book value of equity decreased (except in the UK).

Aharony *et al.* (2010) examine 14 European countries and find that IFRS adoption has increased the value relevance of three accounting items (goodwill, R&D expenses and asset revaluation).⁷⁴ They also show that the more the three domestic GAAP-based accounting items deviate from their corresponding IFRS values, the greater the incremental value relevance to investors from the switch to IFRS.

Barth *et al.* (2013) provide evidence that the adjustments to net income resulting from mandatory adoption of IFRS in Europe are relevant to investors in both financial and non-financial firms. However, there are differences between these two types of firms and across major country groups in the value relevance of the aggregate net income adjustment and adjustments relating to several individual IFRS standards, which suggests that differences in domestic standards, as well as institutional features, can affect investors’ assessment of the relevance of IFRS accounting amounts.

Jarva and Lantto (2012) report a marginal improvement in value relevance for IFRS relative to local GAAP in Finland. Morricone *et al.* (2009) present evidence that the value relevance of intangible asset disclosures of Italian firms did not increase in the post-IFRS period. For the UK, Choi *et al.* (2013) show that the value relevance of published earnings increased with the implementation of IFRS.

Horton and Serafaim (2010) examine the value relevance of information contained in the transitional documents required by IFRS 1, which detail ‘reconciliation adjustments’, i.e. how a firm’s previously reported UK GAAP accounts have to be adjusted to comply with IFRS. They find that the IFRS earnings reconciliation adjustments are incrementally more value-relevant than the UK GAAP earnings figures. Specific adjustments as regards goodwill impairment, share-based payments, employee benefits, financial instruments and deferred taxes are all found to be associated with share prices. Overall, the authors interpret their results as evidence that IFRS not only reflect existing information, but also provide the market

⁷² Research studies on the impact of IFRS on accounting quality in individual EU Member States are summarised in ICAEW (2014).

⁷³ Other value-relevance studies not described in this section include studies focusing on individual countries. See ICAEW (2014) for a fuller list.

⁷⁴ These items were chosen because they are measured very differently under IFRS as compared with domestic accounting practices in the countries prior to mandatory IFRS introduction and because their future benefits and the effects on uncertainty were seen to differ.

with new information. In contrast, Christensen *et al.* (2009) argue that any share price reactions to earnings reconciliation from UK GAAP may rather reflect the fact that mandatory accounting changes can affect the likelihood of violating existing debt covenants.

Focusing on European banks, Agostino *et al.* (2011) show that IFRS adoption enhanced the information content of both earnings and book value for more transparent banks. However, less transparent entities did not experience significant increases in the value relevance of book value.

Landsman *et al.* (2011) find that the information content of earnings announcements, as measured by abnormal return volatility and trading volume, increases in 16 EU and other countries that mandated adoption of IFRS relative to 11 countries that maintained domestic accounting standards. They also find that the effect of mandatory IFRS adoption depends on the strength of enforcement in the adopting country.

Ahmed *et al.* (2013) conduct a meta-analysis of IFRS adoption studies investigating financial reporting effects, namely value relevance and also earnings transparency in the form of discretionary accruals. The findings show that the value relevance of book value of equity has not increased post-IFRS adoption, whereas the value relevance of earnings generally has. Regarding earnings transparency, the study suggests that discretionary accruals have not decreased. Other results reported show that analysts' forecast accuracy increased significantly after IFRS adoption (see also below).

Evidence related to value relevance in debt markets is more limited. Bhat *et al.* (2014) find no impact of mandatory IFRS adoption on the sensitivity of credit default swap spreads to accounting information. Wu and Zhang (2014) show that credit ratings are more sensitive to accounting information following mandatory IFRS adoption (and under US GAAP), but mainly in countries where the rule of law is strong. Similarly, Florou *et al.* (2013) find that financial statements provide better explanation of credit ratings after mandatory IFRS adoption, which the authors take as evidence that 'IFRS provide more reliable and informative financial statements to creditors than the domestic GAAP financial statements that they replace'.

5.3. Accuracy of analysts' forecasts and market expectations

An alternative empirical approach is to focus on whether analysts' forecasts have become more accurate following mandatory IFRS adoption. Beuselinck *et al.* (2010) examine analysts' earnings forecasts for mandatory IFRS adopters in Europe for 2003-2007.⁷⁵ They find a significant increase in the precision of information after the switch to IFRS. When exploring analyst-specific precision in more detail, they find that analysts following firms in more than one European country experience the largest post-IFRS improvement.

Byard *et al.* (2011) also show benefits for analysts of EU firms in the immediate post-adoption period. The benefits are observed in countries where the national GAAP and IFRS differed most and where there were strong institutions to support IFRS adoption and a legal system protecting investors.

Ernstberger *et al.* (2008) show that, for Germany, analysts' consensus forecasts were generally more accurate when based on IFRS than on local German standards, but less so in the transition year. This suggests the presence of learning effects, with accuracy increasing for a while after adoption as analysts became more familiar with IFRS (Brown (2011)).

⁷⁵ Similar results are reported in Wang *et al.* (2008), who find, for a sample of 17 European countries, that analysts' forecast errors and dispersion are significantly less post-IFRS than pre-IFRS.

Considering analysts from 36 EU and other countries, Tan *et al.* (2011) report that mandatory IFRS adoption attracts foreign analysts, particularly those based in countries adopting IFRS at the same time as the country of the firm in question. They also find that mandatory adoption improves foreign analysts' forecast accuracy. According to the authors, these results show that accounting harmonisation in the form of widespread IFRS adoption facilitates cross-border comparisons of financial data and therefore lowers the costs of financial analysts following firms from other countries.

According to Horton *et al.* (2013), analysts following IFRS firms make more accurate forecasts than those following non-IFRS firms. The authors conclude that IFRS have improved the information environment by increasing both the quality and comparability of information. Choi *et al.* (2010) find that forecast accuracy increases and forecast dispersion across analysts decreases for a sample of UK firms following the introduction of IFRS. Other studies of EU companies (e.g. Jiao *et al.* (2012)) find improvements in forecast accuracy.

Instead of considering analysts' forecasts, another way of detecting increased transparency (related to the value relevance studies above) is by looking at whether a change of information leads to more accurate expectations on the part of other market participants. If financial reporting has become more informative as a result of IFRS adoption, the market should be less surprised by news.

Beuselinck *et al.* (2009) report that IFRS-based disclosures appear to have improved the efficiency of stock prices by reducing the extent to which the market is surprised by future disclosures. The same study also reports improvements in analysts' ability to process industry-level information and a fall in the value of private information held by institutional shareholders. These effects are shown to apply more to companies operating in countries with a reputation for stronger enforcement.

Karamanou *et al.* (2010) find evidence that, after implementation of IFRS reporting, abnormal stock returns around event dates are less pronounced than previously, suggesting that the market experiences fewer major surprises. Further, the estimated abnormal returns that could be earned by insiders appear smaller post-IFRS.

6. Empirical evidence: impact on comparability

Accounting standardisation is expected to reduce errors when comparing companies subject to different financial reporting systems.⁷⁶

As explained in section 4 above, the unevenness of IFRS application across national jurisdictions, e.g. due to differences in enforcement and firms' reporting incentives, limits the comparability of IFRS information.⁷⁷ However, even if comparability remains imperfect, the question is whether financial reporting has become more comparable as a result of mandatory IFRS adoption in the EU.

In its survey as part of the 2007 study for the European Commission, ICAEW (2007) found widespread agreement that IFRS had made consolidated financial statements easier to

⁷⁶ Even prior to the adoption of IFRS, companies competing in international capital markets had been involved in a process of accounting harmonisation since the 1980s, independently of the formal political process (Thorell and Whittington, 1994, Canibano and Mora, 2000)). Land and Lang (2002) also document an increase over time in the comparability of financial reporting data of firms in Australia, Canada, France, Germany, Japan, the UK and the USA.

⁷⁷ Sunder (2011) argues that there can never be perfect comparability in financial reporting and that 'the application of IFRS across national jurisdictions has not been, and is unlikely to be, uniform, nor is it likely to generate comparability'.

compare across countries, across competitors within the same industry and across industry sectors.

As regards the academic literature, Yip and Young (2012) use different proxy measures of comparability to examine whether mandatory IFRS adoption improved financial reporting comparability in 17 European countries. They conclude that comparability improved significantly and that both accounting convergence and higher quality information under IFRS are the likely drivers of the comparability improvement.

Jones and Finley (2011) consider financial reporting diversity for EU and Australian companies in 1994-2004 and in 2006, using several balance-sheet, income-statement and cash-flow statement ratios measured over the pre-IFRS and post-IFRS periods. They report statistically significant reductions in the variability of ratio measures in the post-IFRS period.

Other studies also report evidence of increases in accounting convergence and comparability. For example, Dargenidou and McLeay (2010) document a significant reduction in the statistical effect of country differences when pricing earnings expectations, again suggesting greater accounting comparability following the mandatory adoption of IFRS. Young and Zeng (2010) present evidence that mandatory IFRS adoption increases cross-country accounting comparability and produces benefits in terms of more precise valuation estimates based on financial statements.

Andre *et al.* (2012) report significant convergence in EU listed firms' accounting practices and improvements in comparability because of IFRS adoption, in particular because of more comparable accruals in relation to industry peers. The authors also report that more comparable accruals reduce the variability of analysts' forecasts and improve investors' ability to value firms more accurately.

Cai and Wong (2010) report higher correlations of market indices in 1995-2008 in markets where firms use IFRS (the UK, France, Germany and Italy) than in markets where domestic firms generally do not use IFRS (the United States, Canada, Japan and Russia).

Bayerlein and Farooque (2012) report greater comparability of accounting policy choices for deferred tax and goodwill under IFRS for firms from the UK. Brochet *et al.* (2013) also present UK evidence to show that comparability increased following IFRS adoption.

Barth *et al.* (2012) investigate comparability with the USA and whether the adoption of IFRS by non-US firms increases the comparability of financial information. They find that, after adoption, IFRS and US GAAP firms exhibit higher value-relevance comparability, although some differences still persist.

Palea (2013) highlights that financial reporting standardisation has led to more equal competition for European firms on the capital markets, although effects are lower than expected due to persisting differences between countries.

However, not all studies agree on positive comparability effects. Looking at the first year of IFRS implementation, Beuselinck *et al.* (2007) show that the switch to IFRS did not enhance the comparability of accounting earnings and accruals in the EU. Lang *et al.* (2010) find that mandatory IFRS adoption increased earnings co-movement, but not true cross-country comparability. Focusing on the comparability of earnings and book values in France and Germany, Liao *et al.* (2012) document an increase in comparability in the year after IFRS adoption, but a decrease in subsequent years as managers tended to implement IFRS differently over time. Cascino and Gassen (2014) conclude that the overall effect of mandatory IFRS on comparability is marginal, as financial reporting is systematically shaped by firm-, region- and country-level incentives.

From a review of the empirical literature, Palea (2013) concludes that that IFRS adoption has beneficial effects on comparability, although legal enforcement and firms' incentives play a determining role. Full convergence in financial reporting therefore seems difficult to achieve, due to a number of firm- and country-specific factors. The IAS Regulation has eliminated differences among European countries in financial reporting standards, but the same degree of uniformity does not exist in countries' institutional frameworks and firms' incentives to issue high-quality financial reporting.

7. Empirical evidence: impact on capital markets

By improving the transparency and quality of financial disclosures and by enhancing the comparability of reporting across firms and countries, the mandatory adoption of IFRS was expected to improve capital market outcomes in the EU (see Box 2 above). A number of studies have investigated this, with generally positive conclusions.⁷⁸ In particular, most empirical studies find:

- positive share price reactions to announcements of IFRS adoption (section 7.1);
- post-adoption increases in market liquidity and reductions in the cost of capital (section 7.2); and
- post-adoption increases in (cross-border) investment and easier access to (cross-border) capital (section 7.3).

7.1. Share price reactions

Armstrong *et al.* (2010) examine how the share prices of all firms with equity traded on European stock markets reacted to various events before 2005 that affected the likelihood of mandatory IFRS adoption in Europe.⁷⁹ The results show that, on aggregate, investors reacted positively to events that increased the likelihood of IFRS adoption. The reaction is more positive for firms with low quality information and greater information asymmetry pre-adoption; this is consistent with investors expecting net information-quality benefits from adoption. There is also a positive reaction for firms with high quality information pre-adoption; this is consistent with investors expecting net convergence and comparability benefits from adoption. The reaction is less positive for firms domiciled in code-law countries and where investors may have concerns over enforcement. Overall, the authors conclude that investors in European firms perceived IFRS adoption to have net benefits.

In an earlier study, Comprix *et al.* (2003) examine share price reactions of EU firms on the dates of four events in 2000 that increased the likelihood of mandatory IFRS reporting. They find a weakly significant, but negative, market reaction. However, firms audited by one of the big audit firms, located in countries that are expected to have greater improvements in reporting quality due to IFRS adoption or subject to stronger enforcement experienced significantly positive price reactions on some of the dates examined.

⁷⁸ While studies on IFRS impacts on transparency and comparability are more mixed (see section 5), evidence of positive capital market impacts is plentiful and almost unanimous. Brueggemann *et al.* (2012) note that the different findings of accounting studies and the capital market studies appear to be at odds (because capital market effects rely on transparency and comparability effects) and deserve further investigation. Either some accounting studies underestimate the transparency and comparability effects (e.g. by capturing only subsets of potential changes in financial reporting) or empirical studies overstate the capital market effects (e.g. by failing to control for concurrent changes in capital markets that are unrelated to financial reporting).

⁷⁹ The first is the European Parliament's passing, on 12 March 2002, of a resolution requiring all firms listed on stock exchanges in the EU to apply IFRS by 2005.

Focusing on market reactions in the UK, Christensen *et al.* (2007) find that the average market reaction was small. However, the reaction was more positive to events increasing the likelihood of mandatory IFRS adoption for those UK firms considered more willing to adopt IFRS (as proxied by the similarity of those firms with voluntary IFRS or US GAAP adopters in Germany).

7.2. Market liquidity and cost of capital

Early evidence of the impact on market liquidity is available in Daske *et al.* (2008), who examine the effect of mandatory IFRS adoption in 26 countries, including most EU Member States. As regards the impact on liquidity, they find significant benefits, but only in countries where firms have incentives to be transparent and legal enforcement is strong. However, the analysis is limited to the first year of mandatory IFRS adoption.

Platikanova and Perramon (2009) look at the effects on market liquidity of mandatory IFRS adoption in four countries (France, Germany, Sweden and the UK), comparing data in the year before and after IFRS adoption. The authors find increases in liquidity for French and German firms, but report mixed findings for Swedish and UK firms.

Christensen *et al.* (2013) revisit and extend the examination in Daske *et al.* (2008) and examine liquidity effects for mandatory IFRS adopters in the EU and other countries, including data to 2009. They conclude that the liquidity effects of IFRS introduction are limited to four⁸⁰ EU countries that made substantive concurrent changes in reporting enforcement: Finland, Germany, the Netherlands and the UK. They find little evidence of liquidity benefits in countries that did not make such changes, even when the countries have strong legal and regulatory systems. In other words, the change in accounting standards *per se* seems to have had little effect on market liquidity.

Barth and Israeli (2013) argue that a better interpretation of these results would be that both the change in enforcement and the adoption of IFRS confer liquidity benefits and that the largest benefits obtain when the change to IFRS reporting is combined with a change in enforcement.

The above Daske *et al.* (2008) study also presents early evidence on the cost of equity capital for mandatory IFRS reporters. The authors document a decrease in firms' cost of capital and an increase in equity valuations when the effect is measured a year prior to the official adoption date.⁸¹ Again, the results are shown to reflect the combined effects of the IFRS mandate and concurrent changes in enforcement and governance regimes to support IFRS introduction.

Lee *et al.* (2008) look at the impact on the cost of equity capital for a sample of companies from 17 European countries. They find a significant reduction among countries with relatively strong financial reporting incentives and enforcement, but no such reduction in those with weak incentives. Daske *et al.* (2013) also confirm the importance of reporting incentives for cost of capital effects. Considering a large sample of firms from EU and non-EU countries, the authors distinguish between firms that 'adopt [IFRS] merely in name without making material changes to their reporting policies' ('label adopters') and those that 'adopt [IFRS] as part of a broader strategy to increase their commitment to transparency' ('serious adopters').

⁸⁰ The authors treat Norway as a fifth EU country in this category, on the grounds that it is a member of the European Economic Area and has adopted the EU capital market directives.

⁸¹ No effect is measured in the actual adoption year, suggesting that the market had anticipated benefits from mandatory adoption.

Although the focus is on voluntary adopters, the results are extended to mandatory adopters — in both cases, serious adopters experience a decrease in the cost of capital, whereas label adopters do not.

Other studies also document positive cost of capital effects. For example, Li (2010) estimates that the cost of capital for mandatory IFRS adopters in the EU fell on average by a non-trivial 47 basis points in 2005. Palea (2007) reports a cost of capital reduction for an industry-specific sample of 35 EU banks. Castillo-Merino *et al.* (2014) show a significant reduction in the cost of capital for Spanish listed companies following mandatory IFRS adoption in 2005. According to the authors, the results suggest that increased financial disclosure and enhanced information comparability, along with changes in enforcement, have a combined positive effect on the cost of capital.

Hong *et al.* (2014) look at the effect of mandatory IFRS adoption on initial public offering (IPO) underpricing using a sample of 1 540 IPOs in 2003-2004 and 2006-2007, for firms in 20 EU and non-EU countries. They find a significant reduction in IPO underpricing following mandatory IFRS adoption, with more pronounced effects for firms in countries experiencing large accounting changes and with strong implementation credibility.

While the above studies focus on equity markets, Florou and Kosi (2013) extend the analysis to debt financing. They find that IFRS adopters are more likely to issue public bonds than borrow in private debt markets and that IFRS adopters enjoy lower yield spreads when they do issue public debt. These results are consistent with the risk premium on corporate debt falling for mandatory IFRS adopters and with the supply of debt finance increasing.

7.3. (Cross-border) investment

If IFRS make financial reporting more comparable or more informative, this can be expected to reduce the expertise required of foreign investors and analysts when interpreting financial statements, which in turn can encourage cross-border investment. Consistent with this desired effect, Covrig *et al.* (2007) document that foreign mutual fund ownership is significantly higher for (voluntary) IFRS adopters than for local GAAP firms and that the difference in mutual fund holdings increases for firms in poor information environments and with low visibility, suggesting that IFRS reporting can help firms attract foreign institutional investment.

Focusing on mandatory IFRS adoption in the EU, Florou and Pope (2012) use a large ownership database covering all types of institutional investor from around the world to show that institutional holdings increase for IFRS adopters. Controlling for other potential determinants of institutional holdings, the authors show that in 2005-2006 institutional ownership increases by over 4% and the number of institutional investors increases by almost 10% for mandatory IFRS adopters, as compared with non-adopters. They document that the positive IFRS effects on institutional holdings are concentrated among investors whose orientation and styles suggest they are most likely to benefit from higher-quality financial statements.⁸² They also show that increased institutional holdings are concentrated in countries where enforcement and reporting incentives are strongest, and where the differences between local GAAP and IFRS are relatively large.

According to DeFond (2011), foreign mutual funds increased their holdings in European companies that adopted IFRS relative to their holdings in a control group of companies

⁸² For example, institutional holdings in mandatory IFRS adopters increase significantly for active investors, but changes are much lower or insignificant for passive investors. Similarly, IFRS-related holdings increases are substantially higher for value and growth investors than for index and income investors.

domiciled in nine non-IFRS adopting countries. Again, the positive results apply to firms in countries with strong implementation credibility. Shima and Gordon (2011) confirm that both legal standards and enforcement are necessary to increase foreign investment. Increased investment by international mutual funds is also reported in Yu (2009).

Brüggeman *et al.* (2012) show that mandatory IFRS adoption can reinforce foreign equity investment not just by professional institutional investors, but also by private investors. The analysis focuses on the Open Market at the Frankfurt Stock Exchange, a segment designed for German individual investors to trade a large selection of foreign stocks. Using a large sample of firms from 31 countries around the world, the authors find that stocks experience a significant increase in Open Market trading activity following mandatory adoption of IFRS.

Amiram (2012) also reports increases of foreign equity portfolio investments in countries that adopt IFRS, but further shows that this relation is driven by foreign investors from countries that also use IFRS. Moreover, the effect of accounting familiarity is more pronounced when investor and investee countries share the same language, legal tradition, culture and regional location.

In their study of a large sample of IPOs in 20 EU and non-EU countries, Hong *et al.* (2014) report an increase in the amount of capital raised from foreign markets following mandatory IFRS adoption. They also find that the effects of mandatory IFRS adoption on IPO proceeds raised from foreign markets are greater for firms in countries experiencing large accounting changes and that this relation is more pronounced among firms in countries with strong implementation credibility.

In a study on international cross-listings, Chen *et al.* (2014) find that firms that mandatorily adopt IFRS are significantly more likely to cross-list following IFRS adoption. The authors also find that firms from mandatory IFRS adoption countries are more likely to cross-list their securities in countries also mandating IFRS. The effect is greater for mandatory IFRS adopters from countries in which previous accounting practices differed more from IFRS, which had lower disclosure requirements and which had less access to external capital prior to IFRS adoption.

Beneish *et al.* (2012) find that IFRS adoption has a greater impact in debt markets than equity markets. The authors observe that increases in foreign equity investment in the post-adoption period are limited to countries with high (or improving) governance quality. However, increases in foreign debt investment flows are not dependent on governance quality; this is consistent with covenants in bond contracts being used to offset country-level weaknesses in investor protection.

Other studies focus on the link with foreign direct investment (FDI). Considering bilateral FDI flows between OECD countries, Chen *et al.* (2010) find that the shift from local accounting standards to IFRS contributed positively to FDI growth. Gordon *et al.* (2012) show that FDI inflows increased in developing countries adopting IFRS, but not in developed countries. Similarly, Marquez-Ramos (2008) provides evidence that IFRS adoption is associated with more trade and FDI, and that these positive effects are stronger in the transition economies of eastern Europe.

Related evidence is available in Francis *et al.* (2012), who report a higher volume of merger and acquisition (M&A) activity and higher takeover premiums when countries have more similar GAAP. They also find more M&A activity in countries adopting IFRS in 2005, in particular in those where the local GAAP were less similar to IFRS. The authors conclude that similar accounting standards reduce information costs, thus increasing competition among bidders and permitting greater gains for target shareholders.

8. Benefits versus costs

While a large body of academic literature has developed on the benefits of mandatory IFRS adoption, there is little discussion of the costs, including the direct costs of adjusting the reporting infrastructure and firms' reporting processes and systems. These adoption costs were not trivial: preparers, auditors, investors, regulators and others invested considerable resources in mastering the new requirements.

Estimates of the costs incurred by preparers are available from the ICAEW (2007) study prepared for the European Commission, which is based on survey responses from preparers of IFRS consolidated financial statements. Table 8.1 shows per-firm cost estimates ranging from 0.31 % of total turnover for firms with turnover below EUR 500 million to 0.05 % for larger firms. The expected additional recurring costs of IFRS are estimated to be lower, ranging on average from less than 0.01 % to 0.06 % of turnover in the different size categories.

Table 8.1: Additional costs of preparing IFRS consolidated statements

Companies with turnover	Adoption costs (% of turnover)	Recurring costs (% of turnover)
< EUR 500 million	0.31 %	0.06 %
EUR 500 million — EUR 5 billion	0.05 %	0.01 %
> EUR 5 billion	0.05 %	0.008 %

Notes:

Shows estimates of average additional costs of preparing financial statements based on IFRS rather than previous national requirements, based on preparers' responses to an online survey.

Split into adoption costs in the first year and expected recurring costs in future years.

Source: ICAEW (2007)

According to ICAEW (2007), although the respondents were asked for estimated additional costs (i.e. costs incurred over and above what would be spent on complying with national standards), some of the reported costs might not be truly incremental. For example, IFRS project teams might include staff not fully engaged on IFRS, or software changes for IFRS might include costs of other financial software upgrades made concurrently. Moreover, the survey produced a high level of 'don't knows' in the responses on costs, which indicates that many companies did not track this information. A number of companies, particularly large ones, appear not to have thought it worthwhile to record separately the costs of IFRS implementation.

The above estimates indicate that, proportionately, the smallest companies bore the greatest costs. There appear to be economies of scale, even among larger companies with more complex transactions requiring more sophisticated accounting policies. Small companies appear to have been unable or unwilling to use internal resources and relied on external support to a greater extent, with external advice and auditing ranking as the most significant cost elements. The ICAEW (2007) analysis also suggests that the largest companies were more prepared to embed accounting changes to reduce future costs.

Focusing on audit fees paid by EU firms in 2004-2008, Kim *et al.* (2012) find that, on average, these increase 5.44 % more for IFRS-adopting firms than for other firms. They also find that 'the IFRS-related audit fee premium increases with the increase in audit complexity brought about by IFRS adoption, and decreases with the improvement in financial reporting quality arising from IFRS adoption'.

Evidence on IFRS adoption costs is also available from outside the EU, e.g. Canada, where IFRS came into effect on 1 January 2011. Based on a survey of Canadian IFRS preparers,

CFERF (2013) shows the estimated costs of preparing the first set of IFRS accounts to have varied by company as follows:

- for small companies, 0.17% of revenue for the lowest spending company and about 1% for the highest spender;
- for medium-sized companies, between 0.05% and 0.26% of revenue; and
- for large companies, 0.006-0.08% of revenue.

Of the surveyed companies, 47% suggested that the recurring costs of financial reporting were about the same under IFRS as before, 38% reported higher costs and 15% reported cost savings after the transition to IFRS.

The cost estimates are difficult to compare directly with the benefits of IFRS adoption. In particular, the benefits are by nature hard to monetise. In the literature, estimated positive impacts are not expressed in monetary terms and are difficult to aggregate. Also, the above cost estimates reflect private costs to IFRS preparers on a per-firm basis, whereas many of the benefits are wider in scope and accrue to other firms, analysts, investors and the wider economy. Moreover, some of the costs for IFRS preparers translate directly into additional revenues for firms advising on and auditing financial reporting.

Brüggemann *et al.* (2012) and others observe that there is a need for further research into the overall costs and benefits of mandatory IFRS adoption. This includes not just the direct costs of IFRS adoption but also potential unintended consequences.

The fact that a number of firms have voluntarily adopted IFRS (including listed EU firms prior to 2005 and unlisted firms since) suggests that these firms expected the benefits of adoption to outweigh the costs. The literature shows that voluntary adopters are generally larger, are more likely to have international cross-listings, rely more on outside funding, have geographically dispersed operations and more diffuse ownership, and are more likely to be based in countries with low-quality local reporting (see, for example, Leuz (2003), Cuijpers and Buijink (2005), Christensen *et al.* (2008) and Andre *et al.* (2012)).⁸³

Conversely, this evidence suggests that it is not obvious that all firms benefit from using IFRS and for at least some of the mandatory IFRS adopters the (private) costs probably exceeded the (private) benefits. However, mandating IFRS adoption for these firms can still be justified if adoption delivers net benefits from a wider societal point of view. Also, to the extent that standardisation delivers positive comparability effects, the private benefits accruing to individual firms increases as more companies adopt IFRS.

It should be noted that, even if they do not explicitly study the costs of IFRS adoption, some of the empirical studies reviewed above are in fact examining benefits net of costs. This applies in particular to those testing for capital market effects (including studies on stock market reactions and on the relationship between stock prices, earnings and book value of equity), which often reflect net benefits.

⁸³ There are many other studies on voluntary adoption and the use of IFRS by non-listed firms which are beyond the scope of this literature review.

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Appendix 6

An overview of the literature on IFRS and the financial crisis

This annex provides a summary of the literature on the performance of IFRS in the context of the financial crisis. This literature is not so much about the impact of mandatory IFRS adoption *per se*, but about the consequences of specific standards (e.g. IAS 39 — Financial instruments: recognition and measurement) and shortcomings in disclosure requirements in specific areas, focusing on financial institutions required to report under IFRS. In other words, the literature does not compare the performance of IFRS with the counterfactual of continued application of local GAAP, but rather identifies and assesses specific areas where reporting requirements have been inadequate and standards could be improved from a prudential regulation and financial stability perspective.

1. Fair value accounting

The literature has focused most on the role of fair value accounting,⁸⁴ with the academic debate on this topic starting long before the financial crisis. The mandatory adoption of IFRS in 2005 further fuelled the debate as the standards are perceived to rely significantly on fair value measurement compared with the previous systems of national standards.⁸⁵ US GAAP also rely on fair value accounting, and much of the relevant empirical literature is in fact US-based.

At the general level, proponents argue that fair values for assets or liabilities reflect current market conditions and hence provide timely information, which is beneficial for transparency and encourages prompt corrective action. Opponents claim that fair value is not relevant and potentially misleading for assets that are held for a long period; that prices could be distorted by market inefficiencies (in particular in periods of low liquidity) and that fair value accounting makes the financial system more procyclical.⁸⁶ In particular, fair value accounting has been blamed for exacerbating the severity of the financial crisis.

As summarised in Laux and Leuz (2009), there are essentially two arguments why fair value accounting may contribute to procyclicality, one in the boom and one in the bust: The first argument is that fair value accounting may allow banks to increase their leverage in booms when asset values are rising (and *vice versa* in recessions), which makes the financial system more vulnerable and financial crises more severe (e.g. Persaud (2008), Plantin *et al.* (2008a)).

The second argument is that fair value accounting can provoke contagion in financial markets. The basic idea is that fair value adjustments reduce regulatory capital so that banks may have to sell assets at a price below the fundamental value and that the price from these forced sales becomes relevant to other institutions required to mark their assets to market prices (e.g. Allen and Carletti (2008), Plantin *et al.* (2008b)). Other academics (e.g. Sapra (2009), Wallison

⁸⁴ Fair value accounting is a market-based measurement, with fair value reflecting ‘the price that would be received to sell an asset or incur a liability in an orderly transaction between market participants at the measurement date’ (see IAS 39).

⁸⁵ Note, however, that fair value accounting is not new and was also applied in some national frameworks. A history on the use of market values is provided, for example, in Richard (2004).

⁸⁶ For a discussion of pros and cons and further references, see *inter alia* ECB (2004), Barth (2004), *Banque de France* (2008), Ryan (2008), Veron (2008), Laux and Leuz (2009, 2010), Haldane (2010) and Laux (2012). The focus is on literature in English, but there are other studies, e.g. Marteau and Morand (2009).

(2008) and Whalen (2008)) have also come to the conclusion that fair value accounting has had procyclical effects in the context of the crisis.

As explained in Laux and Leuz (2009, 2010), these arguments are based on theoretical models that assume full fair value accounting, i.e. with all assets valued at market prices ('mark-to-market'). In practice, IFRS (and US GAAP) do not stipulate fair value accounting for all assets, so the more relevant question is to what extent fair value accounting — as applied in practice — contributed to the problems of the financial crisis.

There is little empirical evidence to date to substantiate significant adverse effects created by fair value accounting in the crisis. Indeed, proponents of fair value accounting argue that it played the role of the 'messenger that is now being shot' (see Turner (2008), Veron (2008), Andre *et al.* (2009)).

A number of empirical observations and arguments have been put forward to counter claims that fair value accounting played a significant negative role in the crisis.⁸⁷ The first argument relates to the above point that accounting standards are not full fair value rules. IAS 39 (and its successor IFRS 9)⁸⁸ as well as the relevant provisions under US GAAP are based on a mixed measurement model: some financial instruments are measured at fair value, but others are measured at cost. The classification depends on the type of instrument (e.g. all derivatives are measured at fair value) and the reason for holding the instrument; for example, any instrument held for trading is measured at fair value through the profit-and-loss account, but an instrument such as a bond that is held to maturity is measured at cost, as are most loans. A further category ('available for sale') required assets to be measured at fair value but movements in fair value were reported through other comprehensive income rather than through the profit-and-loss account.

Any adverse effect of fair value adjustments in the crisis can apply only to those bank assets that were measured at fair value or for which fair value measurement was applied when determining impairment. Laux and Leuz (2010) report that, prior to the crisis, US banks held approximately 50% of their assets in loans and leases, which are not subject to fair value accounting and are not impaired to fair value. In an earlier study, Laux and Leuz (2009) argue that banks that focus on traditional lending business can largely avoid the effects of fair value accounting on their balance sheet or income statement. They report that, for 31 US bank holding companies that failed or were seized by US bank regulators between January 2007 and July 2009, loans accounted for roughly three-quarters of the balance sheets and trading assets essentially played no role.⁸⁹

Similar evidence on European banks is available in Georgescu and Laux (2013), who show that assets measured at amortised cost (i.e. loans and held-to-maturity assets) on average amounted to more than 50% (75%) for the large (small) banks in the sample. They also document that several key German financial institutions that failed during the crisis, or were rescued, did not apply fair value accounting prior to the crisis.

⁸⁷ See Barth and Landsman (2010), Laux and Leuz (2009, 2010) and Laux (2012).

⁸⁸ See Box 1.

⁸⁹ Several financial institutions with very large trading portfolios had to recognise big losses in the crisis. However, as pointed out in Laux (2012), for trading assets, the principle that unrealised losses should be recognised is broadly accepted and comparable impairment rules were applied in many countries prior to the introduction of fair value accounting.

Laux and Leuz (2010) point out that under current rules banks are not required to use market prices that are distorted by illiquidity, but can use valuation models to derive fair values.⁹⁰ The authors show that US banks used this option increasingly as the financial crisis deepened. Also, the ‘problem assets’ of this crisis (mortgage-related assets such as collateralised mortgage and debt obligations and asset-backed securities) were largely marked to model rather than to market prices (Laux 2012).

A related argument is that the impact of fair value accounting in the crisis was limited because of the existence of ‘prudential filters’ applied by bank regulators (e.g. Barth and Landsman (2010)). Although bank regulators use information in bank financial statements as inputs to the calculation of regulatory capital measures, they make a variety of adjustments to the general-purpose accounting information used in prudential supervision. In particular, they neutralise some fair value gains and losses for regulatory purposes. As a result, not all fair value changes enter the computation of banks’ regulatory capital, and hence not all fair value losses reduce banks’ regulatory capital. Laux and Leuz (2010) conclude that ‘these provisions act as safeguards, making downward spirals and contagion less likely to occur as compared to a regime of pure mark-to-market accounting’.

Several authors take the argument further, pointing out that bank regulators and accounting standard setters have different objectives and that it is questionable whether accounting standards should be used to meet prudential regulation objectives, especially if this means compromising on transparency. For example, Barth and Landsman (2010) argue that ‘although it makes sense from the standpoint of efficiency for accounting standard setters and bank regulators to find some common ground, it is the responsibility of bank regulators, not accounting standard setters, to determine how best to ensure the stability of the financial system’.

During the crisis, the use of fair value accounting was further relaxed in October 2008, when the IASB made amendments to IAS 39 that allowed financial institutions to reclassify financial assets into categories that require measurement at amortised cost. A number of studies show that European banks took up this option. Kholmy and Ernstberger (2010) document that the use of this option was influenced by bank-specific factors (such as size and profitability) and that banks using this option faced higher bid-ask spreads after disclosing their decision. Bischof *et al.* (2010) consider a sample of global banks reporting under IFRS and show that over a third, in particular banks close to regulatory capital requirements and most at risk of supervisory intervention, chose to reclassify assets. Similarly, Fiechter (2011) finds that around a third of a sample of 219 European banks took up the reclassification option and that reclassifying banks avoided substantial fair value losses and reported significantly higher levels of profitability, book value of equity and regulatory capital. In another study, Jarolim and Öppinger (2012) show that the reclassification option was used extensively by some banks which otherwise could have run into substantial problems had the rules not been amended at the peak of the crisis.

As regards the actual impact of fair value impairments, Shaffer (2010) estimates that the decline in regulatory (Tier 1) capital due to fair value impairments in available-for-sale and held-to-maturity securities was around 2.1% for the 14 largest US banks. In contrast, the decline arising from impairments of loans (based on an incurred loss model rather than fair value) averaged 15.6%. Similarly, Badertscher *et al.* (2012) show that bad debt expenses played a greater role than fair value losses in the reduction of US banks’ regulatory capital

⁹⁰ Also, IFRS allow deviations from market prices in situations when contagion is likely to occur. The standards explicitly state that market prices from forced sales should not be used, which protects against negative spillovers from distressed banks.

during the crisis. Also, the authors find no evidence that banks, including those with the lowest regulatory capital, sold higher amounts of securities during the crisis than before.

De Haan and Van den End (2011) conclude that if ‘fire sales’ did take place, funding constraints probably played more of a role than the risk of violating regulatory capital constraints due to fair value losses. Other studies also point out that banks have little incentive to engage in ‘fire sales’ in the first place and instead prefer to hold illiquid assets rather than sell them in distressed markets (e.g. Diamond and Rajan (2011)).

Citing evidence from other empirical studies, Laux (2012) concludes that the evidence does not support the claim that banks faced regulatory constraints due to large fair value losses or that accounting-induced constraints resulted in significant ‘fire sales’.

Overall, Laux and Leuz (2010) conclude that ‘it is unlikely that fair value accounting contributed to the severity of the financial crisis in a major way, either by increasing banks’ leverage in the boom or by substantially amplifying banks’ problems in the downturn’. However, the authors also explain that the analysis should not be viewed as advocating extended use of fair values. After all, it is possible that the role of fair value accounting was limited precisely because its relevance for banks’ balance sheets and capital requirements was limited.

It is generally acknowledged that, in times of market instability, it may be more difficult to estimate fair value and this could reduce the relevance and reliability of fair value accounting. Against this, a number of academics point to the lack of a good alternative. Barth and Landsman (2010) state that historical cost lacks relevance and other estimates of current value lack the discipline on the estimation process and objectivity of fair value measurement. Heaton *et al.* (2010) highlight that fair values best represent the economic value of assets because they include future expectations about asset prices and include all available private information in the determination of asset prices.

Similarly, Veron (2008) argues that there is no credible alternative to the standards currently in force. Reference to historical prices at the time would provide less comparable and much less relevant information. Moreover, historical cost accounting would reduce the information available to investors, who need a measure of a company’s financial position at a given point in time. Historical cost accounting would in many cases also provide firms with tools to manage earnings and skew reporting in a way which fair value accounting does not permit, at least to the same degree.

Plantin *et al.* (2008a) explain that there are trade-offs, which also depend on the type of asset: for junior assets trading in liquid markets (such as traded stocks) marking-to-market is superior to historical cost, but for senior, long-lived and illiquid assets and liabilities (such as bank loans and insurance liabilities) the harm caused by distortions can outweigh the benefits. Presenting empirical evidence on professional investors’ views of different valuation bases, Gassen and Schwedler (2010) find that professional investors prefer fair value for liquid non-operating assets when it is based on mark-to-market (rather than mark-to-model), but not for non-liquid operating assets.

Haldane (2010) addresses the common argument that failure of the efficient market hypothesis implies failure of fair value accounting. Instead, he shows that the failure of efficient markets can cause both historical cost and fair value accounting to deliver distorted signals of value and that there are circumstances in which fair values give a more accurate and prudent measure of valuation than historical cost accounting.

There is a separate body of literature analysing the relevance of fair value accounting for investors. From a review of the (pre-crisis) literature, Landsman (2007) concludes that there is

substantial evidence that recognised and disclosed fair values are relevant to investors and reliable enough to be reflected in share prices. There is also direct survey evidence of the relevance of fair value for investors. For example, in a 2008 CFA Institute survey, 79% of the investment professionals who responded said that fair value requirements improved financial institutions' transparency and investors' understanding of the risk profile of these institutions.⁹¹

In the 2013 public consultation on the European Commission's green paper on *Long-term financing*,⁹² many respondents supported the use of fair values, although dissenting voices criticised it for introducing market volatility in financial reports and therefore favouring short-termist behaviour.

Blankespoor *et al.* (2013) show that, had US banks' leverage been determined on the basis of fair value information, such leverage measures would have made it easier to gauge credit risk and the likelihood of bank failures in distressed economic environments. In other words, investors would be better served by company analyses incorporating fair value information. Focusing on loans, Cantrell *et al.* (2011) show that historical loan costs are a better predictor of credit losses than disclosed loan fair values, partly due to a lack of scrutiny of the latter. Laux (2012) argues that the objective should be to improve the reliability of fair values rather than giving up on using important information for financial reporting. He further notes that fair value accounting is no panacea and that it can be important to provide investors with additional information by including historical costs and details as to how the fair values are derived.

Laux and Leuz (2010) suggest that, even if assets had been measured at historical cost, outside investors would have been concerned about the current value of assets. The authors argue that fair value is relevant even for assets held with a long-term perspective, as investors might want to assess a bank's exposure to certain risks or doubt that the bank could hold the assets to maturity. Also, current market values — and not historical costs — are important when a bank has to roll over short-term funds or raise new capital. Funding constraints were critical in this crisis and it is reasonable to assume that banks would have faced these irrespective of the accounting regime. In fact, withholding information may increase the opacity of banks' balance sheets and increase investor uncertainty. Amel-Zadeh and Meeks (2013) further highlight the importance of funding constraints, recalling that Northern Rock and Lehman Brothers were both balance-sheet solvent, even on a fair value basis. The authors further show that mark-to-market accounting has had only a very limited influence on the perceived failure risk of banks.

Related research is also available on the insurance industry. For example, Ellul *et al.* (2013) carry out an empirical analysis of the role that fair value played in the US insurance industry, showing that insurers in general are more prudent when using fair value accounting because they take precautionary measures (e.g. building up capital buffers) to prevent problems in times of crisis.

Laux (2012) points out that the very rules that can act as buffers against procyclicality (prudential filters) allowed banks to hold on to troubled assets without raising additional capital and provided them with incentives to downplay impairments as temporary to avoid an impact on regulatory capital. Indeed, the fundamental problem with fair value accounting and

⁹¹ See http://www.cfainstitute.org/ethics/Documents/fair_value_and_long_term_investing_in_europe.pdf. This also documents that 60% of respondents to a 2009 survey on the IFRS update of its financial instrument accounting requirements (IFRS 9) supported fair value for all financial instruments.

⁹² COM(2013) 150 final.

capital regulation ‘might not have been too much, but too little fair value accounting or too little impairment’. Other authors also note that shielding regulatory capital from write-downs can be problematic if it means that banks disregard losses or do not take prompt corrective action. In this sense, disclosing less information on potential losses (by reporting at amortised cost) would only have made matters worse.⁹³ It can also distort incentives *ex ante*. In this context, Laux and Leuz (2009) argue that, while most of the debate has focused on fair value accounting in the crisis, it seems equally important to enquire as to the extent to which historical cost accounting (e.g. for loans) may have played a role (discussed next).

2. Other aspects of accounting

While Barth and Landsman (2010) conclude that fair value accounting played little or no role in the financial crisis, they argue that other aspects of accounting were more important but received less attention in the academic literature. In particular, the authors point to the fact that transparency of information on asset securitisations and derivatives tended to be insufficient for investors to assess properly the values and riskiness of bank assets and liabilities. Moreover, loan loss provisioning (and impairment based on an incurred loss model rather than fair values) may have contributed to the financial crisis through its effects on procyclicality and the effectiveness of market discipline.

This literature points to the need to improve specific aspects of IFRS (see Box 4 for an overview of measures taken in response to the crisis). However, it does not indicate a cost of IFRS adoption compared with the counterfactual of the previous national regimes, which typically required even less disclosure in the above areas. For the purpose of evaluating mandatory IFRS adoption in Europe, the literature is therefore less relevant and only reviewed briefly.

As regards **loan loss provisioning**, IFRS (and US GAAP) followed an incurred loss model, whereby banks do not have to recognise a provision for a loan loss until there is objective evidence that the loan has been impaired.⁹⁴ This has triggered concerns that loan impairments are recognised too late, thereby contributing to the procyclicality of loan supply (e.g. Turner (2010)).⁹⁵

As explained in Barth and Landsman (2010), the incurred loss model is not as procyclical as some alternatives (including fair value), because it delays loss recognition and is procyclical only during downturns, as loans are written down but not up. However, the authors argue that delayed and asymmetrical recognition of losses deprives the markets of timely information on the value of bank assets.⁹⁶

There is evidence that banks usually wait ‘too long’ before increasing loan loss provisions. This exacerbates the impact of business cycles on banks’ capital ratios (e.g. Laeven and Majnoni (2003)). Also, Beatty and Liao (2011) document that banks that delay loss

⁹³ See Securities and Exchange Commission (2008) for more details, specifically in relation to mark-to-market accounting.

⁹⁴ There are many studies on loan loss provisioning, but these are beyond the scope of this literature review and not directly relevant to the evaluation of the impact of IFRS.

⁹⁵ Loan loss provisioning by banks during the crisis amplified procyclicality if the recognition of loan losses requires banks to take action — particularly to sell assets — to meet regulatory capital requirements.

⁹⁶ Individual countries have taken steps to overcome the limitations of the incurred loss model of loan loss provisioning. For example, Spain adopted dynamic loan loss provisioning in 2000 in order to reduce procyclical effects (Balla and McKenna (2009)). The impact of dynamic loan loss provisioning is examined by Pérez *et al.* (2008, 2010), Illueca *et al.* (2012), Jiménez *et al.* (2012) and others.

recognition more tend to reduce lending more during recessions than those that delay less, and that their lending decisions during recessions are more sensitive to capital levels. This suggests that delays in expected loss recognition increase the procyclicality of bank lending. Bushman and Williams (2013) show that delayed loss recognition by banks can increase both capital adequacy concerns and financing frictions when they raise new equity during downturns.

Research in this area seems to be evolving and to date there has been limited work on EU banks specifically. Regarding the impact of mandatory IFRS adoption, Leventis *et al.* (2011) study 91 EU listed banks in 1999-2008 and report that earnings management using loan loss provisions was significant over the entire period. However, it is lower after IFRS adoption in 2005. The authors conclude that implementation of IFRS in the EU has improved the banks' earnings quality by mitigating the tendency of managers of listed commercial banks to engage in earnings management using loan loss provisions.

Gebhardt and Novotny-Farkas (2011) look at loan loss provisions for banks in 12 European

countries. They conclude that the tighter loan loss provisioning rules in IAS 39 significantly reduce discretionary behaviour compared to before, as measured by less income smoothing. However, they also find that banks recognise loan losses in a less timely manner, delaying recognition until it is too late and then recognising accumulated losses over more than one period. The authors argue that this effect is likely to be more pronounced during economic downturns.

A recent (2014) CFA Institute report argues that evidence of lagging recognition of loan impairments is particularly pronounced for EU banks and that this leads to overstated reported balance sheets relative to the capital market valuation of these balance sheets.

Concerns about loan loss provisioning prompted the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to replace their existing incurred loss methods of loan loss provisioning with a more forward-looking expected loss method. The IASB published its new requirements (IFRS 9) in July 2014.

As regards **risk disclosures**, a number of authors highlight that insufficient disclosure and lack of transparency were key concerns during the crisis (e.g. Freixas and Laux, 2012). Barth and Landsman (2010) focus specifically on disclosures in relation to asset securitisations and derivatives. For asset securitisations, the authors explain that investors had difficulty evaluating not only the quality of loans that banks originated and securitised, but also the fair value and risk of the securitised assets after the securitisation transaction. As a result, investors may not have exercised appropriate market discipline when banks originated loans and after the loans were securitised.

In the wake of the crisis, the IASB (as well as the FASB) have taken steps to improve financial reporting requirements (see Box 1), also in relation to asset securitisations, including fair values of securitised assets and liabilities and qualitative and quantitative information as to a bank's continuing involvement with the securitised assets, to enable market participants to assess the risk related to the assets to which the bank is exposed.

For derivatives, investors did not have sufficient information to provide market discipline by pricing appropriately the derivatives and equities of firms engaging in derivative contracts (Barth and Landsman (2010)). However, in the context of the evaluation of mandatory IFRS

adoption, it should be noted that IFRS (and US GAAP) requires disclosure of derivative gains and losses, fair values at the end of the reporting period and the purposes for which the derivatives are held. As compared with previous national accounting requirements, the IFRS recognition and measurement standards for derivatives greatly improved the transparency of banks' financial statements (e.g. Ahmed *et al.* (2006)). Under previous standards, it was often difficult — if not impossible — for investors to assess the value of firms' derivatives positions. In particular, because many derivatives have negligible cost, a cost approach would provide investors with little to no information about the value of the risk of a bank's derivative positions. As with asset securitisations, steps have been taken to improve the transparency of information relating to derivatives in IFRS.

Following the onset of the financial crisis, specific efforts have been made to enhance banks' risk disclosures. For example, in 2012 the Financial Stability Board (FSB) created the Enhanced Disclosure Task Force (EDTF), which 'establishes principles, recommendations and leading practices to enhance bank risk disclosures'. Also, the IASB is currently undertaking a broad-based initiative to explore how disclosures in financial statements can be improved. This is likely to lead to further improvements.⁹⁷

Box 1: IFRS amendments since the crisis

The G20 action plan in response to the financial crisis required the IASB and the FASB to review their standards and enhance accounting requirements, in particular in relation to the recognition, measurement and disclosure of financial instruments and off-balance sheet entities. In 2011 and 2012, the Commission endorsed the following new standards and amendments:

- new standards on consolidation (IFRS 10, 11 and 12) to improve the consolidation of securitisation vehicles and the disclosures on off-balance sheet financing relating to unconsolidated participations in 'structured entities' such as securitisation vehicles or asset-backed financing;
- a new standard on fair value measurement (IFRS 13) providing a single definition of fair value measurement, enhancing transparency by requiring additional disclosure and offering clearer and more consistent guidance on the application of fair value measurement in inactive markets; and
- amendments (to IFRS 7) to improve the disclosure requirements on the transfer of financial assets.

The endorsement process for the new standard applicable to the impairment of financial instruments (IFRS 9, which supersedes IAS 39) is ongoing.

⁹⁷ <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx>.

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Appendix 7

Questionnaire for the public consultation on the Impact of IFRS in the EU

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

Fields marked with * are mandatory.

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

Purpose of the consultation

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

Background

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

Scope of the IAS Regulation

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

Impact of the IAS Regulation

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

Developments since adoption

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

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

Current Commission evaluation

The Commission is evaluating the IAS Regulation to assess:

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

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

Target group(s)

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

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

Consultation period

7 August — 7 November 2014

How to submit your contribution

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

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

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

Reference documents and other, related consultations

- IAS/IFRS standards & Interpretations
- IFRS Foundation
- European Financial Reporting Advisory Group (EFRAG)
- Commission reports on the operation of IFRS

Results of public consultation & next steps

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

Questions

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

Who are you?

1. In what capacity are you completing this questionnaire?

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

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

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

- Industry
- Financial services

1.1.1. Industry — please specify*

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

1.1.1.1. Other industry — please specify*

1.1.2. Financial services — please specify*

- Banking
- Insurance
- Other

1.1.2.1. Other financial services — please specify*

1.2. (As a) company using financial statements for investment or lending purposes — please specify*

- Equity investor
- Debt investor (i.e. you make investment decisions)
- Financial analyst — sell side
- Financial analyst — buy side
- Lending institution
- Other

1.2.1. Other — please specify*

1.4.1. How many organisations do you represent?*

1.4.2. What type of business do you represent?*

- Industry
- Banking
- Insurance

- Other

1.4.2.1. Other — please specify*

1.10. Public authority — please specify (you can tick more than 1 choice below if you are replying on behalf of more than 1 type of organisation)*

- International organisation
- EU institution
- EU agency
- National standard-setter
- National supervisory authority/ regulator
- Other

1.10.1. Are you replying on behalf of national organisations for which you are acting as coordinator? *

- Yes
- No

1.10.1.1 If so, how many? *

1.10.2. Other — please specify*

1.11. Other — please specify*

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

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

- Other

2.1. Other European country — please specify*

2.2. Other — please specify*

3. What is the name of the organisation or authority you represent? If you are part of a group, give the name of the holding company as well.*

3. Please indicate your full name.*

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

- Yes
- No

4.1. Please give your registration number.*

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

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

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

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

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

P.1.1 You may select more than one option in the case of dual or cross-listed companies.*

- in one EU country
- in more than one EU country
- in non-EU countries

P.1.1.1. In non-EU countries — please specify which. *

P.1.2. Other — please specify.*

P.2. What size is your company? *

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

Companies

- **Small companies** fall below at least 2 of the following 3 criteria:

- balance sheet total: EUR 4 000 000
- net turnover: EUR 8 000 000
- average number of employees during the financial year: 50.

- **Medium-sized companies** fall below at least 2 of the following 3 criteria:

- balance sheet total: EUR 20 000 000
- net turnover: EUR 40 000 000
- average number of employees during the financial year: 250.

- **Large companies** exceed at least 2 of the following 3 criteria:

- balance sheet total: EUR 20 000 000
- net turnover: EUR 40 000 000
- average number of employees during the financial year: 250.

Groups

- **Small groups** consist of parent and subsidiary companies to be consolidated and which, on a consolidated basis, fall below at least 2 of the following 3 criteria on the parent company's balance sheet data:

- balance sheet total: EUR 4 000 000
- net turnover: EUR 8 000 000
- average number of employees during the financial year: 50.

- **Medium-sized groups**, on a consolidated basis, fall below at least 2 of the following 3 criteria on the balance sheet data of the parent company:

- balance sheet total: EUR 20 000 000

- (b) net turnover: EUR 40000000
(c) average number of employees during the financial year: 250.
- **Large groups** exceed the limits, on a consolidated basis, of at least 2 of the following 3 criteria on the balance sheet data of the parent company:
- (a) balance sheet total: EUR 20000000
(b) net turnover: EUR 40000000
(c) average number of employees during the financial year: 250.

- small or medium-sized
- large

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

- National
- EU-wide
- International

P.3.1. International — please specify.

P.4. Your company / group:

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

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

P.4.1. is required to apply IFRS — please specify.*

- for consolidation purposes
- for individual annual financial statements
- for both consolidation purposes and individual annual financial statements

P.4.2. applies IFRS on a voluntary basis — please specify.*

- for consolidation purposes
- for individual annual financial statements
- for both consolidation purposes and individual annual financial statements

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

- for consolidated financial statements
- for individual annual financial statements
- for both consolidated and individual annual financial statements

P.5. If you apply IFRS on a voluntary basis, please say why. You may select more than one option.*

- High-quality standards
- You are a subsidiary of a listed group
- You have foreign subsidiaries
- Need to raise capital on global markets
- To be on an equal footing with competitors
- We trade on global markets
- Other

P.5.1 Other — please specify.*

P.5.2. Do you have any comments on any positive or negative impact which this decision may have had?

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

- Not permitted under national law
- No intention of being listed
- No benefits expected from applying IFRS
- Costs would outweigh benefits
- Requirements too complex

- Too difficult to combine with national requirements (e.g. taxation)
- Other
- Never thought about it
- Not applicable

P.6.1 Other — please specify.*

P.6.2. If it were allowed under your national law, would you choose to apply IFRS in your individual annual financial statements or in your consolidated financial statements? *

- Yes
- No
- No opinion
- Not applicable

P.6.2.1. If yes, why? (please tick all that apply)*

- High-quality standards
- Subsidiary of a listed group
- Need to raise capital on global markets
- To be on an equal footing with competitors
- We trade on global markets
- Other

P.6.2.1.1. Other — please specify.*

P.6.2.2. If not, why not? (please tick all that apply)*

- No intention of being listed
- No benefits expected from applying IFRS
- Costs would outweigh benefits
- Requirements too complex
- Too difficult to combine with national requirements (e.g. taxation)
- Other

P.6.2.2.1. Other — please specify.*

P.6.3. Comments.

U.1. As a user, what sectors of industry do you cover? (Please tick all that apply) *

- Industry
- Financial services
- Other

U.1.1. Industry — please specify (you may select more than one option). *

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

U.1.1.1. Other industry — please specify.*

U.1.2. Financial services — please specify (several choices possible).*

- Banking
- Insurance
- Other

U.1.3. Other than industry and financial services — please specify.*

U.2a.I. How international is your investment portfolio for equity.

	Over 70%	30-70%	Under 30%	Don't know
Domestic companies				
Other EU companies				
Non-EU companies				

U.2b.I. How international is your investment portfolio for debt.

	Over 70%	30-70%	Under 30%	Don't know
Domestic companies				
Other EU companies				
Non-EU companies				

U.3.A. If you are an analyst, what type of companies do you cover? Please tick all that apply.*

- Companies in the country where you are established
- Companies based in other EU countries
- Non-EU companies

Relevance of the IAS Regulation

Objective

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

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

- Yes
- No
- No opinion

6.1. Comments

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

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

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

- Yes
- No
- No opinion

7.1. Please explain.

Scope

8. The obligation to use IFRS as set out in the IAS Regulation applies to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU. There are about 7000 such firms.

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

- Yes
- No
- No opinion

8.1. How would you propose it be changed?*

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

8.1.1. Other — please specify.*

8.2. Comments.

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

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

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

- Appropriate
- Too wide
- Too narrow
- No opinion

9.1. Please give details.

Cost-benefit analysis of the IAS Regulation

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

- Yes
- No

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

- Significantly more transparent
- Slightly more transparent
- No change
- Slightly less transparent
- Significantly less transparent
- No opinion

11.1. Please elaborate.

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

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

12.1. Please elaborate.

13. Have financial statements become easier to understand since the introduction of IFRS, compared with the situation before mandatory adoption?*

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

13.1. In which areas?*

13.2. Please elaborate

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

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

14.1. Please elaborate.

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

	Made it a lot easier	Made it easier	No effect	Made it more difficult	Made it a lot more difficult	No opinion
Domestic capital	☐	☐	☐	☐	☐	☐
EU capital other than domestic	☐	☐	☐	☐	☐	☐
Non-EU capital	☐	☐	☐	☐	☐	☐

15.1. Please provide data / examples if available.

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

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

16.1. Please provide data/ examples if available.

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

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

17.1. Please provide data/ examples if available.

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

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

- Yes, to a great extent

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

18.1. Please provide data/ examples if available.

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

- Yes
- No
- No opinion

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

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

19.1.1. Other — please specify.*

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

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

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

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

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

- Significantly increased
- Slightly increased
- No change
- Slightly reduced
- Significantly reduced
- No opinion

P7+U4.1. Please elaborate.

U.5. How have IFRS affected your ability to assess stewardship by management (including understanding companies' current performance, financial position, and generation of cash flows)?*

- Significantly improved
- Slightly improved
- No change
- Slightly worsened
- Significantly worsened
- No opinion

U.6. How have IFRS affected your ability to estimate future cash flows for the companies you are covering?*

- Significantly improved
- Slightly improved
- No change
- Slightly worsened

- Significantly worsened
- No opinion

U.7. In your experience, does the ongoing application of IFRS (excluding costs relating to the initial transition to IFRS) significantly change recurring costs for the analysis and benchmarking of companies — when compared with other costs that your company would otherwise have incurred if IFRS had not been applied?*

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

U.7.1. Please specify any additional costs or savings relating to analysing and benchmarking companies that apply IFRS, by comparison with non-IFRS reporters.*

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

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

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

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

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

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

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

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

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

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

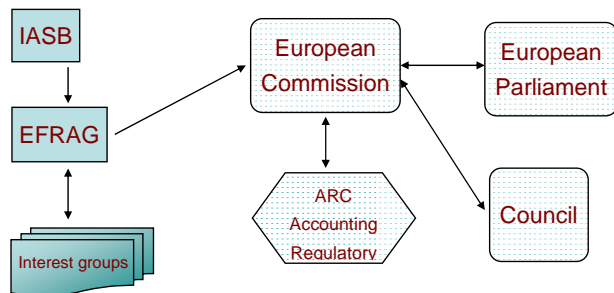
PA.1. How would you rate the administrative and regulatory burden for your authority (e.g. reporting, enforcement) arising from the ongoing application of IFRS (excluding costs relating to the initial transition to IFRS)?

If you are an EU agency, please give only a consolidated EU-level response on behalf of the authorities whose responses you are coordinating. *

- No significant impact
- Some impact
- Heavy burden
- No opinion

Endorsement mechanism & criteria

The EU's IFRS endorsement process



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

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

This process typically takes 8 months.

Endorsement criteria

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

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

In his October 2013 report, Mr Maystadt discussed the possibility of clarifying the 'public good' criterion or adding 2 other criteria as components of the public good, namely that:

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

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

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

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

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

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

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

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

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

22.1. In his October 2013 report Mr Maystadt discussed the possibility of clarifying the ‘public good’ criterion or adding 2 other criteria as components of the public good:

- that any accounting standards adopted should not Jeopardise financial stability
- that they must not hinder the EU’s economic development.

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

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

22.1.1 Other — please specify.*

22.2. Comments.

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

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

- Yes
- No
- No opinion

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

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

- Yes
- No
- No opinion

24.1. If so, please explain the nature of the problem and how it has (or has not) been resolved. *

Quality of IFRS financial statements

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

- Very good
- Good
- Moderate
- Low
- Very low

- No opinion

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

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

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

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

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

	IFRS information is easier to understand than...	IFRS information is neither easier nor more difficult to understand than ...	IFRS information is more difficult to understand than...	No opinion
Information under your local GAAPs	Ⓒ	Ⓒ	Ⓒ	Ⓒ
Information under any other GAAPs	Ⓒ	Ⓒ	Ⓒ	Ⓒ

27.1. What are your local GAAPs?

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

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

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

	IFRS are better than...	IFRS are equivalent to...	IFRS are worse than...	No opinion
Your local GAAPs (as identified under question 27)	Ⓒ	Ⓒ	Ⓒ	Ⓒ
Any other GAAPs (as identified under question 27)	Ⓒ	Ⓒ	Ⓒ	Ⓒ

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

- Often
- Sometimes

- Hardly ever
- Never
- No opinion

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

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

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

30.1. Please explain.*

Enforcement

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

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

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

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

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

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

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

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

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

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

33.1. Please provide any specific relevant examples.

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

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

34.1. If you have identified differences in the way IFRS are applied in different EU countries, to what extent does this limit the transparency and comparability of company financial statements? *

- Much less transparent & comparable

- Slightly less transparent & comparable
- No impact on transparency or comparability
- No opinion

34.1.1. Please detail.

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

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

35.1. Please provide specific details.

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

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

- Yes
- No
- No opinion

36.1. Please explain*

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

- Yes
- No
- No opinion

37.1. If so, by whom? Please detail.*

Consistency of EU law

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

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

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

	No	Yes	To some extent	No opinion
Prudential regulations (banks, insurance companies)	©	©	©	©
Company law	©	©	©	©
Other	©	©	©	©

39.1. Other — please specify*

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

User-friendliness of legislation

All standards are translated into the official EU languages before they are adopted. The Commission also regularly draws up

a consolidated version of the current standards enacted by the EU.

The consolidated version does not include any standards that are not yet in force, but can be applied before the date of entry into force.

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

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

40.1. Need for improvements — please specify*

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

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

41.1. Please give details.

General

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

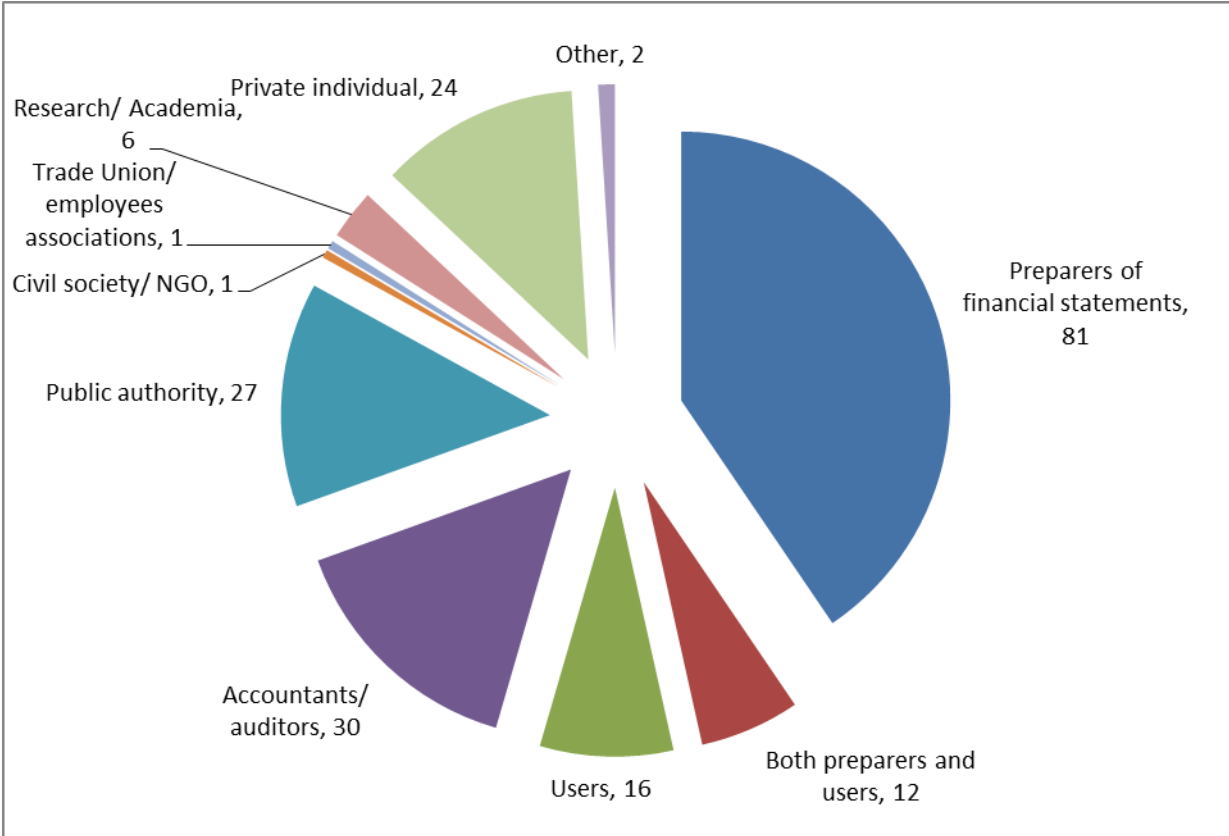
Thank you for your valuable contribution.

Appendix 8

Feedback from the public consultation on the impact of IFRS in the EU (7 August — 7 November 2014)

1. Profiles of the respondents (Q.1–Q.5 and specific questions)

200 respondents commented on the public consultation (four by letter without using the questionnaire). 23 % requested anonymity (in particular 40% of preparers and half the private respondents). A list of respondents and their contribution are published on the Commission’s website.⁹⁸



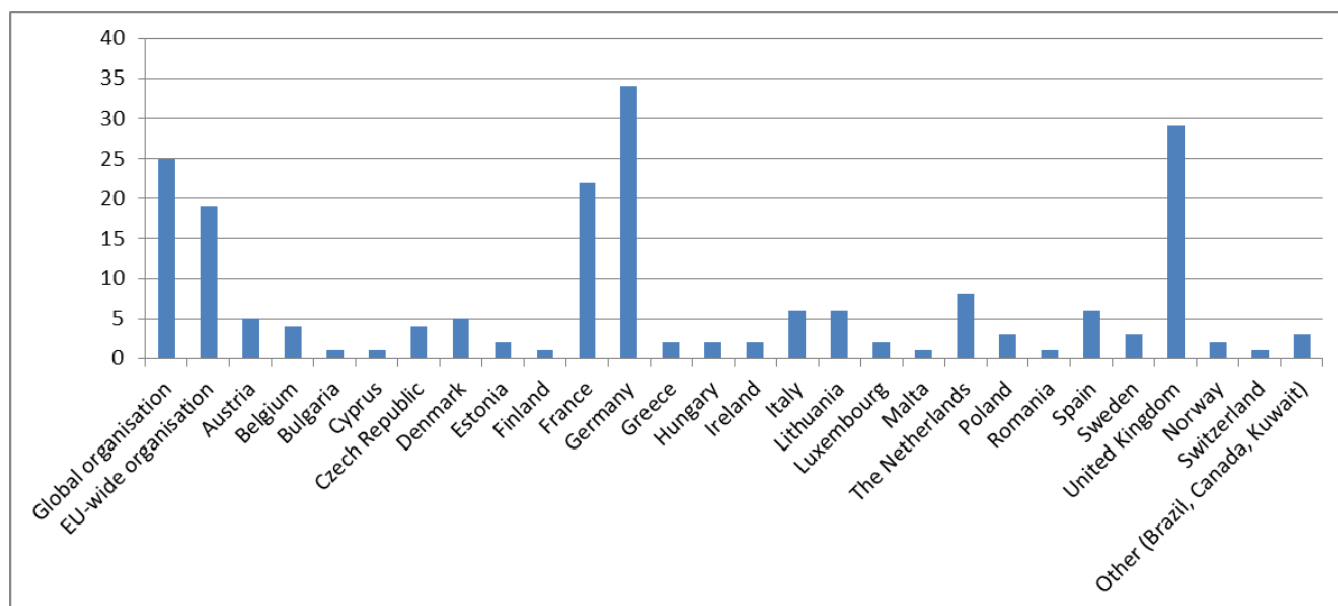
55% of respondents are companies and associations of businesses that prepare and/or use financial statements under IFRS. Two thirds of the individual companies are in industry (with a wide range of sectors represented) and nearly two thirds of the business associations are concerned with financial services. Nearly all the companies were large, listed on regulated markets (two thirds in one Member State alone) and required to apply IFRS for consolidation purposes, with international activities in the EU or in non-EU countries. Only seven non-listed companies responded to the survey.

Among the companies using financial statements (six purely using and 12 also preparing them) and users’ associations (10), industry and financial services interests were represented equally. Users had an even representation of domestic, EU and non-EU portfolios. There were slightly more companies (equity and debt investors) than lending institutions and financial analysts.

⁹⁸ http://ec.europa.eu/internal_market/consultations/2014/ifrs/index_en.htm.

15 % of respondents are accountants or auditors and 14 % Member State authorities.

Annex 1 gives a more detailed breakdown. We note significant participation in the public consultation by respondents from three Member States (Germany, the UK and France) and from global and EU-wide organisations. Respondents' profiles are set out in more detail in Annex 2.



2. Relevance of the IAS Regulation

a. Objective of the IAS Regulation (Q.6 & Q.7)

Q.6. Are the Regulation's objectives still valid today?

Most respondents (close to 95 %) across all categories are of the view that **the objectives of the IAS Regulation are still valid today**. The **growing internationalisation and globalisation of the capital markets** have strengthened the validity of the objectives, i.e. the need to have transparent and internationally comparable financial standards. Transparency and comparability of financial reporting remain crucial to the efficient operation of the EU single market / capital market.

Additional comments made by some respondents

A few respondents noted that the aims of transparency and comparability should not take precedence over the fundamental objective of financial accounts, i.e. to provide a true and fair view supported by the concept of prudence, which is conducive to the European public good and the adequate protection of investors.

Q.7. Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?

Most respondents (close to 85 %) across all categories are of the view that the IAS Regulation has **significantly increased the credibility and acceptance of IFRS worldwide and hence furthered the move to a set of globally accepted high-quality standards**. Since 2002, IFRS have become broadly accepted in more than 100 jurisdictions.

Additional comments made by some respondents

Some respondents were of the view that the importance of IFRS, though growing, was not sufficient, as some major countries (most notably the United States) have not implemented them. While some regret that greater convergence with the USA has not been achieved and/or little progress has been made as regards domestic US entities using IFRS, other respondents noted that many non-US (including European) companies are **allowed to use IFRS to access the US market** (no need to reconcile their IFRS accounts to US GAAP). Some stressed that global convergence should not be pursued at the expense of ensuring that the IFRS standards are of a high quality.

b. Scope of application of the IAS Regulation (Q.8 & Q.9)

Q.8. Is the scope of the Regulation right (consolidated accounts of EU companies listed on regulated markets)?

More than two thirds of respondents indicated that the current scope of the IAS Regulation is appropriate, in combination with Member State options, for providing capital market participants with information. Member State options are seen as allowing Member States to take due account of national specificities (e.g. local company law, in particular profit distribution rules and the safeguard of equity capital, taxation, supervisory requirement for financial companies).

The other third of respondents proposed changes to the scope. Over a third of these would allow any company to opt for reporting under IFRS (i.e. statutory accounts of entities reporting on a consolidated basis, statutory accounts of subsidiaries of groups, large companies). Arguments put forward by preparers included:

- substantial savings for multinational groups and individual subsidiaries;
- benefits if the entity seeks to go public in the future (it can develop the requisite expertise and demonstrate a history of relevant reporting prior to listing and will face less change in the year of the IPO); and
- a level playing-field for large companies.

In particular, banking associations maintain that **an option for banks** to apply IFRS to their individual accounts could be beneficial, because the need to comply with more than one set of accounting standards could hamper the integration of EU financial markets as it imposes an avoidable cost for banks' cross-border operations. They recognise that this would imply alignment of national requirements among Member States (e.g. taxation, legal aspects) and of certain European directives.

Most of the respondents proposing changes acknowledge the need for a **full impact assessment** before any action is taken, giving due consideration to administrative burden relative to the size of a company and the complexity of its business, and taking account of the flexibility needed to address the particular needs of users (e.g. tax, legal or social issues).

Additional comments made by some respondents

- Over 20% of the extensions proposed involve **making IFRS compulsory for the individual annual accounts of listed companies on regulated markets** and more particularly for **individual financial statements of such companies that have no subsidiaries** (mostly suggested by auditors and accountants). This is seen as necessary to providing markets with better comparability and high-quality financial information.

- A few respondents suggest making IFRS compulsory for the consolidated accounts of large non-listed companies, in particular ‘**public interest entities**’ (PIEs as defined in the Accounting Directive 2013/34/EU, Article 2) or entities **that are important for the stability of the economy or the financial system**, irrespective of size. It is thought that this would increase comparability for investors who operate in the private equity or non-regulated markets. Applying IFRS to PIEs could also reduce the reconciliation burden for prudential requirements and would allow for more precise statistical data at EU level.
- For **SMEs or small and medium-sized groups**, comments are very divided on the application of IFRS. Several preparers were of the opinion that there is less of a need for transparency and comparability with these companies, as they are less exposed to international benchmarking and global financing. These types of company have distinct user and stakeholder needs outside the capital markets. Some think that the benefits of applying IFRS would probably not outweigh the costs (possible complexity, efforts, administrative burden and volume of disclosures). One idea put forward was to harmonise national GAAPs for individual and consolidated financial statements further, with the development of a reference or benchmark system for optional use.
- Several respondents pointed to the benefits of a **reduced disclosure approach (i.e. a lighter version of IFRS)**, already tested in some countries, for entities not listed on regulated markets (e.g. subsidiaries) or a differentiation of the level of disclosure by sector (more disclosure on financial instruments for the financial sector, with lighter arrangements for industry). Advantages put forward are reduced operational cost and effort, in particular for small companies considering listing.
- Several respondents suggested widening the scope of the IAS Regulation to companies listed on EU public markets that are **not regulated**. Several accountants’ associations specifically suggested analysing certain **SMEs listed on non-regulated markets** which disclose only limited information pursuant to limitations under the EU Accounting Directive (e.g. small biotech companies with very small turnover, net assets and staff but still potentially representing higher risk investments).
- Other specific proposals were:
 - addressing the need for long-term orientation;
 - increased flexibility for companies issuing bonds and smaller companies considering going public, which would enhance the efficiency and liquidity of European capital markets; and
 - widening the scope of IFRS to companies in regulated sectors, for both consolidated and individual financial statements.
- For some, if there were grounds for increasing the mandatory application of IFRS (e.g. for certain types of entities), this should remain an option for Member States.

Q.9. Are the Member State options appropriate?

More than two thirds of the respondents see the options open to national governments as appropriate.

Additional comments made by some respondents

- A fifth of the respondents, mostly preparers and users, find that options given to Member States are too wide (e.g. need to impose use of IFRS for individual financial statements of

listed companies without subsidiaries and/or allow companies the option, in particular for individual financial statements when the company/group is already preparing consolidated financial statements under IFRS).

- Several expressed concern not only that extending the scope of the IAS Regulation to non-listed companies could add to administrative and financial burdens, but also that certain standards could have an economic and social impact.
- A few (users, in particular in Member States that have taken up the option to apply IFRS to statutory financial statements) mentioned the risk of distributing dividends out of non-realised gains and losses, which could lead to insolvencies. The issue of distribution of dividends and capital maintenance, necessarily related to the concept of prudence, is deemed to be urgent.

c. Cost-benefit analysis (Q.11–Q.20 and eight specific questions)

Q.10. Pre-IFRS experience or experience of the transition to IFRS

82 % of the respondents reported pre-IFRS experience/ experience of the transition process to IFRS and were consequently invited to reply to the questions relating to the cost-benefit analysis.

Q.11. Has the application of IFRS in the EU improved the transparency of companies' financial statements compared to what it was before mandatory adoption?

Most of those who replied to this question (86 %) think that IFRS financial statements are more transparent.

More than half (55 %) think that the improvement is significant.

The results are similar when replies are analysed per type and geographical origin of respondent, with some variations possible.

Additional comments made by some respondents

- IFRS improved transparency through more disclosures and fewer accounting options.
- Other factors could have contributed to greater transparency (e.g. the 2007-2008 financial crisis, the complexity of some business transactions).
- However, the **complexity** of some accounting treatments under IFRS, the need to **exercise judgement** and excessive/irrelevant/bad quality **disclosures** can undermine transparency.
- **Insurers** stressed that the lack of a standard on insurance contracts undermined the transparency of their financial statements.

Q.12. Has the application of IFRS in the EU changed the comparability of companies' financial statements compared to what it was before mandatory adoption?

Most of those who replied to this question think that the introduction of IFRS contributed to greater comparability at national, EU and global level (70 %, 92 % and 79 % respectively).

More than half think that the improvement was significant at EU and global level (69 % and 51 % respectively) and a third think that this was also the case at national level.

Similar results appear when replies are analysed by type and geographical origin of respondent, with some variations possible.

Additional comments made by some respondents

- Views on the impact of IFRS on *comparability at national level* **vary across Member State** and could be attributed to differences between national accounting frameworks before the introduction of IFRS.
- *Comparability at EU level* – although IFRS replaced different national standards, companies are still influenced by local specificities; there is also a trade-off between comparability and industry-specific information.
- *Comparability at global level* is determined by two key factors: the extent to which IFRS are used in the world and the level of convergence between IFRS and US GAAP.
- According to **banking** associations, comparability has not increased in some areas (e.g. statement of comprehensive income), which has prompted national standard setters to produce guidelines and interpretations. However, the banking associations think that interpreting IFRS should be the sole responsibility of IFRIC.

Q.13. Have financial statements prepared under IFRS become easier to understand since the introduction of IFRS, compared to what it was before mandatory adoption?

Two thirds of those who replied to this question (68%) think the introduction of IFRS contributed to greater understandability of financial statements.

Around half (49%) did not express any reservations with regard to this view.

The results are similar when replies are analysed by type or geographical origin of respondent, with some variations possible.

Additional comments made by some respondents

- Financial statements under one set of rules (IFRS) are easier to understand than under several (national) sets of rules. This is of great importance to cross-border investors.
- IFRS are often praised for putting economic substance before legal form.
- Disclosures can help users to understand financial statements, but excessive/irrelevant/bad-quality disclosures can undermine understandability.
- However, understandability gains have been partly offset by the complexity of IFRS, especially in areas such as fair value accounting, derivatives and hedging. Some see analysing IFRS financial statements as requiring expert knowledge. Others pointed out that IFRS had to be complex to allow preparers to portray complex business transactions.

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

Most of those who replied to this question (87%) think that the introduction of IFRS created a level playing-field for companies using them.

More than half (55%) did not make any reservations with regard to this view.

Similar results appear when replies are analysed by type of respondent, with some variations possible.

Additional comments made by some respondents

- IFRS contributed to a level playing-field not only for preparers but also for investors.

- A level playing-field due to a single set of accounting standards does not necessarily mean better rules or better accounting.
- An important factor contributing to a level playing-field is international acceptance of IFRS, especially by the US SEC.
- A truly level playing-field would require further work on issues such as uniform implementation, application and enforcement of IFRS, national taxation and accounting requirements for non-listed companies. ESMA is identified as having a key role to play in harmonising enforcement practices.
- According to insurance companies and associations, the new standard for insurance contracts will be an important factor in achieving a level playing-field between insurers and other companies.

Q.15. Extent to which the application of IFRS in the EU has affected access to capital (listed debt or equity) for issuers in domestic and non-domestic markets being IFRS reporters.

Nearly two thirds of those who replied to this question think that the introduction of IFRS contributed to easier access to capital at EU and global level (63 %). Nearly half think that this was also the case at national level (41 %).

The results are similar when replies are analysed by type of respondent, with some variations possible.

Additional comments made by some respondents

- Local investors might have found IFRS more difficult than their local GAAP. Also, adopting IFRS may represent an obstacle to an initial public offering, especially for SMEs.
- However, accessing foreign capital markets under IFRS is easier than under local GAAPs (e.g. no need to prepare a second set of financial statements under another accounting regime). There has been a significant increase in the number of countries accepting IFRS in recent years.
- Capital providers, including those from outside the EU, understand IFRS better than local GAAPs and are therefore more willing to invest in companies reporting under IFRS.
- Other factors could have influenced conditions under which companies access capital (e.g. Prospectus and Transparency Directives).

Q.16. Has the application of IFRS in the EU impacted directly on the overall cost of capital for companies (distinguishing as far as possible effects of IFRS from other influences)?

Nearly half of the respondents who replied to this question (42 %) did not have a view. Of those who expressed an opinion, a majority (54 %) think that the cost of capital has fallen.

Results vary when replies are analysed by type and geographical origin of respondent. For instance, fewer than half of preparers who expressed an opinion (40 %) think that the cost of capital has fallen.

Additional comments made by some respondents

- It is difficult to isolate the impact of IFRS on the overall cost of capital from other factors such as the overall volume of trade in securities, the credit crunch and certain ECB measures. In addition, the respondents who commented on this issue seemed divided as to whether the impact was positive or negative.
- For some, IFRS reduced the cost of capital by improving investor confidence.
- For others, IFRS increased the cost of capital by making financial information more difficult to produce, audit and explain to investors.
- Being listed in the USA has become less expensive, since foreign companies no longer have to reconcile their financial statements to US GAAP.
- The fact that companies under IFRS can be rated by international ratings agencies can have a positive impact on their cost of capital.
- De-listings from the US capital market suggest that EU capital markets have become more efficient.
- Ever-expanding disclosure requirements, frequent changes to existing standards and the issuing of new standards contribute to increases in the cost of capital. New standards on financial instruments, leases and insurance contracts may further increase this cost.

Q.17. Has the application of IFRS in the EU increased investors' protection (compared with the situation before mandatory adoption), through better information and stewardship by management?

More than two thirds of those who replied to this question (71%) think the introduction of IFRS improved investor protection. Around a third (32%) thought that IFRS improved investor protection to a great extent.

The results are similar when replies are analysed by type and geographical origin of respondent, with some variations possible. Users judged the impact of IFRS on investor protection to be small.

Additional comments made by some respondents

- Better investor protection results largely from improved transparency and comparability, e.g. investors benefit from better reporting on financial instruments and greater risk disclosures.
- Consistent application and enforcement of IFRS are also important factors.
- Investor protection could be reinforced further if IFRS gave a more prominent role to the concepts of stewardship and capital maintenance.
- However, investors are less well served by the complexity of some accounting treatments, disclosure overload and departures from the principles of prudence and reliability in some standards (e.g. no amortisation of goodwill, 'level three' fair value measurement).

Q.18. Has the application of IFRS in the EU contributed to the maintenance of confidence in financial markets, when compared with the likely situation if they had not been introduced?

Two thirds of those who replied (67%) think that the introduction of IFRS helped maintain confidence in financial markets. Around a third (33%) thought that it did so to a great extent.

The results are similar when replies are analysed by type and geographical origin of respondent, with some variations possible. Around 80% of companies that are both preparers and users, and of auditors and accountants, were of the opinion that IFRS contributed to the maintenance of confidence in financial markets.

Additional comments made by some respondents

- Although it is difficult to make comparisons with the situation had IFRS not been introduced, greater transparency, comparability and disclosures under IFRS helped maintain investor confidence.
- However, frequent changes to IFRS might undermine investor confidence. Moreover, IFRS have not solved the problem of management manipulation.
- The impact of fair values and the incurred loss model on investor confidence during the financial crisis remains controversial. For instance, some respondents blamed fair values for aggravating the crisis, while others disagreed. Many pointed out that in the wake of the financial crisis, the IASB has decided to reform accounting for financial instruments.

Q.19. Other benefits from the application of IFRS as required by the Regulation.

More than two thirds of all those who replied (74%) saw other benefits from applying IFRS, such as improved group reporting in terms of process, improved ability to trade/expand internationally, robust accounting framework for preparing financial statements, administrative savings, group audit savings or other (86%, 73%, 48%, 46% and 35%, respectively, of those who saw other benefits).

The results are similar when replies are analysed by type of respondent, with some variations possible.

Additional examples of benefits stemming from the use of IFRS

- Greater credibility of EU companies' financial reports outside the EU.
- Wider (international) job opportunities for finance professionals.
- Wider (international) pool of finance professionals for companies to choose from.
- Higher qualifications among finance professionals.
- Better internal communication in international companies.
- Improved corporate governance and stewardship.
- Easier acquisitions/disposals of companies.
- More interest in accounting issues.

Q.20. On balance and at global level, how do the benefits of applying IFRS compare to any additional costs incurred, compared to what it was before mandatory adoption, bearing in mind the increasing complexity of businesses that accounting needs to portray?

Nearly two thirds of all those who replied (60%) think that the benefits of IFRS exceed the costs associated with them. More than a third (38%) think that the benefits significantly exceed the costs.

The results are similar when replies are analysed by type and geographical origin of respondent, with some variations possible.

Additional comments made by some respondents

- It is easier to quantify costs (e.g. expert staff, training, IT updates, audit fees, etc.) than benefits (transparency, comparability, understandability, level playing-field, etc.).
- The ongoing costs are small compared with the initial implementation costs.
- The cost/benefit ratio for each company depends very much on its individual characteristics (e.g. size, structure, scale of international operations, sources of capital).
- The trade-off between costs and benefits has been adversely affected in recent years by the complexity of some accounting treatments, disclosure overload, frequent changes to existing standards and the issuing of new standards.
- The complexity of some accounting treatments seems to reflect complex transactions. However, the complexity of some transactions should not be used as an excuse for issuing overcomplicated standards.
- The insurance sector is concerned about the implementation costs of the new standard on insurance contracts.

Specific questions for preparers and users

Specific ('U') questions to companies using financial statements were answered only by those companies, i.e. fewer than 20 respondents.

P.7 & U.4. Has the application of IFRS in the EU influenced the need for other non-IFRS-based information ('non-GAAP' information) to explain companies' financial performance, compared with the situation before mandatory adoption?

A total of 55 stakeholders expressed an opinion on this subject. Almost half indicated that the introduction of IFRS has not lead to changes in the need for non-IFRS information. Over 40% believe that the need for non-IFRS information has increased due to introduction of IFRS (31%: increased slightly; 13%: increased significantly). Only 7% are of the view that the need for other non-IFRS-based information has been reduced.

Those who argued there was **no change** mentioned in particular that:

- Non-GAAP information **supplements** the information prepared under IFRS and helps management focus on different aspects of performance and other measures. Therefore, the need for additional measures would have been broadly the same under national GAAP.
- Non-GAAP information remains important because it allows companies to align reporting with their **business model**. Also, for users of financial information, non-GAAP measures

could be a very important source of information (e.g. 'operating profit' provides the user with the management's steering perspective on the results).

- Some suggested that the IFRS should consider how to address **performance reporting**.
- With regard to the insurance sector, the conversion to IFRS involved a limited degree of change, as IFRS 4 allows the use of local GAAP in the calculation and presentation of insurance contract liabilities. Non-GAAP measures have therefore retained their central importance as a way of explaining performance.

The stakeholders who observed an **increased need for non-GAAP information** pointed out *inter alia* that:

- In some cases, the rules-based approach of IFRS and some fair value requirements do not allow the portrayal of the **business's performance** to reflect management perceptions.
- IFRS (in particular IAS 1) contain only minimum requirements for the contents of and (sub)totals in entities' primary financial statements; this leads to the use of non-GAAP performance measures (e.g. "EBIT", "EBITDA", recurring or adjusted EBITDA).
- IFRS 8 allows for a management approach in presentation.

Other situations mentioned that increased the use of non-GAAP measures are:

- In the insurance sector, application of current IFRS rules (IAS 39 on the asset side and IFRS 4 on the liability side), resulting in volatility and mismatches in financial performance.
- A need to reflect performance when counter-intuitive treatments are applied (e.g. accounting treatment for 'own credit risk', revaluation of the provisions on regulated savings/loans in some banks).
- Application of IFRS 11, removal of the proportional consolidation method.
- Implementation of IFRS 15 on revenue recognition in the near future and other upcoming IFRS standards (e.g. on leases).

Some stakeholders noted that the need for non-GAAP measures has been **slightly reduced** by the IFRS requirement as results are presented in a manner consistent with the management of an entity.

U.5. How did IFRS affect users' ability to assess stewardship by management (including understanding companies' current performance, financial position, and generation of cash flows)?

Half the users who expressed a view indicated that IFRS improved their ability to assess stewardship by management. On the other hand, many argued that they made it harder. For about 20%, there was no change.

U.6. How did IFRS affect users' ability to estimate future cash flows for the companies covered?

The majority of users were of the view that IFRS improved their ability to estimate future cash flows for the companies (12%: significantly; 41%: slightly). Many see no effects, while a few argued that IFRS significantly worsened the situation.

U.7. Does the ongoing application of IFRS significantly change users' recurring costs for the analysis and benchmarking of companies when compared with other costs otherwise incurred if IFRS had not been applied?

There are mixed views among stakeholders. The majority of users pointed out that the application of IFRS has reduced recurring costs (27%: slightly; 20%: by a large amount), because users can compare financial statements more quickly thanks to standardised non-ambiguous items (such as those defined in IAS 1). A third see no change, while some observed a small increase in the costs.

P.8. Is the ongoing application of IFRS costing preparers more than compliance with alternative standards would have done?

Two thirds of the respondents who expressed their view on this issue are of the view that the costs have increased (28%: by a large amount; 40%: slightly). The other third is divided equally between those who saw no change and those who observed cost reductions.

Companies that saw costs increased by a large amount (**P.8.1**) cited IT developments (software and hardware), staff, training, advisory services and enforcement costs (e.g. enforcement audits have become frequent and require substantial additional manpower, time and resources). It was mentioned that **the fact that the costs were not 'one-shot' is far more important and cumbersome**. The continuous changes in IFRS impose further accounting and IT costs on the company. In these areas, full processes have to be carried out more than once. In addition, IFRS are getting more and more complex, which leads to higher costs of application.

Preparers could not quantify costs or savings (**P.8.2**), indicating they were difficult and too costly to calculate.

Companies that saw costs reduced by a large amount (**P.8.1**) indicated that the adoption of IFRS meant that **the costly reconciliation with US GAAP**, as required up to 2005, was no longer necessary; this had involved having to monitor US GAAP developments, securing specific expertise on US GAAP and a specific internal control structure to ensure compliance.

P.9. Have the costs of IFRS preparation changed significantly over time for preparers since adoption of IFRS when compared with other costs the company would otherwise have incurred to comply with alternative standards?

Most preparers responded that the costs had increased (22%: by a large amount; 56%: slightly). 14% had not observed a change. Only a few replied that the costs had decreased.

Most companies that saw costs as having increased by a large amount (**P.9.1**) indicated that the **regular amendments** to the IFRS and the **constant need to adapt accounting and IT processes**, especially with major IASB projects, were the main reasons. There is a greater need for **external advisory services** and (the training of) accounting and non-accounting (e.g. HR/treasury) staff to keep up with developments in IFRS, which are seen as more and more frequent. It was also mentioned that new developments increase audit and expertise costs with very limited benefit, as the results are far less clear and transparent, even for the preparers. Examples of the increased need for external valuation and advisory services were business combination, impairment (testing of goodwill and other intangible assets), fair valuation of financial instruments, hedge accounting and tax effects.

The specific case of **insurance** companies was highlighted. The standard is expected to be very complex and to generate very significant investments both for initial transition and

ongoing application. Implementing IFRS 4 phase 2 and IFRS 9 for insurers is expected to cost more than adopting IFRS in 2005 (in particular for mark-to-market valuation for liabilities). To justify these implementation costs, it is critical that the final standard is appropriate (e.g. appropriate basis for the reporting of industry performance to avoid non-GAAP measures).

Preparers could not quantify costs or savings (P.9.2), which they saw as difficult and too costly to calculate.

Specific question for public authorities (P.A1)

P.A1. Rating of the administrative and regulatory burden for the public authorities (e.g. reporting, enforcement) arising from the ongoing application of IFRS (excluding costs relating to initial transition to IFRS)

The ESAs and 10 Member States, through their national authority(ies), expressed an opinion on this question. For three Member States, IFRS has no significant impact; five Member States and the ESAs indicated that ongoing application has some impact; two Member States indicated a heavy burden.

3. Endorsement mechanism and criteria (Q.21–24)

Q.21. Comments on the way that the endorsement process has been or is being conducted

Many respondents provided comments in response to this question. While a great number thought that the existing process works well on the whole, some concerns were expressed.

A small minority of respondents saw no need for an endorsement process in Europe and thought that all standards produced by the IASB should automatically become part of EU law.

Many mentioned the **length of the endorsement process**. While some acknowledged the need for due process, there was concern that the process is too long and/or should not be made any longer. In particular:

- many referred to standards being endorsed near to or (in the case of one set of recent amendments) after the IASB's effective date;
- many referred to regulatory uncertainty and the need for adequate time to implement standards;
- the needs of US registrants to apply IFRS as issued by the IASB were noted frequently;
- some said that the EU should aim to keep up with other areas of the world and not lag behind on endorsement.

The **reform of EFRAG** was referred to frequently, with respondents supporting the changes in the interests of **strengthening Europe's influence** over the IASB. This was seen as important, as standards reflecting EU needs would be more likely to be endorsed smoothly and in a timely fashion.

In terms of the institutions involved, a small number of respondents saw the need for the ARC to be involved at an earlier stage in the process.

Many also referred to Mr Maystadt’s recommendations as regards amending or clarifying the endorsement criteria (see Q.22.1 below).

The existing endorsement process applies **standard by standard**, but many commented that this might not be appropriate in the case of IFRS 9 (financial instruments) and the revisions to IFRS 4 (insurance contracts). Others referred to a need to take explicit account of whether a new standard would improve the quality of financial reporting.

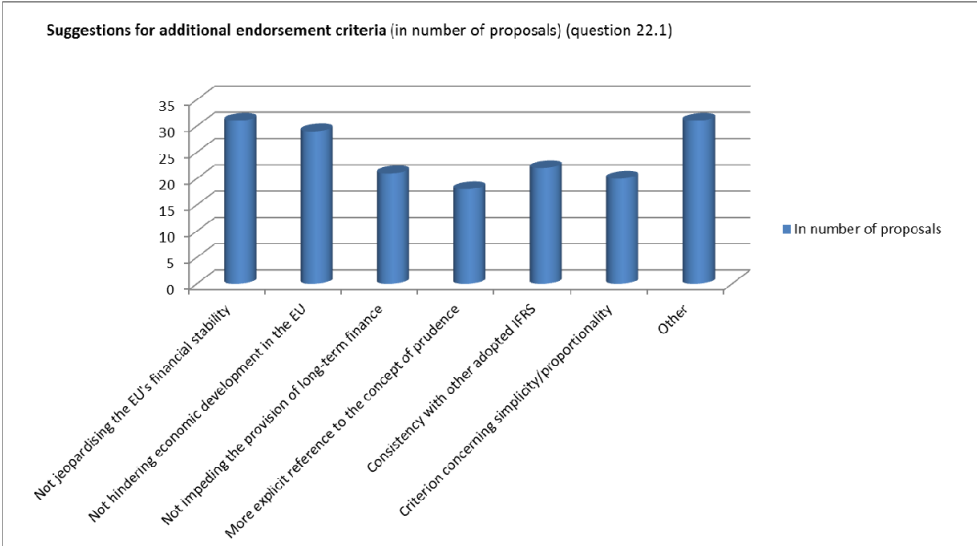
Others saw the process as lacking transparency.

A small number stated that the endorsement process had failed to ensure proper scrutiny of IFRS to ensure a true and fair view, investor protection and the promotion of economic stability.

Q.22. Appropriateness of the endorsement criteria (sufficient, relevant and robust)?

Most respondents (86 %) across all categories and countries find the endorsement criteria appropriate (49 %; yes; 37 %: yes, to some extent).

Q.22.1. Suggestion(s) for additional criteria



Respondents commented on many aspects of this question.

Although many supported the inclusion of financial stability criteria, others saw the role of financial statements as providing the market with transparent information and argued that financial stability should be the **concern of others, such as prudential regulators**.

Others expressed concern about the interpretation of the term ‘European public good’, but also about **how potential new terms would be interpreted**.

A small number suggested that the endorsement criteria should not be strengthened, as there would be **more risk that a standard would not be endorsed**, which would mean that US registrant companies could not comply with IFRS as issued by the IASB.

Some thought that the **concept of prudence** was already covered. A small number argued for prudence to be explicitly included in the criteria, but others disagreed.

Other potential criteria that were mentioned included:

- not jeopardising EU companies' competitiveness (level playing-field with rest of the world);
- not impeding management practices;
- explicit cost-benefit trade-off; and
- the role of the business model (see Q.30).

Q.23. IAS Regulation reflecting appropriately the necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs

Two thirds of respondents expressing an opinion on this question agreed that the Regulation reflects this necessary trade-off appropriately.

Of those that answered 'no' (21 %), some (one Member State in particular) called for greater flexibility and others for less.

Most respondents who want to see more flexibility argue that it should be at least possible to amend standards and that this would be in the European interest. However, many recommend that such powers should be used only in very specific circumstances.

The respondents who cautioned against amending standards referred to European companies losing the benefits of being on a **level playing-field with their overseas competitors** and the lack of comparability that would be introduced. The issues for US registrants were raised, but some suggested that the terms of the **equivalence arrangement with the USA could be renegotiated to allow European companies with a US listing to apply IFRS as endorsed in the EU.**

Some said that the differing application dates of some standards (e.g. IFRS 10 on consolidated financial statements) had given rise to some practical problems.

Further points against introducing more flexibility were that:

- it could be seen as running counter to making IFRS more acceptable worldwide;
- any modification of accounting standards in the EU could undermine investor confidence in reporting, which would impede economic growth; and
- more leeway to modify standards could reduce, rather than increase, the EU's influence.

Q.24. Experience of any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ('carve-out' for IAS 39 on macro-hedging, allowing banks to reflect their risk-management practices in their financial statements)

Only 10% reported significant problems due to such differences, while two thirds did not experience problems.

Some users commented that the carve-out makes comparisons between banks more difficult.

One respondent noted that the carve-out sets a poor precedent and can be used by other jurisdictions as an excuse to change IFRS or cast doubt on its quality and thus suitability for local markets, which undermines IFRS as a consistently applied global standard. Another challenged whether the carve-out is worth having, **as it is used by relatively few banks.**

4. Quality of IFRS financial statements (Q.25–30)

Q.25. Overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS

Most respondents (70-75 %) across all categories were of the view that the quality of financial statements prepared under IFRS was good to very good.

Many stressed that the quality of such statements depends not only on that of accounting standards, but also **on the preparation of the statements, audit and enforcement**. Many also consider that it depends to some extent on the **importance management places on its reporting responsibilities** and whether they are just seeking to comply or making a real effort to provide the highest quality information.

Many believe that there is still **room for improvement**, particularly as regards the **volume and appropriateness of disclosures**. There is an overload of information in the notes to the statements, the quality of which is often affected by too much immaterial information being reported. Some are of the view that this is driven partly by the requirements of reporting standards and partly by behaviours of companies who choose to ‘over-disclose’. Some noted that the IASB’s ‘disclosure initiative’ seeks to address longstanding concerns as to the quality of disclosure.

Additional comments made by some respondents

A few respondents are of the view that the IFRS endorsed in the EU have failed to deliver a true and fair view, protect investors and maintain confidence in the financial markets. They believe the failure to deliver a true and fair view is due to the fact that there is no explicit reference to the ultimate goal of capital maintenance nor to prudence in the IAS Regulation. Also, they see the IFRS as having permitted, and even encouraged, an excessive build-up of risk in the banking sector by allowing extensive use of mark-to-market or fair value accounting.

Q.26. Given that firms have complex business models and transactions, rating of financial statements prepared in accordance with IFRS in terms of complexity and understandability

A majority of respondents rate the complexity and understandability of IFRS as **reasonable**.

Many believe that the use of IFRS has increased comparability but also complexity. Many acknowledge that this complexity is not only due to accounting standards but is **inherent in the complexity of business and the transactions** that entities undertake and therefore to some extent unavoidable. Some standards are quite complex, however, and IFRS should remain principles-based. In particular, many believe that overloaded disclosures have increased complexity. Many plead for more suitable and relevant disclosure requirements (see Q.25) and, in some cases, simpler IFRS.

Additional comments made by some respondents

- Some argue for better integration of **business model specificities** in the standards in order to increase the understandability of financial reporting. On the other hand, some argue that being too business-model-specific can make some financial reporting less relevant.

- Some are concerned that the use of mark-to-market and particularly the proportion of realised (versus unrealised) profits have reduced the understandability of financial reporting. In their view, it is difficult to determine truly realised, and therefore distributable, profits.

Q.27. Rating of financial statements prepared using IFRS in terms of complexity and understandability compared with other sets of standards used

Local GAAP

- Preparers are divided as to how IFRS compare with local GAAP. Among those who had an opinion, a slight majority are of the view that IFRS information is easier or is neither easier nor more difficult to understand.
- A majority of users are of the view that IFRS information is neither easier nor more difficult to understand.
- A large majority of national public authorities are of the view that IFRS information is more difficult to understand.
- Most accountants are of the view that IFRS information is easier to understand.

Other GAAP

- The majority of respondents had no opinion on how to rate IFRS information compared with sets of standards other than their local GAAP.

Q.28. Comparison between IFRS and other GAAP in terms of providing a true and fair view of a company's (group's) performance and financial position

Local GAAPs

- Two thirds of respondents expressed an opinion on this question. Most (87 %) see IFRS as **better than or equivalent to their local GAAP** in terms of providing a true and fair view (47 %: better; 40 %: equivalent).
- Reasons varied as to why IFRS were seen to be better, but **completeness** and the level of detailed disclosures were mentioned by some. Others referred to the fact that IFRS has more fair value measurement than local GAAP, making IFRS-based financial reporting more useful.
- One respondent considered IFRS to be worse than local GAAP because they were harder to understand.
- Many noted that IFRS are suitable for large listed companies, whereas local GAAPs serve a different purpose; they saw IFRS and local GAAPs as equivalent but meeting different needs.
- A small minority did not consider IFRS compatible with delivering a true and fair view.

Other GAAPs

- Only a quarter or so of respondents expressed an opinion on this question, with most comparing IFRS with US GAAP. In general, IFRS were seen as better than or equivalent to US GAAP in terms of providing a true and fair view.
- Of those that were positive about IFRS as compared with US GAAP, many explained that IFRS were **more principles-based**.

- However, many dual-listed companies perceived IFRS and US GAAP as equivalent in terms of providing a true and fair view.

Q.29. Need for departures from IFRS under ‘extremely rare circumstances’ (as allowed by IFRS) to reflect the reality of a company’s financial performance and position in a fairer way

As respondents tackled this question in different ways, the overall statistics may not be meaningful. Nevertheless, some thought that practice shows that IFRS are sufficiently flexible to allow companies to give a true and fair view.

A small number explained that IFRS are too restrictive in permitting a departure and a small number of other respondents expressed concerns that legal, audit or other constraints make departures almost impossible.

Q.30. Rating of the extent to which IFRS allows companies to reflect companies’ business model in financial statements?

Only two thirds of respondents expressed an opinion on this question. Half of these consider IFRS sufficiently flexible to reflect different business models, as they are principles-based. Many noted that existing standards such as IFRS 8 (operating segments) and the new IFRS 9 (financial instruments) apply a business-model approach.

Of the respondents who would like to see more flexibility in IFRS (a third), many expressed concern as to whether the standard being developed for **insurance** companies will provide sufficient flexibility to reflect insurance companies’ business models.

There were many references to non-GAAP measures in the responses. Some argued that the fact that IFRS are not sufficiently adaptable to different business models gives rise to a need to disclose non-GAAP information, while others suggested that the possibility of providing non-GAAP information makes up for any lack of flexibility in IFRS (see P.7 and U.4).

5. Enforcement (Q.31–37)

Q.31. Are IFRS adequately enforced in respondents’ countries?

20% of respondents had no opinion on this question.

Nearly all respondents who expressed an opinion felt that there were proper mechanisms in place to ensure adequate enforcement of IFRS in their Member State. At the same time, there was a predominant view that enforcement should be clearly separated from standard-setting and interpretation (any issues identified in the course of enforcement should be reported to the IASB/IFRIC for consideration at global level). Enforcement through additional jurisdictional guidance would be to the detriment of global standards.

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

Nearly half of the respondents had no opinion on this question.

Nearly all respondents who expressed an opinion acknowledged that ESMA has an important role in encouraging consistency and coherence in enforcement across the EU and thus broadly supported ESMA’s coordinating activities. However, a vast majority were of the opinion that enforcement decisions should remain with the national enforcement bodies, which were considered best placed to tailor the enforcement approach to the specific requirements of the

national regulatory framework. Also, it was widely recognised that ESMA should not attempt to interpret accounting matters that national enforcers are expected to enforce.

Q.33. Has enforcement of accounting standards in respondents' countries changed with the introduction of IFRS?

The majority of respondents did not express a view on this question. Some did not perceive any difference. Those who felt that enforcement became more difficult with the introduction of IFRS attributed this **to very different factors**, for example:

- an increased level of activity to perform more and deeper enforcement (requiring more resources);
- **increased need for coordination** among various parties;
- **increased complexity of business transactions**;
- the impact of the financial crisis; and
- the fact that the IFRS are principles-based rather than rules-based.

Those who indicated that enforcement became easier with the introduction of IFRS often saw it as stronger and more effective, with proper mechanisms in place that did not exist before.

Q.34. Have national law requirements influenced the application of IFRS in the EU countries?

A third of respondents had no opinion on this question. Most felt that national law requirements had little or no impact on the application of IFRS in their Member State. Certain differences have arisen as a result of legacy reporting on the transition from local GAAP to IFRS, but these should **reduce over time** and on adoption of new IFRS. Inevitably, some differences may remain because levels of enforcement vary between Member States.

Q.35. Do significant differences in enforcement between EU countries or with other jurisdictions, if any, affect respondents in applying IFRS or analysing financial statements?

The majority of respondents were not in a position to say whether potential significant differences in enforcement between EU Member States affected their practice in applying IFRS or analysing financial statements. Those expressing views considered that any such differences would have little or no impact on their application of IFRS. Any significant divergence of application is usually raised with the IFRS Interpretations Committee or the IASB for resolution. Some respondents noted ESMA's growing role in identifying such situations. As a result, the divergence may well be only temporary.

Q.36. Should the IAS Regulation be clarified as regards penalties and enforcement activities?

Most respondents were against any clarification of the IAS Regulation as regards penalties and enforcement activities. The minority that supported the idea of including additional provisions in this area argued that it would make enforcement more effective. ESMA noted that, given the lack of relevant provision in the IAS Regulation, it used non-binding tools in accordance with Article 16 of its Regulation and has recently issued guidelines on the enforcement of financial information.

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

Most respondents did not see a need for more guidance on how to apply the IFRS. In view of the principles-based nature of IFRS and the scope for judgement in the application of some requirements, some would support additional interpretative guidance, which should remain the responsibility of IFRIC. Some believed that IFRIC should be more responsive in addressing issues raised by constituents and act promptly to promote more consistent application of IFRS.

6. Consistency of EU law (Q.38 & Q.39)

Q.38. Assessment of the combined effects of, and the interaction between, different reporting requirements, including prudential ones

Most respondents see interactions between IFRS and other reporting frameworks, in particular prudential requirements, national GAAP, tax reporting and company law. Some consider that interactions are limited.

Most see different reporting frameworks as stemming from different objectives and having different audiences. Many consider that this may add to companies' administrative burden, costs and reconciliation efforts. Most consider that the different objectives are legitimate and only a minority think that the burden is significant, disproportionate or excessive. Some explain that it would be unrealistic to pretend that such varied objectives could be served with a single set of reporting requirements.

Most respondents identify **banking and insurance** as the sectors where interaction between reporting frameworks (in particular, IFRS and prudential regulation) and administrative burden are most significant. Accounting of financial instruments (in particular, impairment aspects) and of insurance contracts are identified as the most significant issues.

As regards banks, some point to a considerable additional administrative burden stemming from **country-by-country reporting** of payments to governments.

Some identify a horizontal overlap between IFRS and national GAAP and tax reporting frameworks.

On the interaction with prudential requirements:

- Some hold the view that, while differences between IFRS and prudential requirements are unavoidable because of the different objectives, efforts should be made to keep them to a minimum. Some explain that IFRS are a more useful basis for prudential regulators than national GAAP. Most consider that IFRS are not, and should not be, designed to be used for prudential purposes.
- Some consider that the IASB and prudential regulators should work together to minimise differences and administrative burden where objectives overlap. Some argue that prudential regulators should refrain from interpreting IFRS. Others warn that alignment efforts should not compromise the usefulness of a report for its own purposes.
- Many respondents consider that interaction should be taken into account in the development of prudential or other regulation.
- Some consider that the administrative burden could be mitigated by using IFRS as a reporting basis, with prudential and other rules adding filters and reconciliation. Some explain that some prudential rules already work like this. Some suggest that embedding IFRS concepts and definitions in legislation could also mitigate the administrative burden.

- Some consider that it would be useful if an authority were responsible for assessing the cumulative administrative burden impacts and work on mitigating them.
- Some hold the view that IFRS should focus on information useful primarily for investors. IFRS rules should not be assessed by the effect they have when used for other (e.g. prudential) objectives.

Q.39. Tensions in the interaction between the IAS Regulation and EU law

As regards prudential regulation

Excluding nearly a third of the respondents with no opinion, most (close to 80%) see at least some tensions in the interaction between the IAS Regulation and prudential regulation, in particular as regards the banking and insurance sectors.

The areas most commonly cited are **valuation of financial instruments, impairment rules and equity definition**.

As with Q.38, most respondents see differences between the IAS Regulation and prudential requirements as stemming from different objectives. Many consider that this may add to banks and insurance companies' administrative burden, costs and reconciliation efforts. Most consider that the different objectives are legitimate.

Additional comments made by some respondents

- Some explain that supervisory reporting takes a macro-economic approach focusing on financial stability, while IFRS takes a micro-economic approach geared to providing a true and fair view.
- Some consider that adding financial stability as a new IFRS adoption criterion in the IAS Regulation would help address the problem. Others are not in favour of including additional adoption criteria in the Regulation.
- Some argue that financial statements based on IFRS are not meant to reflect prudential requirements.
- Others explain that, as IFRS are principles-based and not industry-specific, preparers (and banks in particular) have significant flexibility. As a result, the IFRS principles may not always be applied consistently across preparers, which will affect comparability. It is argued that supervisors could mitigate this problem through prudential requirements.

As regards company law

Around a third of the respondents see at least some tensions in the interaction between the IAS Regulation and company law. Slightly fewer see none and another third have no opinion. The picture varies depending on the national origin of the respondents.

One interpretation may be that the IAS Regulation's interaction with company law across all sectors is not overall perceived to be as significant an issue as that with prudential requirements in the banking and insurance sectors. There is therefore no clear-cut consensus.

Most respondents hold the view that differences between the IAS Regulation and company law stem from different objectives. Many consider that this may add to companies' administrative burden, costs and reconciliation efforts. Most consider that the different objectives are legitimate.

Some hold the view that regulators should study the interaction with a view to minimising inconsistencies, administrative burden and costs.

Dividend distribution and consolidation rules are generally identified as significant areas of interaction.

As regards other regulation

Fewer than 20% of respondents see at least some tensions in the interaction between the IAS Regulation and other regulation. A smaller number see no tension, while most have no opinion.

One interpretation may be that the interaction between the IAS Regulation and other regulation is not perceived as a salient issue overall. Specific aspects mentioned by respondents include tax rules, insolvency rules, general contract law and pension regulation.

7. User-friendliness of legislation (Q.40 & Q.41)

Q.40. Satisfaction with the consolidated version of IFRS standards as adopted by the EU

A third of the respondents who addressed this issue (mainly preparers or preparers/users) are satisfied with the consolidated version. A third do not use it. A few did not know that it was available. A third are not satisfied with its current presentation. Some indicated that the IFRS Foundation's version is more accurate and comprehensive. Dissatisfied stakeholders suggested that the EU consolidated version should be:

- updated more frequently (at least once a year);
- incorporate the *Basis for conclusions* and *Implementation guidance* including *Illustrative examples*, translated into the official languages;
- include standards that allow for early application; and
- be available in user-friendly form online version, with built-in search functions and hyperlinks improving navigation.

Q.41. Satisfaction with the quality of translation of IFRS into EU languages

Around 56% of respondents commented on this issue. Around 30% are not satisfied and the rest are either satisfied (30%) or to some extent satisfied (40%).

The German and, to a lesser extent, French, Spanish, Swedish, Czech and Bulgarian language versions were cited as being particularly in need of improvement. The Danish, Italian, Greek and Lithuanian versions were also cited.

The following main concerns were pointed out:

- in many cases, the translation is inaccurate, misleading and difficult to read. Texts may be difficult to understand due to over-literal translation that does not capture the economic meaning of the original. It was mentioned that it might not be practical to use the translation. Often, respondents rely on the original English texts to understand the standards;
- terminology is not used consistently in the translations, which are often inaccurate when compared with the English version. Differences between the English IASB text and the translations in the Commission regulations cause confusion;
- there are differences between the official language versions of EU regulations and the translations provided by the IASB in some languages. This adds to the confusion; and

- the Commission should involve economic and accounting experts more in the translation process.

8. General (Q.42)

- Several respondents are opposed to making any future amendments and/or carve-outs to IFRS. In other words, they are against creating European IFRS, as this could undermine the comparability element of IFRS that companies consider a key benefit. Several believe that, rather than exploring mechanisms to modify IFRS for use in the EU, the emphasis should be on strengthening Europe's input in discussions with the IASB at an earlier stage in the development of standards.
- Some stakeholders expressed concerns about the constant development of IFRS. One asked the Commission to draw the IASB's attention to the need for a stable set of standards.
- One respondent suggested that further harmonisation and modernisation of GAAP for private entities could help overcome their difficulties in raising cross-border financing in future. The IFRS for SMEs is too closely linked to full IFRS. One option may be to develop an EU reference accounting and reporting scheme for private entities. Another respondent suggested that the EU should discuss ways of harmonising accounting regulations for non-listed entities at EU level. Another considered that small companies listed on regulated markets should have the choice of using IFRS for SMEs or full IFRS, rather than having to use the latter, as at present.
- Some banking associations see a need to take prudential requirements into account when developing new IFRS, but not fundamentally to review the Regulation.
- The insurance industry seems to be broadly supportive of the IFRS, but most of its representatives emphasise that insurance companies' enjoyment of the full benefits of the IAS Regulation largely depends on the IASB's current project on insurance ('IFRS 4').
- One public authority called for discussion of the possibility of endorsing not only the core text of IFRS but also bases for conclusions, implementation guidance and the Framework.
- One public authority called for discussion of the equivalence granted by the EU to the US GAAP, given the imbalance *vis-à-vis* that granted by the United States to IFRS as issued by the IASB (and not IFRS as adopted by the EU), which constrains the adoption process and the sovereignty of the EU.
- Comments are mixed on the endorsement criteria among national competent authorities.

Annex 1

Types of respondent per profile and sector

Profile	Type	Number of respondents	%	Details per category			
Preparers of financial statements	Association of businesses	33		Associations:	All sectors	8	24%
					Industry	3	9%
					Financial services	20	61%
					Other	2	6%
	Company/ Group preparers only	48		Companies:	Industry	37	62%
		81	41%		Financial services	23	38%
Both preparers and users	Companies both preparing and using financial statements	12	6%		Total	60	100%
Users	Company/ Group	6					
	Association	10					
		16	8%				
Accountants/ auditors	Association of accountants & auditors	12					
	Firms	11					
	Public authority regulating auditors	6					
	Other	1					
		30	15%				
Public authority	Public authority	27	14%	EU agencies	3		
				State	1		
				Ministries	3		
				standard setter (NSS)	12		
				National supervisory authority (NSA)/ regulator	3		
				Both NSS/NSA	1		
				Tax	2		
				Statistics	2		
Civil society/ NGO		1	1%				
Trade Union/ employees associations		1	1%				
Research/ Academia		6	3%				
Private individual		24	12%				
Other		2	1%				
Total		200	100%	(196 questionnaires + 4 letters)			

n.b. some of the classifications have been adjusted to ensure greater consistency at European level (e.g. auditors' organisations that are public authorities in certain Member States have been reclassified as accountancy and audit professionals).

Annex 2

Geographical origin of respondents

- Overall

	Answers	Ratio
Global organisation	25	13 %
EU-wide organisation	19	10 %
Austria	5	3 %
Belgium	4	2 %
Bulgaria	1	1 %
Cyprus	1	1 %
Czech Republic	4	2 %
Denmark	5	3 %
Estonia	2	1 %
Finland	1	1 %
France	22	11 %
Germany	34	17 %
Greece	2	1 %
Hungary	2	1 %
Ireland	2	1 %
Italy	6	3 %
Lithuania	6	3 %
Luxembourg	2	1 %
Malta	1	1 %
The Netherlands	8	4 %
Poland	3	2 %
Romania	1	1 %
Spain	6	3 %
Sweden	3	2 %
United Kingdom	29	15 %
Norway	2	1 %
Switzerland	1	1 %
Other (Brazil, Canada, Kuwait)	3	2 %
<i>Total</i>	200	<i>100 %</i>

- Preparers of financial statements

Germany and France are the best-represented countries among preparers of financial statements.

Preparers	Associations of businesses (33)	Preparers (48)	Preparers being also users (12)	Total	Industry	Total
Global organisation	1	5	4	10	Global organisation	3
EU-wide organisation	7	1		8	EU-wide organisation	1
Austria			2	2	Czech Republic	1
Belgium	3			3	Estonia	2
Czech Republic		1		1	France	5
Denmark	3	1		4	Germany	16
Estonia		2		2	Italy	1
Finland	1			1	Spain	1
France	6	7	1	14	Sweden	1
Germany	5	18	3	26	The Netherlands	2
Greece		1		1	United Kingdom	2
Hungary		2		2	Other: Norway	1
Italy	1	1		2	Other: Switzerland	1
Spain	1	2	1	4	Total	37
Sweden		1		1		
The Netherlands	2	2		4	Financial services	Total
United Kingdom	3	3		6	Global organisation	6
Other: Norway		1		1	Austria	2
Other: Switzerland			1	1	Denmark	1
Total	33	48	12	93	France	3
					Germany	5
					Greece	1
					Hungary	2
					Spain	2
					United Kingdom	1
					Total	23

- Users of financial statements

18 companies using financial statements (six users, 12 preparers/users) and 10 users' associations responded to the survey. The UK is the best-represented Member State.

Users	Associations of users	Preparers being also users	Users	Total
Global organisation	2	4		6
EU-wide organisation	2			2
Austria		2		
France	1	1	1	3
Germany	1	3		4
Spain		1		
The Netherlands	1			1
United Kingdom	3		5	8
Switzerland		1		1
Total	10	12	6	28

- Accountants and auditors

Accountants and auditors are spread evenly across over Europe, with many global organisations responding. Associations and public authorities are mostly national professional bodies.

As noted above, some of the classifications have been adjusted to ensure greater consistency at European level (e.g. organisations of auditors that are public authorities in some Member States have been reclassified as accountancy and audit professionals).

Accountants/ auditors	Accounting / audit firm	Association	Public authority	Other	Total
Global organisation	8	2		1	11
EU-wide organisation	1	2			3
Belgium			1		1
Bulgaria		1			1
Cyprus		1			1
Czech Republic			1		1
Denmark		1			1
France	1		1		2
Germany			1		1
Italy		1	1		2
Lithuania		1			1
Poland			1		1
United Kingdom	1	3			4
Total	11	12	6	1	30

- Public authorities

Public authority respondents are also spread evenly across Europe; they include national standard-setters (nearly half) and European supervisory authorities (ESMA, EBA and EIOPA).

Public authorities	EU agency	Ministry (separate from NSS)	National standard- setter (NSS)	National supervisory authority (NSA)/ regulator	Both NSS and NSA	Tax	Statistics	Grand Total
EU-wide organisation	3						1	4
Austria			1					1
Czech Republic			1	1				2
France		1	1					2
Germany		1	1					2
Ireland						1		1
Italy			1					1
Lithuania		1	1	1			1	4
Luxembourg			1					1
Poland			1					1
Romania			1					1
Sweden			1					1
The Netherlands			1					1
United Kingdom		1			1			2
Anonymous EU Member State				1			1	2
Norway			1					1
Grand Total	3	4	12	3	1	2	2	27

- Other respondents

Other respondents are from various backgrounds:

Civil society	
EU wide	1

Trade Unions/ employee ass.	
Austria	1

Research	Total
Austria	1
Germany	1
Spain	1
UK	2
Other: Canada	1
Total	6

Private	Total
Global organisation	1
Belgium	1
France	2
Germany	2
Greece	1
Ireland	1
Italy	1
Luxembourg	1
Malta	1
Other	1
Other: Kuwait	1
Poland	1
Spain	1
Sweden	1
The Netherlands	2
United Kingdom	6
Total	24

Annex 3

List of respondents by category

Companies preparing financial statements

AC CHRISTES & PARTNER GmbH
ACCOR SA
Allianz SE
ALPHA BANK SA
alstria office REIT-AG
Barclays PLC
Bayer AG
BNP PARIBAS
CNP Assurances
Daimler AG
Deutsche Bank AG
Elering AS
EnDes Engineering und Design GmbH, Stuttgart, Holding Company: EnDes Management Holding GmbH, Rorschacherberg, Switzerland
Eurazeo
Legal and General Group plc
Norsk Hydro ASA
ProSiebenSat.1 Media AG
Randstad Holding nv
Royal DSM
Royal Dutch Shell plc
RWE AG
SANOFI
SAP SE
Siemens *Aktiengesellschaft*
SOCIETE GENERALE
The Linde Group
The Swedish Enterprise Accounting Group (SEAG) in the name of Confederation of Swedish Enterprise.
Unilever PLC / Unilever N.V.
20 anonymous

Companies preparing and using financial statements

AXA
Banco Bilbao Vizcaya Argentaria
BANCO DE SABADELL, S.A.
CREDIT AGRICOLE S.A.
HSBC Holdings PLC
Kies und Beton AG, Iffezheim
Nestle S.A.
5 anonymous

Companies using financial statements

Fidelity Worldwide Investment

Invesco Asset Management Limited, Holding company is Invesco Limited
National Association of Pension Funds
Royal London Asset Management (part of Royal London Group)
Société Française des Analystes Financiers (SFAF) [French Society of Financial Analysts]
Western Selection plc

Associations of businesses (preparing financial statements)

ACTEO
Association for Financial Markets in Europe (AFME)
Association of British Insurers (ABI)
Association of German Banks
Assonime
Assuralia
Business Europe
Confederation of Danish Industry (DI)
Confederation of Finnish Industries EK
Confederation of Netherlands Industry and Employers (VNO-NCW)
Danish Bankers Association
Danish Insurance Association (Forsikring & Pension)
DGRV — German Cooperative and Raiffeisen Confederation — reg. assoc. (DGRV — Deutscher Genossenschafts- und Raiffeisenverband e.V.)
Dutch Association of Insurers (*Verbond van Verzekeraars*)
European Association of Cooperative Banks
European Association of Public Banks (EAPB)
European Banking Federation
European Savings and Retail Banking Group (ESBG)
Fédération Bancaire Française
Fédération Française des Sociétés d'Assurances (FFSA)
Fédération nationale de la Mutualité Française
French Association of Large Companies
German Banking Industry Committee
ICISA, International Credit Insurance & Surety Association
Insurance Europe
Leaseurope
MEDEF
Spanish Banking Association (AEB in its Spanish acronym)
The 100 Group of Finance Directors
The European Insurance CFO Forum
The Quoted Companies Alliance
Vereinigung zur Mitwirkung an der Entwicklung des Bilanzrechts für Familiengesellschaften e.V.
Working Group of DAX 30 Chief Accountants

Associations of companies using financial statements

Association française des Sociétés Financières (ASF)
bsi *Bundesverband Sachwerte und Investmentvermögen* e.V. [Real Asset Investment Association]
CFA Institute

Corporate Governance Forum ‘Eumedion’
European association of long-term investors (ELTI)
European Federation of Financial Analysts Societies (EFFAS) — Financial Accounting Commission (professional association representing European analysts and investors).
International Corporate Governance Network (ICGN)
Investment Management Association
The United Kingdom Shareholders’ Association
UK group of organisations: Sarasin & Partners LLP, Royal London Asset Management, Threadneedle Investment Management, GO Investment Management, RPMI Pailpen, USS Investment Management Ltd, London Pension Fund Authority, Local Authority Pension Fund Forum, United Kingdom Shareholders Association

Accountants and auditors

ACCA (the Association of Chartered Certified Accountants)
ASSIREVI — *Associazione Italiana Revisori Contabili*
Baker Tilly UK Audit LLP’
BDO IFR Advisory Limited
Compagnie nationale des commissaires aux comptes (CNCC), France
Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC), Italy
Crowe Horwath International
Deloitte & Associés on behalf of the European Economic Area member firms of Deloitte
Touche Tohmatsu Limited
European Federation of Accountants and Auditors for SMEs, EFAA
Fédération des experts-comptables européens (FEE) [Federation of European Accountants]
FSR — *danske revisorer* [Danish Auditors]
Grant Thornton International Ltd
IFRS Foundation
ICAEW
Institut des Réviseurs d’Entreprises/Instituut van de Bedrijfsrevisoren, Belgium
International Federation of Accountants (www.ifac.org)’
Komora auditorů České republiky
KPMG IFRG Limited, UK, in consultation with KPMG network
Mazars
Organisation under the brand name EY
PricewaterhouseCoopers International Limited
RSM International
The Institute of Certified Public Accountants in Bulgaria
The Institute of Chartered Accountants of Scotland
The National Chamber of Statutory Auditors in Poland (KIBR)
Wirtschaftsprüferkammer (WPK) [German Chamber of Public Accountants]
4 anonymous

Public authorities

Ministry of Public Finance, Romania
Accounting Standards Committee of Germany
Austrian Financial Reporting and Auditing Committee (AFRAC)
Authority of Audit and Accounting, Lithuania

Autorité des normes comptables

UK Department for Business Innovation & Skills (BIS)

Bundesministerium der Justiz und für Verbraucherschutz [German Federal Ministry of Justice and Consumer Protection]

Commission des normes comptables (CNC — Luxembourg)

Czech National Bank.

European Records of IFRS Consolidated Accounts (ERICA) WG, of the European Committee of Central Balance Sheet Data Offices (ECCBSO)

European Banking Authority (EBA)

European Insurance and Occupational Pensions Authority (EIOPA)

Financial Reporting Council UK

Gouvernement de la République française [French Government]

Ministry of Finance, Poland

Ministry of Finance, Lithuania

Ministry of Finance of the Czech Republic

Organismo Italiano di Contabilità (OIC) [Italian standard-setter]

Raad voor de Jaarverslaggeving [Dutch Accounting Standards Board — DASB]

Revenue Commissioners, Ireland

Statistics Lithuania

The Bank of Lithuania

The European Securities and Markets Authority (ESMA), providing a consolidated response on behalf of national securities regulators

The Norwegian Accounting Standards Board (*Norsk RegnskapsStiftelse* - NRS)

The Swedish Financial Reporting Board

2 anonymous

Research

A.C.E. Consulting dba A.C.E. Construction Consulting

CFA Society of the UK.

Institut für Kommunalwissenschaften (IKW), Linz (Austria)

The Financial Accounting and Reporting Special Interest Group (FARSIG), a designated sub-group of the British Accounting and Finance Association (BAFA)

2 anonymous

Trade Unions / employees' representation

Bundesarbeitskammer Österreich

Civil society

Better Finance for all, the European Federation of Financial Services Users

Other

International Swaps and Derivatives Association Inc. (ISDA)

Royal Institution of Chartered Surveyors (RICS)

Private

Anders Persson

Chris Barnard

Claudio Sottoriva

Denise Silva Ferreira Juvenal
Kees Camfferman, VU University Amsterdam
Martien Lubberink
Mohamed Mahmoud Rashdan
Pascale Mourvillier
Private individual working for a French investment bank
Serge Pattyn
Solomon Molho
Una Curtis
12 anonymous

Appendix 9

Composition of the informal Expert Group on the Evaluation of the IAS Regulation

Organisations

1. European Securities and Markets Authority (ESMA)
2. Business Europe
3. VMEBF — German family-owned business group
4. European Banking Federation (EBF)
5. Insurance Europe
6. European Federation of Financial Analysts Societies (EFFAS)
7. Investment Management Association (IMA)
8. Federation of European Accountants (FEE)
9. Association of Chartered Certified Accountants (ACCA)
10. Bruegel
11. European Accounting Association (EAA) — community of accounting scholars and researchers

Member State authorities

1. Accounting Standards Board, Estonia
2. *Autorité des Normes Comptables*, France
3. Accounting Standard Setter Committee (DRSC), Germany
4. CONSOB (financial market regulator), Italy
5. Bank of Spain
6. Accounting Standards Board (BFN), Sweden
7. Financial Reporting Council, UK