

# AGENDA PAPER

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TOPIC Trustee activities – European Commission consultation on Capital Markets Union

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

## Introduction

1. The purpose of this paper is to inform the Advisory Council that the IFRS Foundation has submitted a response to the European Commission's public consultation on its Green Paper *Building a Capital Markets Union*<sup>1</sup>.

## Background

2. One of the priorities of the European Commission under Commission President Jean-Claude Juncker is to develop a Capital Markets Union (CMU) across all 28 Member States of the European Union (EU). While the free movement of capital was enshrined in the Treaty of Rome in 1957 and despite progress that has been made since then, Europe's capital markets remain fragmented along national lines and European businesses remain heavily reliant on bank financing.
3. The objectives of CMU, which is a long-term project, are to:
  - a. improve access to finance for all businesses across Europe and investment projects, in particular start-ups, Small and Medium-sized Entities (SMEs) and long-term projects;
  - b. increase and diversify the sources of funding from investors in the EU and over all the world; and
  - c. make markets work more effectively so that the connections between investors and those who need funding are more efficient and effective, both within Member States and cross-border.

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<sup>1</sup> European Commission (2015) Green Paper *Building a Capital Markets Union* (COM(2015)63) available at: [http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper\\_en.pdf](http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper_en.pdf).

4. The Green Paper, issued in February 2015, represents the first step. It is a wide-ranging document, but includes one question (number 8 in the consultation questionnaire) relating to financial reporting as to whether there is “value in developing a common EU level accounting standard” for small and medium-sized entities (SMEs) listed on certain trading venues (Multilateral Trading Facilities).

### **IFRS Foundation Response**

5. At their April 2015 meeting, the Trustees agreed that the Foundation should submit a response to the Green Paper.
6. The European Commission has asked for responses to be submitted through an online questionnaire and, accordingly, the Foundation has submitted responses to a number of questions (question 8 plus a number of questions on international comparability), together with an accompanying paper<sup>2</sup>.
7. The purpose of the accompanying paper is to provide a perspective from the IFRS Foundation and its standard-setting body, the International Accounting Standards Board (IASB), on the financial reporting implications of the Green Paper.
8. The response and accompanying paper set out the current stance adopted by the IASB, which differentiates the financial reporting requirements for entities not by size, but on the basis of whether or not an entity has public accountability. If an entity has public accountability, it should apply the full suite of IFRS. If it does not, the *IFRS for Small and Medium-sized Entities* (SMEs) developed by the IASB might be used where permitted by jurisdictions. The response also specifies the Foundation’s willingness to co-operate with the European Commission as it considers this issue further.

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<sup>2</sup> The Foundation’s response (both to the questions in the Commission’s questionnaire and the accompanying paper) can be accessed at: <http://www.ifrs.org/Alerts/Governance/Pages/IFRS-response-CMU-May-2015.aspx>.