



30 September 2013

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Dear Mr Maystadt

SHOULD IFRS BE MORE EUROPEAN? MISSION TO REINFORCE THE EU'S CONTRIBUTION TO INTERNATIONAL ACCOUNTING STANDARDS

ICAEW welcomes the opportunity to comment further on efforts to enhance the contribution of the European Union to the development of IFRS, following our meeting with you on 20 June 2013 and our review of your draft recommendations dated 5 September 2013.

ICAEW is a professional membership organisation, acting in the public interest to support over 140,000 chartered accountants around the world. ICAEW believes strongly in the benefits to investors and business of truly international standards, and has been a persistent champion of the creation of a single set of high quality global accounting standards and their application by publicly traded and other companies around the world. Our expertise in this area was reflected in our selection by the European Commission to deliver a comprehensive study in 2007 covering all aspects of first time application of IFRS by European Union member states. In 2008 ICAEW was commissioned by the United Nations to prepare a follow-up report on the UK experience of IFRS implementation.

IFRS in Europe

We support your recognition of the beneficial impact of the IAS Regulation and your conclusion that adoption of IFRS has 'had positive effects in terms of the quality and comparability of financial reporting'.

Your draft report envisages that 'when the European position must be expressed in an official comment letter sent to the IASB, there should be a single European voice'. ICAEW supports the overall objective of better co-ordinating the view of Europe on IFRS developments. However, this should not be at the expense of reducing the richness of the European contribution to the international debate during the development of the standards. It would be helpful if the final report acknowledged that European organisations will continue where appropriate to submit their own views on IFRS proposals directly to the IASB, and that this is in the public interest.

Reforming European structures

ICAEW commends your key conclusions regarding the proposed reform of existing European structures in this area. These establish a sound framework for change. In particular, we welcome your decision to reject the option of transferring the responsibilities of EFRAG to ESMA and instead to build on and improve tried and tested current structures. In our experience, evolutionary change, renewal rather than abolition, is in most circumstances the surest route to effective and lasting institutional transformation.

We set out below our recommendations to help ensure that the revised structure achieves the objectives outlined in your draft report.

- The all-important process for reaching endorsement decisions needs further consideration. The hurdle for a positive vote would be too high if it involves a positive vote under some form of 'qualified majority' arrangement at TEG level plus 'consensus' on the new board. Consensus may well be taken as unanimity; this would not be appropriate for endorsement decisions, where some diversity of views is inevitable.
- The relationship between the new high-level board and the reformed TEG and how the two levels will interact needs to be unambiguous and well understood from the outset. In particular, it should be clear who will represent EFRAG on the IASB's ASAF (we assume that this will be the TEG chair) and that the work of the board should not include routinely revisiting the detailed debates at the technical level over comment letters and endorsement decisions.
- We recommend some modification to the proposed composition of the board - six seats to national standard setters, three to EU public institutions, and just four to the private sector, including preparers, the profession and users. A more equal representation of the three pillars might provide a more balanced representation of European organisations with a demonstrable stake in high quality financial reporting by listed companies. For example, five representatives might be drawn from each of the three pillars. A nominations committee would be advisable to ensure that overall the members of the board have an adequate mix of competencies, experience and nationalities.
- We suggest that a rigorous review is undertaken of how well the new structure is achieving its objectives, perhaps three years after it becomes operational.

A number of features of the proposed new arrangements will also require further elaboration and consultation in due course. Some of these are touched on in your draft report, including:

- the urgent need to establish credible and sustainable funding arrangements;
- the composition of the new TEG (especially the scope of, and the criteria for, co-option of staff from national standard setters);
- the resource and other challenges that EFRAG would face if required to undertake detailed economic impact assessments;
- the future composition of the EFRAG General Assembly;
- the steps necessary to improve engagement with MEPs; and
- the proposed exclusion of financial reporting by non-IFRS companies from EFRAG's remit (which might lead to significant inefficiencies, such as the establishment of parallel structures).

We would be pleased to participate in any future discussions with you or with EFRAG, as appropriate, about these or any other aspects of the proposed new arrangements.

Endorsement Mechanism

We agree that the risks of adopting a more flexible endorsement mechanism, as set out very clearly in the draft report, far outweigh any potential benefits. We do not think that the possibility of a more

flexible mechanism being 'strictly regulated by precise criteria and conditions' would mitigate these risks to any significant degree. Any move in the direction of European standards might undermine investor confidence and damage Europe's capital markets.

We strongly caution against the proposed specification of two additional criteria for endorsement: that accounting standards should not 'hinder the economic development of the region' or 'endanger financial stability'. The receipt of transparent, faithfully represented financial information by capital providers is fundamental to their investment decisions and as such can be seen to underpin the efficient operation of financial markets. Accounting solutions should be determined principally on their merits in achieving the objective of meeting the information needs of investors - the primary users of annual financial statements under the IASB's Framework - not according to other social or economic policy objectives. To the extent that economic development and financial stability should be considered during the endorsement process, we believe that this falls squarely within the existing requirement to consider the 'European public interest'. However, in our view financial stability and prudential supervision should always be delivered primarily through regulatory regimes.

Please do not hesitate to contact me or Dr Nigel Sleigh-Johnson (nigel.sleigh-johnson@icaew.com) should you require any further information or clarification regarding the above points.

Yours sincerely

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