20 October 2014

Monsieur Michel BARNIER
Vice-President of the European Commission,
Responsible for Internal Market and Services

Lord Jonathan HILL
Commissioner-designate,
Responsible for Financial Stability, Financial Services and Capital Markets Union

By e-mail

Dear Vice-President Barnier and Commissioner-designate Hill,

EUROPEAN COMMISSION CONSULTATION ON THE EFFECTS OF USING IFRS IN THE EU: A RESPONSE FROM THE IFRS FOUNDATION

The purpose of this letter is to set out the response of the IFRS Foundation to the European Commission's consultation on the impact of International Financial Reporting Standards (IFRS) in the EU.

Our detailed comments are set out in the Appendix. In this covering letter, we wish to highlight a number of key messages.

First, we believe that the objectives of the IAS Regulation remain valid today and it is clear that the adoption of IFRS has brought benefits to the EU. Prior to the adoption of IFRS in 2005, the EU did not have a common financial reporting language, despite many years of trying without success. The adoption of IFRS has brought positive effects in terms of the quality, transparency and comparability of financial reporting, not only within the Union, but also globally, with no less than 114 countries now mandating the use of IFRS for all or most public companies and other major economies (notably Japan and the USA) permitting its use in certain circumstances.

IFRS therefore provide a global language. As detailed in the Appendix, our research shows that jurisdictions have made very few modifications to IFRS, and the few that have been made are generally regarded as temporary steps in the jurisdiction's plans to adopt IFRS. If jurisdictions such as the EU were to make modifications, they would not be adopting IFRS and so would lose the benefits of using the globally-accepted language of IFRS. EU companies would no longer have the benefit of the global financial reporting passport that IFRS provide, including their ability to access international capital markets using their IFRS financial statements, without reconciliation to local Standards. Investors would be deprived of comparable accounts and therefore essential information

Second, we believe that IFRS as developed by the independent International Accounting Standards Board (IASB) can play an important role in the agenda priorities for the new Commission. The use of a single set of financial reporting requirements is essential to the successful achievement of the proposal for a Capital Markets Union. Given the global nature of capital markets and the need for comparability within the EU market to mirror internationally-accepted best practice, only IFRS can provide those requirements. The transparent financial reporting provided by companies reporting under IFRS helps participants in capital markets to make more efficient and informed resource allocation and other economic decisions, and makes investment more attractive to capital providers. Having a comparable and familiar financial reporting language is, therefore, a vital feature to encourage the investment that is so necessary for the growth that the Commission seeks for the EU.

We would welcome the opportunity to discuss these issues.

Yours sincerely,

Michel Prada Chairman of the Trustees IFRS Foundation	Hans Hoogervorst Chairman of the IASB

cc Didier Millerot, European Commission
Valérie Ledure, European Commission

Appendix

EUROPEAN COMMISSION CONSULTATION ON THE EFFECTS OF USING IFRS IN THE EU: A RESPONSE FROM THE IFRS FOUNDATION

October 2014

Introduction

1. The purpose of this memorandum is to set out the response of the IFRS Foundation to the European Commission's (EC's) public consultation on the effects of using International Financial Reporting Standards (IFRS) in the EU, as part of its evaluation of Regulation 1606/2002 (the International Accounting Standards, IAS, Regulation). The response has been approved by the Trustees of the IFRS Foundation.

2. The format of the EC's consultation questionnaire was not designed with an organisation such as the IFRS Foundation in mind, being targeted in particular at companies that prepare financial statements and capital market participants. That said, given the subject matter of the consultation, the IFRS Foundation believes it is important to set out its views on a number of the main issues in the consultation document, building on the perspective from the staff of IFRS Foundation set out in the Staff Paper that was published on 5 September 2014[1].

The importance of IFRS to the new Commission agenda

3. In considering the effects of IFRS in the EU, the IFRS Foundation believes that it is important not just to look back at the experience to date, but also to look forward to the EC's 2014-19 agenda for Jobs, Growth, Fairness and Democratic Change as set out by Commission President-elect Jean-Claude Juncker in July 2014[2], in particular the mission allocated to the new Commissioner for Financial Stability, Financial Services and Capital Markets Union.

4. In his mission letter to the new Commissioner[3], Jean-Claude Juncker has outlined a number of areas of focus where the IFRS Foundation believes that IFRS have a vital role to play:
   - the development of a jobs, growth and investment package outlining measures to improve the investment economy and presenting concrete initiatives on the long-term financing of the economy. This will include seeking ways to reduce the cost of raising capital in the EU;
   - continuing to put in place a regulatory framework which ensures the resilience and stability of the financial services sector; and
   - bringing about a well-regulated and integrated Capital Markets Union, encompassing all Member States, by 2019, with a view to maximising the benefits of capital markets and non-bank financial institutions for the real economy.

5. The contribution of IFRS to sound economic growth is an essential part of the IASB's work. The purpose of financial reporting standards, as set out in the IFRS Foundation's *Report of the Trustees' Strategy Review 2011*[4], as follows:
   "In carrying out the IFRS Foundation's mission as its standard-setting body, the IASB should develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements. Those standards should serve investors and other market participants in making informed resource allocation and other economic

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[1] The IFRS Foundation Staff Paper can be accessed at: http://www.ifrs.org/Alerts/Governance/Documents/2014/IFRS-Foundation-staff-perspective-EC-consultation-September-2014.pdf.

[2] *A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change - Political Guidelines for the next European Commission*, available at http://ec.europa.eu/about/juncker-commission/docs/pg_en.pdf.

[3] Mission letter to Jonathan Hill, Commissioner-designate, 10 September 2014, available at: http://ec.europa.eu/about/juncker-commission/docs/hill_en.pdf.

[4] IFRS Foundation (2012) Report of the Trustees' Strategy Review 2011 – IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade, available at: http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Strategy-Review/Documents/TrusteesStrategyReviewFeb2012.pdf.

decisions. The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and **sound economic growth** (our emphasis added)".

6. On resilience and stability, as outlined below, the IASB is a member of the Financial Stability Board (FSB). As set out in the *Report of the Trustees' Strategy Review 2011* referred to above, the Trustees' view is that transparency in financial reporting is an essential component of addressing various public policy perspectives, including financial stability. But the Trustees are equally clear that transparency cannot be compromised. Transparency in financial reporting is the IASB's contribution to stability by providing unbiased and relevant information about the economic performance and condition of businesses in a way that provides confidence to investors and other capital market participants in the transparency and integrity of that information.

7. The IFRS Foundation believes that the use of IFRS is essential to the successful achievement of the proposal for a Capital Markets Union. The importance of giving companies the ability of raising capital throughout the EU using financial statements prepared on the basis of a single set of financial reporting requirements was recognised by the EC in a Communication as long ago as May 1999[5]. In that Communication, the EC emphasised that: "Comparable, transparent and reliable financial information is fundamental for an efficient and integrated capital market". That Communication also emphasised the global nature of capital markets and the need for comparability within the EU market to mirror developments in internationally accepted best practice. With the growth both of globalisation and IFRS since then, those comments hold even more true today than when first written in 1999.

Relevance of the IAS Regulation

8. In its consultation, the Commission asks whether the IAS Regulation has furthered the move towards establishing a set of globally accepted high-quality standards. When the IAS Regulation was adopted in 2002, few jurisdictions/companies used IFRS. The evidence is clear that the growth of IFRS has expanded enormously since then. In July 2014, the IFRS Foundation published the findings of a major research project *IFRS as global standards: a pocket guide*, which was undertaken to obtain a full picture of IFRS use around the world. That research[6], which has been recently further updated[7], verified by the relevant jurisdictional authority in each of the 138 countries surveyed, shows that 114 countries (82 per cent of those surveyed), now mandate the use of IFRS for all or most public companies. While Europe remains the largest single user, the combined Gross Domestic Product (GDP) of non-European jurisdictions using IFRS, as US$23.8 trillion, now exceeds the combined EU-GDP of US$17.2 trillion.

9. The results of the research also show that almost all of the remaining countries that have yet to require the use of IFRS for domestic purposes already permit its use in certain circumstances. For example, Japan has for some time permitted the voluntary use of IFRS, with around 40 companies having adopted or officially announced voluntary adoption of IFRS, while the Japanese government views encouraging greater use of IFRS as a fundamental element of its recently announced growth strategy. India also permits voluntary use of IFRS and the Indian government has announced its intention to converge the current Indian accounting standards with IFRS. Around 250 of China's largest companies report using full IFRS (or Hong Kong standards, which are identical to IFRS) for the purpose of their dual listings in Hong Kong, while the United States has since 2007 allowed non-US companies to report using IFRS as

[5] European Commission (1999) Communication Financial Services: Implementing the Framework for Financial Markets: Action Plan, available at: http://ec.europa.eu/internal_market/finances/docs/actionplan/index/action_en.pdf.

[6] The details of the research are available at: http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx.

[7] IFRS Foundation Press Release *Eight new jurisdiction profiles on the use of IFRS around the world* 25 September 2014, available at: http://www.ifrs.org/Alerts/Publication/Pages/Eight-new-jurisdiction-profiles-use-of-IFRS-around-world-September-2014.aspx.

issued by the IASB. Furthermore, investors in these countries are often prolific users of IFRS-based financial statements.

10. IFRS are now part of the global financial architecture and are among the 12 key International Standards and Codes that have been designated by the FSB, of which the IASB is a member, as being key for sound financial systems and deserving of priority implementation depending on country circumstances. These standards are broadly accepted as representing minimum requirements for good practice that countries are encouraged to meet or exceed[8]. The FSB has, as recently as 18 September, reaffirmed the continuing relevance of the objective of achieving a single set of high-quality global accounting standards[9].

11. The IFRS Foundation notes that, in the final report on his mission in 2013 to reinforce the EU's contribution to international accounting standards, Philippe Maystadt, Special Advisor to Commissioner Barnier, observed "a wide consensus on the commitment to global quality accounting standards"[10], based on his consultations with stakeholders, and highlighted the particular significance of the global character of IFRS, which he noted has brought positive effects in terms of the quality and comparability of financial reporting[11].

The scope of IFRS

12. 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, with options for Member States to extend the application of IFRS to:
    - individual annual financial statements of companies listed on regulated markets; and
    - the consolidated financial statements and individual annual financial statements of other companies.

13. While IFRS are developed in particular for entities whose securities are traded in public capital markets, the IFRS Foundation believes that the benefits of global financial reporting standards are not limited to such entities. In our view, any entity that wishes to benefit from a common set of accounting standards should be given the option to do so, but we acknowledge that this is a decision for EU and Member State authorities, as appropriate.

The benefits of IFRS

14. The Commission is also seeking views on the benefits of applying IFRS. On this issue, in 2012, the IFRS Foundation commissioned Ann Tarca, Professor of Accounting at the University of Western Australia and a former Academic Fellow of the IASB, to examine and summarise current academic research that has sought to observe and quantify the benefits derived from widespread adoption of IFRS. In summary, the research finds that capital markets benefit after adopting IFRS[12], even in countries with strong investor protection and high quality financial reporting and enforcement. Such benefits include[13]:

    a. market efficiency—market liquidity increases following the introduction of IFRS, while firms benefit from a reduction in the cost of capital and an increase in equity value. The IFRS Foundation notes the conclusion of a 2010 paper on the mandatory

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8 FSB website *Key Standards for Sound Financial Systems*, at http://www.financialstabilityboard.org/cos/key_standards.htm.

9 FSB Press Release: *FSB Plenary meets in Cairns, Australia*, available at: http://www.financialstabilityboard.org/press/pr_140918.htm.

10 Philippe Maystadt (2013) *Should IFRS Standards be More "European"?: Mission to reinforce the EU's contribution to the development of international accounting standards*, page 7, available at: http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf.

11 Philippe Maystadt (2013), as footnote 5, page 4.

12 Ann Tarca (2012) *The Case for Global Accounting Standards: Arguments and Evidence*, available at http://www.ifrs.org/Use-around-the-world/Documents/Case-for-Global-Accounting-Standards-Arguments-and-Evidence.pdf

13 As listed in IFRS Foundation (2012) *Report to the Trustees of the IFRS Foundation: IFRS Foundation staff analysis of the SEC Final Staff Report – Work Plan for the consideration of incorporating IFRS into the financial reporting system for US issuers*, page 66, available at: http://www.ifrs.org/Use-around-the-world/Global-convergence/Convergence-with-US-GAAP/Documents/Analysis-of-SEC-Final-Staff-Report.pdf.

adoption of IFRS in the EU[14] that "on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters by 47 basis points", in countries with strong legal enforcement. ACCA research from 2011 (looking not just at Europe, but also Asia-Pacific, the Middle East and the US) has found that the adoption of IFRS has both improved access to capital and lowered the cost of capital[15];

b. investment decisions—analysts that review IFRS firms have more accurate forecasts compared to those forecasts of analysts following non-IFRS firms. Furthermore, when a country's GAAP is closer to international standards, foreign analysts are more likely to follow and provide more accurate forecasts for firms in that country;
c. quality of financial information—in Europe, there was a general perception among preparers, auditors, investors and enforcers that the application of IFRS has improved the comparability, quality and transparency of financial reporting;
d. foreign investment—IFRS is a vehicle through which countries can improve investor protection and make their capital markets more accessible to foreign investors;
e. capital market integration—higher correlations of market indices were observed between markets in which firms use IFRS and markets in which firms generally do not use IFRS;
f. method of application—the success of common standards depends not just on the quality of the Standards issued by the IASB. Critically, success also requires an infrastructure to support IFRS to be in place at a national and international level.

15. The use of IFRS globally by EU companies, without the need for restatement, has provided them with the benefit of achieving improved group reporting and administrative savings through having to report only under one accounting framework. Similar effects have been observed elsewhere. For example, a report on the adoption of IFRS in Korea[16] noted that Korean companies listed overseas have been able to cut the cost of preparing dual financial statements. While that report also highlighted the challenges, it concluded that adoption of IFRS is "no longer an option. It has evolved into an indispensable means for literally all those engaged in the globalised economy of today".

Endorsement mechanism and criteria

16. The Commission consultation also seeks the views of interested parties on the endorsement procedure by which IFRS are adopted on a standard-by-standard basis for use in the EU. The IFRS Foundation notes that this is another issue that was examined by Philippe Maystadt as part of his mission. In his final report, Mr Maystadt emphasises the support for the maintenance of such as standard-by-standard adoption procedure. In its comments on the Maystadt report, published in December 2013[17], the IFRS Foundation welcomed this emphasis.

17. The IFRS Foundation's research on the use of IFRS referred to above reveals that the 138 jurisdictions have made very few modifications to IFRS, and the few that have been made are generally regarded as temporary steps in the jurisdiction's plans to adopt IFRS. For example, the EU itself describes its IAS 39 'carve-out' as 'temporary', and the 'carve-out' has been applied by fewer than two dozen banks out of the 7,000 or so IFRS companies whose securities trade on a regulated market in Europe. The IASB currently has projects on its agenda, or has recently finalised projects, to address most of the other modifications, including use of the

[14] Siqi Li (2010) *Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?* (The Accounting Review, 85(2), pp. 607-636).

[15] ACCA (2011) *Towards greater convergence* reported the results of a survey of investors and CFOs in Asia-Pacific, the Middle East, Europe and the US. Among the key findings was the result that more than 40% said IFRS had improved access, while around a quarter said adoption had lowered capital costs. The report commented that far fewer noted that IFRS was not worth the cost. The report is available at: http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/cfo-investor-perspectives.pdf.

[16] Korea Accounting Standards Board/Financial Supervisory Service (2012) *IFRS Adoption and Implementation in Korea, and the Lesson Learned*, available at: http://eng.kasb.or.kr/web/services/bbs/bbsView.action?bbsBean.bbsCd=23&bbsBean.bbsSeq=150.

[17] IFRS Foundation (2013) *IFRS Foundation issues comments on the Maystadt Report,* available at: http://www.ifrs.org/Alerts/PressRelease/Pages/IFRS-Foundation-issues-comments-on-the-Maystadt-Report-December-2013.aspx.

equity method to account for subsidiaries in separate company financial statements; loan loss provisioning; and accounting for rate-regulated activities. A few jurisdictions (including the EU) have deferred the effective dates of some Standards, particularly IFRSs 10, 11 and 12 and IFRIC 15. The IFRS Foundation has set out its view that the fact that IFRS are being used in most jurisdictions without modification provides an important contribution to growth and transparency in the global economy.

Should there be additional endorsement criteria?

18. The EU endorsement process is extensive and can take a long time to complete, but it is thorough and is now well-established, having been in operation for over a decade. The IFRS Foundation does not see the need for any additional criteria to be introduced.

Financial stability and economic growth

19. The Commission questionnaire notes that Mr Maystadt's report refers to the possibility of introducing new criteria for the adoption of IFRSs in the EU, ie that they should not endanger financial stability and must not hinder the economic development of the region. In the comments on the Maystadt report, the IFRS Foundation expressed its support for the goals of financial stability and economic growth and a belief that IFRS make a contribution to both by providing transparency to the capital markets. Those comments also flagged up concerns that accounting standards should not be "instrumentalised" with a view to hiding or twisting the objective representation of the situation and the performance of businesses.

20. The 2009 *Report of the Financial Crisis Advisory Group*[18] examines the intersection between financial reporting and prudential regulation and how both accounting standard-setters and prudential regulators serve the public interest in accordance with their respective missions. The Financial Crisis Advisory Group (FCAG)[19] emphasised that financial reporting, by providing only a snapshot in time of the economic situation and performance, cannot provide perfect insight into the effects of macroeconomic developments. However, what it does do is provide as unbiased and relevant information as possible about the economic performance and condition of businesses in a way that provides confidence to investors and other capital market participants in the transparency and integrity of that information.

21. The IFRS Foundation notes that that view is shared by others. For example, Steven Maijoor, the Chair of the European Securities and Markets Authority (ESMA) is on record as commenting that:
"I believe that accounting standards do contribute to financial stability by providing clear principles on how to account for complex transactions, such as financial instruments, and by favouring transparency: transparency being key for good market functioning and good market functioning being an essential component of financial stability"[20].

Long-term financing and investment

22. The Commission consultation raises as a suggestion that an additional criterion for the adoption of IFRS in the EU might be that they do not impede the provision of long-term finance. The transparency provided by IFRS is an essential pre-condition for promoting healthy, long-term investment[21]. Transparent financial reporting helps participants in capital markets to make more efficient and informed resource allocation and other economic decisions, and makes investment more attractive to capital providers (investors and lenders). An important purpose of financial reporting is to require management to show how they have

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18 The FCAG report can be accessed at: http://www.ifrs.org/News/Press-Releases/Documents/FCAGReportJuly2009.pdf.

19 The FCAG was a high level group of recognised leaders with broad experience in international financial markets that was formed at the request of the IASB and the US Financial Accounting Standards Board (FASB) to consider financial reporting issues arising from the crisis.

20 The speech was delivered to an IFRS Conference in July 2011 and is available at: http://www.esma.europa.eu/system/files/2011_202.pdf.

21 See, for example, the IASB's June 2013 response to the EC's Green Paper *Long-term financing of the European economy*, available at: http://www.ifrs.org/Alerts/PressRelease/Pages/Submission-to-EU-consultation-on-long-term-financing.aspx).

discharged their responsibilities to make efficient and effective use of the company's resources ie the principle of stewardship, but even long-term investors require shorter-term, reliable and unbiased performance measures to keep track of their investments and to hold management to account.

23. At its September 2014 meeting, the IASB considered the issue of long-term investment in the context of its project on the *Conceptual Framework*[22]. The IASB has tentatively decided that the proposed references in the revised *Conceptual Framework* on business activities, measurement and the distinction between profit and loss and Other Comprehensive Income (OCI) would provide sufficient tools for the IASB to make appropriate standard-setting decisions if future projects consider: (a) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or (b) whether such entities should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI. The IASB also tentatively decided that the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting to address appropriately the needs of long-term investors.

24. In October 2014, the IASB sought the advice of the IFRS Advisory Council on how the IASB can ensure that its Standards meet the needs of: (a) long-term investors in a reporting entity; and (b) investors in a reporting entity that has long-term investments.

Prudence

25. Another suggestion in the Commission consultation is that there should be a more explicit reference to the concept of prudence. The IFRS Foundation acknowledges that the issue of prudence has been a topic of some debate since the removal of a reference to the concept of prudence from the IASB's *Conceptual Framework* in 2010. The IASB view has always been that, despite its removal, the basic tenets of the concept remain intact and visible throughout IFRS and that prudence also plays an important role in the development of new Standards[23].

26. At its May 2014 meeting, the IASB tentatively decided: (a) to reintroduce a reference to prudence in the Conceptual Framework; and (b) to describe prudence as the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence is consistent with neutrality and should not allow the overstatement or understatement of assets, liabilities, income or expenses.

Should the EU have more scope to modify Standards?

27. The Commission consultation also seeks views on whether it should have more "leeway" to modify Standards to be adopted for use in the EU. As might be expected, in its December 2013 comments, the IFRS Foundation noted the very real risks of such flexible endorsement, in particular the negative signal that it would give to the rest of the world.

28. It is also the case that such modified Standards would not be IFRS, but rather represent a different framework. Such an approach would have disadvantages. The co-existence of different reporting frameworks would be both confusing and costly, as well as making effective supervision and enforcement of financial reporting requirements of publicly traded companies more difficult. Investors would be deprived of comparable accounts and therefore essential information[24].

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[22] IASB Agenda Paper 10F *Implications of long-term investment for the Conceptual Framework*, available at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/September/AP10F-CF.pdf.

[23] See, for example, a speech by IASB Chairman Hans Hoogervorst in September 2012 *The Concept of Prudence: dead or alive?*, available at: http://www.ifrs.org/Alerts/PressRelease/Documents/2012/Concept%20of%20Prudence%20speech.pdf,

[24] See, for example, the comments by the European Commission (2000) in its Communication *EU Financial Reporting Strategy: the way forward*, available at: http://www.eumonitor.eu/9353000/1/j9vvik7m1c3gyxp/vikqhi8gijzn, paragraph 11.

Quality of IFRS financial statements

29. The Maystadt report includes a comment that the stakeholders interviewed noted that IFRS has "improved the quality, comparability and reliability of financial information"[25]. In addition, the IFRS Foundation also observes that ESMA produces annual reports on the *Activities of the IFRS Enforcers in Europe*[26]. These reports have commented on the continued improvements in the quality of IFRS financial statements as a result of the significant experience gained by preparers since 2005. That said, the IFRS Foundation acknowledges that the ESMA activity reports also comment that there is room for improvement in the quality of financial reporting in certain areas.

30. Before the adoption of IFRS in 2005, EU companies whose securities were traded on regulated markets used their national GAAPs, leading to divergences in accounting and disclosure rules which were not compatible with the European Single Market, and not giving EU companies help in seeking to raise finance on international capital markets. The adoption of IFRS has provided a level playing field and allows for the comparability and transparency of financial reporting by EU companies.

31. The Commission consultation seeks views on how financial statements prepared under IFRS rate in terms of complexity and understandability, given that companies have complex business models and transactions. The IFRS Foundation believes that reporting under only one accounting framework helps to enhance understandability. However, we acknowledge that the financial statements, notably those of financial institutions, can be complex, reflecting, at least in part, the complexity of those institutions, the products and services they offer, and the financial system as a whole. We observe that this point was made by the Commission Staff in their May 2014 review of the financial regulation agenda[27]. That said, the IASB is mindful of complexity and the concerns expressed by some as to whether IFRS are contributing to that complexity, and of doing things to make it more manageable. The disclosure initiative project is one example where the IASB is seeking to tackle such issues and to deliver tangible improvements to disclosures in financial reporting[28].

32. The Commission's consultation seeks views from companies on the extent to which IFRS allows for a reflection of the business model in financial statements. The IASB's July 2013 Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* describes how the business model concept is used in existing IFRS[29]. At its July 2014 meeting, the IASB tentatively decided that the Exposure Draft should not provide a single overarching description of how the nature of an entity's business activities would affect standard-setting. Instead, the IASB's tentative view is that it should describe, for each area affected, how consideration of an entity's business activities would affect standard setting.

A True and Fair View

33. The Commission's consultation seeks views on how IFRS compare with other GAAPs in terms of providing a true and fair view of a company's performance and financial position. Without commenting on how IFRS compare with other GAAPs, the IFRS Foundation believes that IFRS do provide a true and fair view. IFRS require a fair presentation, which is not a different requirement from showing a true and fair view, but a different articulation of the concept. In considering the changes that were made to the *Conceptual Framework* in 2010, the IASB took

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[25] Philippe Maystadt (2013), as footnote 5, page 7.

[26] The reports can be accessed from the ESMA IFRS Enforcement page at: http://www.esma.europa.eu/page/IFRS-Enforcement-0.

[27] European Commission (2014) Staff Working Document *Economic Review of the Financial Regulation Agenda*, available at: http://ec.europa.eu/internal_market/finances/docs/general/20140515-erfra-working-document_en.pdf, page 268.

[28] As outlined in a 10-point plan announced in a June 2013 by Hans Hoogervorst *Breaking the Boilerplate*, available at: http://www.ifrs.org/Alerts/Conference/Documents/2013/HH-Amsterdam-June-2013.pdf.

[29] The Discussion Paper is available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Discussion-Paper-July-2013/Documents/Discussion-Paper-Conceptual-Framework-July-2013.pdf, see paragraphs 9.24–9.28.

the view that for financial reports to present a true and fair view or to present fairly is the same as faithful representation, which is one of the qualitative characteristics set out in the *Framework*. Presenting a true and fair view or fair presentation should result from applying the qualitative characteristics.

34. IAS 1 *Presentation of Financial Statements* requires that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. The Standard includes a fair presentation (true and fair) override to cater for the extremely rare circumstances in which compliance with IFRS would not achieve it by conflicting with the objective of financial reporting as set out in the *Framework*.

Enforcement

35. The IFRS Foundation's objectives include the development of, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards (IFRSs) and the promotion of their use and rigorous application[30]. In their *Report of the Strategy Review 2011*[31], the Trustees of the IFRS Foundation noted that the organisation has a vested interest in helping to ensure the consistent application of IFRS internationally and recommended, among other things, that the IASB should work with securities regulators to pursue that objective. Professor Tarca's research, referred to above, notes that the benefits of IFRS depend on the level of enforcement in a jurisdiction.

36. In pursuit of this objective, the IFRS Foundation has worked to deepen its cooperation with securities regulators. In September 2013, the IFRS Foundation and the International Organisation of Securities Commissions (IOSCO) agreed a *Statement of Protocols for Cooperation on International Financial Reporting Standards*[32], under which the two organisations agreed to deepen their cooperation in both the development of IFRS and implementation of IFRS on a globally consistent basis.

37. Within Europe, the IFRS Foundation and ESMA have, for a number of years, cooperated to support the consistent application of IFRS. In July 2014, the IFRS Foundation and ESMA announced the agreement of a joint *Statement of Protocols* to serve as the basis for future co-operation in areas of mutual interest[33]. Under the agreement, IASB members and staff meet with the European Enforcers Coordination Sessions (EECS)[34] regularly, and as necessary for urgent matters, to discuss current enforcement issues, and developments at the IFRS Interpretations Committee.

38. The IFRS Foundation notes that the activities conducted at European and Member State level, as coordinated by ESMA, with respect to examining compliance of financial information with IFRS are well documented in ESMA's annual reports on the *Activities of the IFRS Enforcers in Europe*, referred to above. ESMA also undertakes useful reviews of compliance in specific areas of accounting. For example, in November 2013, ESMA published a review of the comparability and quality of disclosures in 2012 IFRS financial statements of listed financial institutions[35]. Periodically, ESMA also publishes extracts from its confidential database of enforcement decisions on financial statements, with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of IFRS.

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[30] IFRS Foundation (2013) *Constitution*, section 2, available at: http://www.ifrs.org/The-organisation/Governance-and-accountability/Constitution/Documents/IFRS-Foundation-Constitution-January-2013.pdf.

[31] IFRS Foundation (2012) *Report of the Trustees' Strategy Review 2011 - IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade*, available at: http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Strategy-Review/Documents/TrusteesStrategyReviewFeb2012.pdf.

[32] IOSCO/IFRS Foundation Press Release 18 September 2014, available at: http://www.ifrs.org/Alerts/PressRelease/Pages/IOSCO-and-IFRS-Foundation-agree-joint-protocols-September-2013.aspx.

[33] ESMA/IFRS Foundation Press Release 15 July 2014, available at: http://www.ifrs.org/Alerts/Governance/Pages/IFRS-Foundation-and-ESMA-sign-joint-Statement-of-Protocols-July-2014.aspx.

[34] EECS is a forum, organised by ESMA, gathering 39 European enforcers from the 28 Member States and the 2 countries in the European Economic Area (EEA) who have responsibilities in the area of supervision and enforcement of financial information.

[35] ESMA (2013) *Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe*, available at: http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf.

39. In July 2014, ESMA published its final *Guidelines on enforcement of financial information*[36], the aim of which is to strengthen and promote greater supervisory convergence in existing enforcement practices among EU accounting enforcers.

[36] ESMA (2014) *Final Report: ESMA Guidelines on enforcement of financial information*, available at: http://www.esma.europa.eu/system/files/2014-807_-_final_report_on_esma_guidelines_on_enforcement_of_financial_information.pdf.