



Maystadt report: should the International Financial Reporting Standards be more “European”? March 2014.

Michel Barnier, European Commissioner for Internal Market and Services of the European Commission (EC), appointed, in March 2013, Philippe **Maystadt** (a former president of the European Investment Bank) as a special advisor to the EC. The role as special adviser will be: 1) to strengthen the contribution of the European Union (EU) to the International Financial Reporting Standards (IFRSs) through the development of a common European framework for issuing high quality standards; and 2) to improve the governance of the European Financial Reporting Advisory Group (EFRAG) and of the Accounting Regulatory Committee (ARC), responsible for the development of the International Financial Reporting Standards (IFRSs) and the International Accounting Standards (IAS), respectively.

Mr Maystadt's report is part of a broader debate on accounting standards taking place in the EU, which also takes into consideration international developments in this field and the revision of the Regulation on the application of the International Accounting Standards (IASs), planned for the end of 2014. Mr. Maystadt held a series of consultations before drafting his report, which he presented to the Finance Ministers at the ECOFIN Council meeting on 15 November 2013. In February 2014, the European Commission (EC) has extended Mr Maystadt mandate to supervise the implementation of reforms of the EFRAG. The report proposes taking a three-fold approach:

1. **Maintaining a "standard-by-standard" adoption procedure, of each of the standards issued by the International Accounting Standards Board (IASB)**, that includes the possibility of accepting or refusing a particular standard, stipulated in the IASs Regulation. The IASB is an independent standard-setting body of the IFRS Foundation responsible for the development and publication of IFRSs. The report proposes that the process of adoption of EU rules may have some flexibility to modify or adapt a rule but always subject to criteria and conditions tightly regulated and fixed.
2. **Identifying three options for strengthening the EU's influence** in international accounting standard-setting: a) reorganize the current EFRAG to increase their legitimacy and representativeness; b) transfer the tasks handled by the EFRAG to ESMA; and c) create an agency of the EU. The report chooses option a) for various reasons, in particular, to ensure a fast and easy implementation.
3. **Developing the cooperation, between the Accounting Regulatory Committee (ARC) and the EFRAG, at an earlier stage of the process of setting standards** to achieve a more effective influence on the activities of both the EFRAG and the IASB.

The **ESAs** have sent in late January, a letter to Commissioner Barnier indicating that the (public-private) mixed composition of the Board of EFRAG and the voting model (which does not allow dissent or the right of veto) do not allow the adequate protection of the public interest. Therefore, the ESAs only will participate as observers in the Board and will continue to send their own comment letters to the IASB.

The three-fold approach mentioned above summarizes the following **12 recommendations** contained in the report:

1. The criteria that would allow for introduction of flexibility in the application of IFRS in the EU could be: i) proving that the European public good is really at stake, ii) requiring a qualified majority of Member States vote within the ARC, and iii) refusing to leave "options" for Member State to choose.

2. The EU could revise the IFRS adoption criteria by supplementing and clarifying the current criteria of the IAS Regulation. Two other criteria could be added to those mentioned in the Regulation as components of the public good, namely: the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the UE. The EC could issue a Communication giving guidelines for the interpretation of the "public good" criterion.

3. EFRAG (European Financial Reporting Advisory Group) should focus its activities on its remit regarding the IFRSs in accordance with IAS Regulation.

4. The legal possibility of establishing a system of compulsory contributions/levies paid by listed entities that use and benefit from IFRSs should be analyzed. A proportion of compulsory private funding would stabilize the organization.

5. Pending the implementation of such a levy system, Member States could organize a national funding mechanism if it has not yet been done. If voluntary private contributions and national funding mechanisms would not provide enough resources to ensure an appropriate budget for the new EFRAG, the funds provided by the EC could be increased.

6. The number of members of the General Assembly of EFRAG could be extended to include national funding mechanisms and other public/private organizations that are contributing financially or in kind. The EC will be invited to attend the meetings of the General Assembly.

7. The Supervisory Board of EFRAG should be replaced by a high-level Council (High-level Board). This board would have 16 members: 4 European public body (ESMA, EBA, EIOPA and ECB), 7 national standards setters and 5 private stakeholders. The Board would make consensus-based decisions. Its main functions are: the approval of the comment letters addressed to the IASB and the endorsement advice letters to the EC.

8. The Technical Expert Group (TEG) should be amended as follows: the modified TEG would prepare the projects submitted for the approval of the Board and would become advisor to the Board who will determine the position of EFRAG. The TEG would continue to be composed of part-time experts who meet the criteria of knowledge and experience of which at least 4 should come from national regulators; the number of experts could be increased to 16. The manner in which the TEG uses the contributions of working groups should be more transparent; a delegation from each group should be involved in discussions of the TEG.

9. EFRAG should produce impact analysis according to the needs of users and of the European legislator in cooperation with national standards setters. EFRAG and the other European bodies concerned are also encouraged to work in a more coordinated manner when performing "field tests".

10. Quarterly meetings between EFRAG and the national regulators (including Norway and Switzerland) should be maintained, as they serve as preparation for the European participants in meetings of the IASB Accounting Standards Advisory Forum.

11. ARC should intervene at an earlier stage of the procedure and strengthen its dialogue with the EFRAG to have a major influence on the work program and activities of the IASB. EFRAG should request modification of deadlines for comments on IASB projects. The modification of the deadlines to submit comments may increase

the European influence on the IASB and facilitate the participation of the ARC. Discussions within the ARC should be better prepared: EFRAG presentations could be shared with participants in advance and the EC could provide the ARC with notes on political or economic issues. EFRAG could formalize the European needs in terms of the conceptual framework and standards setting.

12. Setting up and "early warning" system from EFRAG to the European Parliament (EP) would guarantee the optimum involvement of the Parliament. This measure could be effectively completed by the appointment of a permanent rapporteur for IFRS.

If you want to read the EC press release, please, click on:

http://europa.eu/rapid/press-release_IP-13-1065_en.htm?locale=en

If you want to read Mr Maystadt's report, please, click on:

http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf

If you want to read ESMA's written answer on Mr Maystadt's draft report, please do click on:

http://www.esma.europa.eu/system/files/2013-1415_letter_esma_comments_to_maystadt_report.pdf

If you want to read the ESAs's joint letter on Mr Maystadt's report, please, do click on:

http://www.esma.europa.eu/system/files/esa-2014-001_esas_response_to_the_maystadt_report.pdf