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Ladies and Gentlemen,

I would like to thank the Dutch financial daily *Het Financieele Dagblad* warmly for the invitation to speak today on the occasion of the award of the Sijthoff Prize and I would like to start by congratulating the winners. The prize is a handsome recognition of the efforts of these companies in communicating their financial performance as well as possible. This communication is essential for the effective functioning of capital markets.

This year the celebrations are limited due to the rather strict decision of the jury not to award the prize in the AEX funds category. If the jury is still looking for an alternative winner, I would suggest that the prize be awarded to those who 10 years ago were at the inception of the introduction of International Financial Reporting Standards (IFRS) in the European Union (EU) in 2005. This step made a great contribution to the quality of company reporting in Europe and the Netherlands and is worthy of a prize. A nice adjunct is the fact that, with this, the trophy remains in the Netherlands because IFRS was introduced when Frits Bolkestein was the European Commissioner responsible.

This also brings me to the subject of my speech today: 10 years of IFRS in Europe.

Has the introduction of IFRS been a success?

Has the introduction been successful in all respects?

How can we further improve the application of IFRS by companies?

Ten years is an arbitrary period but nevertheless it is a good time to stop and reflect on these questions. As part of a decade of IFRS, the European Commission has announced that it is carrying out an evaluation and intends to publish its report on it by the end of this year.

The introduction of the IAS Regulation in 2005[1], in which detailed reporting rules became directly applicable to the consolidated accounts of listed companies, was, in several respects, a great step forwards. Up to that moment it was customary to harmonise the European capital market with so-called Directives, which offered room for Member States to provide their own interpretation when transposing the Directives into national legislation. The introduction of IFRS was regulated through a Regulation which is directly applicable to companies in the Member States and offers no room for national variations. Only after 2010, in response to the financial crisis, has wider use been made of Regulations, for example in the area of derivatives, market abuse and the capital requirements for banks. In brief, IFRS was the first real single rule book for the European financial markets and was well ahead of its time.

The introduction of IFRS was also a great step because an important regulatory role was laid down with an international, non-European body, the International Accounting Standards Board (IASB). The importance of this step can hardly be overestimated. The European Commission, the Council of the European Union and the European Parliament normally play an important role in the production and introduction of technical rules for the financial markets. By choosing IFRS, this role is limited and on a number of occasions this has also led to friction between the IASB and the European institutions.

Has the introduction of IFRS been a good thing for the European capital market? Has IFRS contributed to the transparency and comparability of reporting by companies? Also on behalf of the 28 national supervisory authorities, ESMA naturally gives a positive answer to this question in the previously-mentioned consultation of the European Commission. This positive opinion is also found in academic studies into the possible benefits of the introduction of IFRS for the functioning of capital markets. Although the results are not always clear, most studies point to the advantages of IFRS for the functioning of capital markets.

A number of researchers also indicate that the advantages have not so much to do with IFRS but mainly with the introduction of independent supervision of financial reporting[2]. In my opinion the one cannot be separated from the other. First of all because, in actual fact, the introduction of IFRS and supervision usually took place at the same time. In addition, both developments have strengthened each other. The national supervision of IFRS has, for example, been of great benefit with the availability of a large group of fellow supervisory authorities in Europe with expertise in the area of enforcing IFRS. These economies of scale in supervision could only be achieved by the introduction of a common language for financial reporting.

In spite of general satisfaction with the introduction of IFRS, shortcomings have also been found. In my speech today I wish to discuss shortcomings in three areas. The first area concerns the extent to which IFRS accounts succeed in providing a clear and understandable picture of company performance. The second area concerns the extent to which IFRS has contributed to the development of a single world language for financial

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[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.

[2] Tarca A. (2012) The Case for Global Accounting Standards: Arguments and Evidence

reporting. The third and final area concerns the consistent application of IFRS and the supervision of these standards.

Are IFRS financial statements understandable?

With increasing experience with IFRS in the past 10 years the quality of reporting by companies in general has increased. At the same time there are concerns about the understandability of IFRS financial statements and the excess of details that provide little information. Too often text templates, standard check lists and boiler plate language are used which make it difficult to see the company's specific situation. These shortcomings emerge, among other things, from the AFM report concerning financial statements for 2013[3] and are also evident from the findings of the jury for this year's Sijthoff Prize. It will not surprise you that ESMA too sees comparable problems at European level. We regularly find that insufficient use is made of explanatory notes to communicate the specific circumstances of the company.

Although it is a good thing that the IASB is tackling this problem as part of the *disclosure initiative*, essentially it cannot be solved by IFRS or more generally the reporting system. It is ultimately up to companies to use IFRS to communicate as well as possible with investors and other stakeholders. No single system of reporting is proof against companies which actively seek a place in their extensive accounting to conceal their financial setbacks.

A single world language for reporting?

The expected advantages of IFRS naturally concern not only the improvement of financial reporting within the EU, but also the expectation that the introduction of IFRS would be the impetus to come up with a single world language for reporting. The good news is that IFRS are being steadily introduced in a growing number of countries. IFRS are now compulsory in 114 countries for all, or most, publicly listed companies.

This positive observation cannot, however, conceal the fact that the mission has failed in one important point, namely the convergence between US GAAP and IFRS. In its wake the advances with regard to IFRS in Japan are also very modest. This lack of progress is particularly problematic because both the US and Japan generally play a key role in the international coordination of the regulation of financial markets.

Although a number of steps forward have been made by the United States (US), such as the acceptance of IFRS for foreign companies listed in the US, the actual application of IFRS by all publicly listed companies is a long way away. The current thoughts at the Securities and Exchange Commission (SEC) go no further than a possible proposal to allow IFRS as an option for a limited number of companies. This is a poor result compared with the EU where IFRS has already been widely introduced for 10 years for the group of more than 7000 publicly listed companies with consolidated financial statements.

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[3] In Balans 2014 – Kwaliteit Accountantscontrole en Verslaggeving [Quality of Auditing and Reporting]. Available from: http://www.afm.nl/~/media/Files/rapport/2014/in-balans.ashx

In my opinion we need to have the courage to acknowledge that the US and Japan have made little progress and that at present there is little prospect of IFRS in the US. This acknowledgement does not threaten IFRS being the most important world language for financial reporting. There are now too many countries which apply IFRS and it is very important to work harder with these countries to achieve further strengthening of IFRS. It goes without saying that the limited progress also means a more modest role for the US and Japan in the regulatory process concerning IFRS.

Consistent application of IFRS and supervision

I would now like to discuss the third area concerning the consistent application of IFRS and the supervision of them. With the introduction of IFRS in 2005 a single rule book for financial reporting was introduced. In order to ensure that this also leads to a uniform application in practice and a level playing field for market participants, consistent supervision in the EU is of great importance.

The consistent application of IFRS is essential for the Capital Market Union, as put on the map by Jean-Claude Juncker, President of the European Commission. The concept of the capital markets union is now being developed and the European Commission has announced that it will come up with concrete proposals by the summer of 2015. In my opinion core elements are that it has to concern all 28 Member States and accelerated integration of their capital markets. Consistent application of IFRS is part of that.

Since the introduction of IFRS in 2005, ESMA and its predecessor CESR have worked steadily to improve the coordination of the independent supervision of accounting in the EU. This coordination involves two important elements. First and foremost it is about the common requirements set for national supervision as exercised in the 28 Member States. This concerns, for example, the independence and expertise of national supervisory authorities, but also the availability of appropriate enforcement measures if IFRS are not correctly applied by companies.

The second important element concerns the European coordination of the supervision itself. For example, there is a committee of experts within ESMA where national supervisory authorities present their supervisory instruments to each other before proceeding to enforcement. It must also be ensured that national enforcement is consistent with earlier enforcement elsewhere in the EU. Since 2012 annual European agreements have also been entered into concerning the specific subjects which receive extra attention in the supervision of annual accounts. For example, the areas for attention recently announced by the AFM in the supervision of the 2014 annual accounts, such as the reporting standards for consolidation, joint arrangements and the accompanying explanatory notes, will receive priority from all European supervisory authorities.

In the past few years ESMA has provided a strong foundation for elements of European coordination that have been built up by laying them down in so-called *Guidelines*. These have recently been published and it is now up to the national supervisory authorities to say by the end of the year, in a *comply or explain* statement, whether they will comply with these. I expect that almost all national supervisory authorities will choose to *comply*.

In spite of all these excellent steps in the area of coordination of supervision, there are various indications that the supervision of IFRS in the EU is not yet sufficiently consistent and effective. For example, in 2013 ESMA published a study into the valuation of intangible assets from which significant differences in the application of IFRS emerged. The results also give rise to the question of whether IFRS is generally applied correctly in the area of intangible assets. For example, it became evident that of the total of 800 thousand million euros of intangible assets of the companies in the sample, only five percent were written down in the crisis year 2011.

In 2013 ESMA also published a study on the annual accounts of financial institutions. This also revealed important differences in the application of IFRS which seriously hampers the comparison between financial institutions. Problems in the consistent application of IFRS by financial institutions have also emerged in the carrying out of the *asset quality review* (AQR) by the ECB. Although the AQR was carried out from a prudential perspective, the corrections in book values of assets required by the ECB give a clear indication of the need for possible adjustments in the IFRS financial statements. The total amount is 48 thousand million euros and we shall soon see which part will lead to corrections in the IFRS financial statements of banks in the Eurozone.

What is the next step that we can take to improve the coordination of supervision? In my opinion an obvious step would be to create an instrument through which intervention can take place at European level if a national supervisory authority diverges in the application of IFRS from the opinion of its fellow European supervisory authorities. This instrument can build on the system which already exists in which national supervisory authorities present important decisions regarding IFRS to their European colleagues within ESMA. Although this existing system works reasonably well, national supervisory authorities have, in a number of cases, deviated from the views of their fellow supervisory authorities. This undermines the consistent application of IFRS and the level playing field for market participants in the European capital market. Market participants too, namely both investors and companies, would have to have the possibility of bringing alleged inconsistencies found to the attention of ESMA.

Ladies and gentlemen, it is time to bring my address to a close. Financial reporting plays an important role in capital markets. In order to utilise the advantages of an actually integrated capital market, European, and preferably international, standards are an absolute requirement. The introduction of IFRS in the EU in 2005 was a visionary step on the way to an integrated European capital market. Supervisory authorities play an important role in the consistent application of IFRS. But the most important and first step concerns you: companies which inform investors clearly and consistently. And that is certainly worth a prize.

Thank you for your attention.