Response to public consultation

ESMA response to the European Commission consultation on the IAS Regulation

7 November 2014 | 2014/ESMA/1344/Annex 1

Impact of International Financial Reporting Standards (IFRS) in the EU: public consultation

Purpose of the consultation

In July 2014, the European Commission decided to hold a public consultation to seek views from all interested parties on their experience of Regulation 1606/2002 ("the IAS Regulation"). The results of this public consultation will feed into the European Commission's evaluation of the IAS Regulation.

The Commission is evaluating the IAS Regulation to assess:

- ✓ IFRS's actual effects
- ✓ how far they have met the IAS Regulation's initial objectives
- ✓ whether these goals are still relevant
- ✓ any areas for improvement.

In particular, the EC aims to examine whether the adoption of IFRS (through Regulation 1606/2002) improved the efficiency of EU capital markets by increasing the transparency and comparability of financial statements. The EC will report to the EU Council of Ministers and the European Parliament on the on-going evaluation of Regulation 1606/2002 by the end of 2014.

The questionnaire is designed such that not all questions are applicable to all categories of respondents.

This consolidated answer was prepared by ESMA on behalf of all European enforcers, on the basis of a pre-consultation with all members. By all means ESMA tried to gather a single European response to the questions. However, when the comments received reflected specific particularities, they were included in the questionnaire in the part related to 'Comments'.

Who are you?

Question 1

In what capacity are you completing this questionnaire?

1. Answer: public authority

Question 2

Where is your organisation/company registered, or where are you are located if you do not represent an organisation/company?

2. Answer: EU-wide organization

Question 3

What is the name of the organisation or authority you represent?

3. Answer: European Securities and Markets Authority (ESMA), providing a consolidated response on behalf of national securities regulators, thereafter ESMA

Question 5

In the interests of transparency, your contribution will be published on the Commission's website. How do you want it to appear?

4. Answer: Under the name of ESMA and ESMA's members

Relevance of the IAS Regulation

Objective

Question 6

The rationale for the IAS Regulation, imposing internationally accepted standards - the International Financial Reporting Standards (IFRS) - was to make companies use the same set of accounting standards, thus ensuring a high level of transparency and comparability of financial statements. The ultimate aim was to make the EU capital market and the single market operate efficiently.

In your view, are the Regulation's objectives still valid today?

- Yes

- No
- No opinion

If you think the IAS Regulation should pursue new goals in future, what should they be?

5. Answer: Yes
6. The main objective of the IAS Regulation is to facilitate the functioning of the EU single market. It has facilitated free movement of capital, as one of the basic freedoms underpinning the EU single market, and helped companies in the EU compete on a level playing field to attract financial resources in the EU and other capital markets.
7. ESMA and national regulators believe that continuous commitment to the use of IFRS is the most appropriate approach in the context of global markets and a growing use of IFRS around the world.

Question 7

The IAS Regulation refers to IFRS as a set of global accounting standards. Over 100 countries use or permit the use of these standards. The US, for instance, allows EU companies listed in the US to report under IFRS. However, it continues to rely on its "generally accepted accounting principles" (GAAPs) for its domestic companies' financial statements, while the EU requires IFRS to be used for the consolidated accounts of EU listed companies.

Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?

- Yes
- No
- No opinion

8. Answer: Yes
9. The IAS Regulation significantly contributed to the global move towards IFRS. The EU took the leadership as other non-EU countries chose to adopt IFRS following the EU decision. Consequently, IFRS constitute the only framework of accounting requirements that is globally accepted.
10. Furthermore, ESMA believes that the EC should encourage the IASB/IFRS IC to put in more effort in providing solutions to implementation issues raised by jurisdictions where IFRS are applied.

Scope

Question 8

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. There are about 7,000 such firms.

In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?

- Yes
- No
- No opinion

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11. Answer: Yes
12. The current scope of the IAS Regulation is relevant for an adequate comparability of consolidated financial statements, as all entities listed on EU regulated markets should apply consistently the same set of accounting standards for consolidated financial statements.

Question 8.1

How would you propose it be changed?

- By making IFRS compulsory for the individual accounts of listed companies on regulated markets
- By making IFRS compulsory for the consolidated accounts of large non-listed companies
- By allowing any company to opt for reporting under IFRS
- Other

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13. Answer: Other
14. A few national regulators consider that the transparency and competitiveness of EU companies could be enhanced if the compulsory application of IFRS were extended to other public interest entities, as defined in article 2 of Directive 2013/34/EU (e.g. credit institutions, insurance undertakings and other large companies). However, Member States should retain the discretion to require or enable the application of IFRS in both separate and consolidated financial statements of companies that are not directly obliged to apply IFRS by the IAS Regulation. Any scope extension should be carefully assessed against potential costs and users' needs.

Question 9

National governments can decide to extend the application of IFRS to:

- ➢ individual annual financial statements of companies listed on regulated markets
- ➢ consolidated financial statements of companies that are not listed on regulated markets
- ➢ other companies' individual annual financial statements.

In your view, are the options open to national governments:

- Appropriate
- Too wide
- Too narrow

- No opinion

15. Answer: Appropriate

16. The option given to national governments in relation to extending the application of IFRS to other companies is appropriate, notably when (separate) financial statements are used for different purposes, such as dividend distribution or income tax calculation.

Cost-benefit analysis of the IAS Regulation

Question 10

Do you have pre-IFRS experience/ experience of the transition process to IFRS?

- Yes
- No

17. Answer: Yes

Question PA.1

How would you rate the administrative and regulatory burden for your authority (e.g. reporting, enforcement) arising from the on-going application of IFRS (excluding costs relating to the initial transition to IFRS)?

If you are an EU agency, please give only a consolidated EU-level response on behalf of the authorities whose responses you are coordinating.

- No significant impact
- Some impact
- Heavy burden
- No opinion

18. Answer: Some impact

19. The burden of the IFRS remains limited, even though it could be perceived as being higher for a few years after a new standard enter into force.

20. However, some national regulators consider the burden to be heavy, mainly because of the frequent modification to the existing standards and the issuance of important new standards, which are often more complex and whose application requires a high level of judgement and extensive consultation for their application at European level.

Question 11

In your experience, has applying IFRS in the EU made companies' financial statements more transparent (e.g. in terms of quantity, quality and the usefulness of accounts and disclosures) than they were before mandatory adoption?

- Significantly more transparent
- Slightly more transparent
- No change
- Slightly less transparent
- Significantly less transparent
- No opinion

21. Answer: Significantly more transparent
22. ESMA strongly believes that the use of IFRS has enhanced transparency of financial reporting. Several academic research papers corroborated the fact that financial information provided by issuers is now more relevant especially for the elements related to recognition and measurement. As a result, this has had an impact on quality and usefulness of the disclosures.
23. Nevertheless, this impact might have been lowered by the disclosure overload, as an increase in quantity of disclosures does not always lead to more transparency. Some investors indicated to national regulators that they are not concerned about the amount of disclosures, but rather about the lack of relevant entity specific disclosures.

Question 12

In your experience, has applying IFRS in the EU altered the comparability of companies' financial statements, compared with the situation before mandatory adoption?

	Significantly Increased	Slightly Increased	No change	Slightly reduced	No opinion
In your country					
EU-wide					
Compared with non-EU countries					

In your country

24. Answer: Significantly increased
25. ESMA strongly believes that the use of IFRS enhanced transparency and comparability of financial reporting.
26. However, ESMA's Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe (ESMA/2013/1664) revealed that there is still

room for improvement. This report includes some findings which demonstrate that comparability remains an issue, for example in relation to deviating structures of the income statement, different content of the line items or divergent disclosures in the notes.

27. Additionally, a few national regulators from countries that had used a fixed presentation format for their primary financial statements under national GAAP expressed the view that comparability of primary financial statements had decreased by applying IFRS.

EU wide

28. Answer: Significantly increased

Compared with non-EU countries

29. Answer: Significantly increased

30. Such comparability relies on the use of IFRS or other equivalent GAAP by non-EU countries.

Question 13

Have financial statements become easier to understand since the introduction of FRS, compared with the situation before mandatory adoption?

- Yes, in general
- Yes, but only in certain areas
- No, in general
- No, except in certain areas
- No opinion
- In which areas?

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31. Answer: Yes, in general

32. The introduction of IFRS has generally improved the understandability of financial statements. However, enhanced transparency through comprehensive disclosure is in some cases limited. Specific aspects related to certain types of transactions are complex and may be difficult to understand; therefore users need more expertise and time to assess the information included in financial statements.

Question 14

Has the application of IFRS in the EU helped create a level playing field for European companies using IFRS, compared with the situation before mandatory adoption?

- Yes
- Yes, to some extent
- No
- No opinion

33. Answer: Yes

34. The use of IFRS in EU has increased transparency and comparability of financial statements across jurisdictions and entities, through the use of a common set of principle-based accounting standards and the improvement of the quality of disclosures that entities are required to make. This has contributed to a strengthening of a level playing field within the single market.

Question 15

Based on your experience, to what extent has the application of IFRS in the EU affected access to capital (listed debt or equity) for issuers in domestic and non-domestic markets that are IFRS reporters? Any examples?

	Made it lot easier	Made it easier	No effect	Made it more difficult	Made it a lot more difficult	No opinion
Domestic capital						
EU capital other than domestic						
Non-EU capital						

Domestic capital

35. Answer: Made it easier

36. Overall, the application of IFRS in the EU has increased the quality of financial statements, resulted in greater comparability and made it easier to attract investors. This enabled listed companies to enhance their access across European and international capital markets.

37. However, some national regulators nuance this aspect with respect to domestic capital, as local investors were accustomed to local GAAP and might have found it difficult to adapt to IFRS.

EU capital other than domestic

38. Answer: Made it easier

Non-EU capital

39. Answer: Made it easier

Question 16

In your experience, has the application of IFRS in the EU had a direct effect on the overall cost of capital for your company or the companies you are concerned with? (Please distinguish - as far as possible – the impact of IFRS from other influences, e.g. other regulatory changes in the EU and the international credit crunch and crisis.)

- Cost has fallen significantly
- Cost has fallen slightly
- No effect
- Cost has risen slightly
- Cost has risen significantly
- No opinion

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40. Answer: No opinion

Question 17

In your view, has the application of IFRS in the EU improved protection for investors (compared with the situation before mandatory adoption), through better information and stewardship by management?

- Yes, to a great extent
- Yes, to a small extent
- It had no impact
- No, protection for investors has worsened
- No opinion

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41. Answer: Yes, to a great extent
42. The application of IFRS in the EU provided investors with enhanced financial information in terms of transparency and comparability of disclosures.
43. The impact of the IAS Regulation should be seen in the context of global changes in the approach to governance and regulatory change that have been undertaken to ensure investor protection. In this respect, IFRS was only one among the drivers of change, and the extent of the improvement varies among EU countries.

Question 18

In your view, has the application of IFRS in the EU helped maintain confidence in financial markets, compared with the likely situation if it had not been introduced?

(N.B.: the “enforcement” section of this questionnaire deals with how IFRS are/were applied.)

- Yes, to a great extent
- Yes, to a small extent
- It had no impact
- No, confidence in financial markets has decreased
- No opinion

44. Answer: Yes, to a great extent
45. The application of IFRS has established a common language of financial reporting to be used by issuers across countries. Evidence of confidence in financial markets can be found, for example, in an increase in trading activity following the application of IFRS, as confirmed by several academic papers.
46. However it should be seen in the context of a wider regulatory change where IFRS has played only a partial role.

Question 19

Do you see other benefits from applying IFRS as required under the IAS Regulation

- Yes
- No
- No opinion

47. Answer: Yes

Question 19.1

If 'Yes' in Question 19 - please specify (you may select more than 1 option).

- Improved ability to trade/expand internationally
- Improved group reporting in terms of process
- Robust accounting framework for preparing financial statements
- Administrative savings
- Group audit savings
- Other

48. Answers: Improved ability to trade/expand internationally ; Improved group reporting in terms of process ; Robust accounting framework for preparing financial statements ; Administrative savings.
49. Overall, the application of IFRS has improved the convergence of regulatory framework in the EU and enhanced the level-playing field between issuers that are required to apply IFRS. It

has provided a better access to international financial markets, and increased transparency, accountability and stewardship to enable global expansion.

Question 20

In your experience, on balance and at global level, how do the benefits of applying IFRS compare to any additional costs incurred – compared with the situation before mandatory adoption, bearing in mind the increasing complexity of businesses that accounting needs to portray?

- Benefits significantly exceed the costs
- Benefits slightly exceed the costs
- Benefits and costs are broadly equal
- Costs slightly exceed the benefits
- Costs significantly exceed the benefits
- No opinion

50. Answer: Benefits significantly exceed the costs
51. Generally, the benefits significantly exceed the costs. However, it might be difficult to provide a general answer as the exact nature of these costs and benefits may depend on the size of the reporting entity.

Endorsement mechanism & criteria

Question 21

In the EU, IFRS are adopted on a standard-by-standard basis. The process, which typically takes 8 months, is as follows:

- ➢ The International Accounting Standards Board (IASB) issues a standard.
- ➢ The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- ➢ The Commission drafts an endorsement regulation.
- ➢ The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- ➢ The European Parliament and Council examine the standard.
- ➢ The Commission adopts the standard and publishes it in the Official Journal.

Do you have any comments on the way the endorsement process has been or is being conducted (e.g. in terms of the interaction of players, consistency, length, link with effective dates of standards, outcome, etc.)?

General comments

52. ESMA provided detailed comments on these issues in its response to the Maystadt draft report (ESMA/2013/1415) and in the letter sent by the 3 ESAs to the European Commission (ESA/2014/001). ESMA supports the strengthening of the EU voice and the improvement of the EU influence in the IASB and in the accounting standard setting process.

53. The length of the endorsement process could reflect the nature and complexity of the standards (e.g. less complex process for small amendments to the standards, or annual improvements could be considered). This could help to ensure that the date of application of the standards in the EU does not differ from the mandatory effective date for IFRS as issued by the IASB.

54. An earlier start of the endorsement process and efforts to shorten the entire process would provide legal certainty for market participants. Furthermore, timely articulation of any common European position at an early stage of the standard setting process can increase the influence of the European position on the development of the standards by the IASB and thus eliminate potential concerns before they arise during the endorsement process.

ESMA position in relation to EFRAG

55. ESMA believes that the responsibility for giving endorsement advice to the EC, who ultimately decides on the adoption of accounting standards within the EU legislation, should be given further consideration and can only be entrusted to a public body that has the duty to protect the public interest.

56. For that reason, ESMA does not see any reason why providing endorsement advice on IFRS should differ from the established processes in other areas of financial regulation where advice to the EC is given by public interest bodies subject to proper due process and public consultation during which the views of private interest bodies can be raised.

57. As those concerns have not been reflected in the proposed structure following the Maystadt reform, ESMA believe that it is important that the points of view of the public interest bodies represented in there are appropriately taken into account.

Question 22

Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's Accounting Directive
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

Are the endorsement criteria appropriate (sufficient, relevant and robust)?

- Yes
- Yes, to some extent
- No
- No opinion

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58. Answer: Yes

59. Integrating new IFRS or amending existing IFRS in the European legislation is an important act which requires political and technical assessment. In view of the importance of financial reporting for capital markets, there is a need for a combination of a well-balanced and objective technical analysis that ensures the provision of decision-useful information to investors and a proper assessment of the public interest.

Question 22.1

In his October 2013 report, Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good:

- that any accounting standards adopted should not jeopardise financial stability
- that they must not hinder the EU's economic development.

Please give any suggestion(s) you may have for additional criteria.

- Not jeopardising the EU's financial stability
- Not hindering economic development in the EU
- Not impeding the provision of long-term finance
- More explicit reference to the concept of prudence
- Consistency with other adopted IFRS
- Criterion concerning simplicity/proportionality
- Other

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60. ESMA generally supports the two new criteria discussed in the Maystadt report. As expressed in its response to the Maystadt draft report, ESMA considers it important to make a thorough assessment of the public interest and requirements to preserve financial stability.

61. ESMA supports the need for further clarification as proposed by Mr Maystadt on the interpretation of the public good criterion, when considering the endorsement of the IFRS Standards at EU level.

62. As part of the endorsement criteria, some national regulators propose a specific consideration to transparency. Indeed, transparent information is necessary to ensure financial stability. The preservation of financial stability should not impede financial statements from providing understandable, relevant, reliable and comparable information.

63. Transparent and comparable financial statements are a pre-requisite for long term financial stability while also providing a reliable basis for investors' decision making and contributing to the general economic development, as stated in ESMA comment letter to the IASB's Discussion Paper *'A Review of the Conceptual Framework for Financial Reporting'* (ESMA/2013/1951).

Question 23

There is a necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs. This is why the IAS regulation limits the Commission's freedom to modify the content of the standards adopted by the IASB.

Does the IAS Regulation reflect this trade-off appropriately, in your view?

- Yes
- No
- No opinion

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64. Answer: Yes

65. The IAS regulation appropriately reflects the trade-off between promoting a set of globally accepted accounting standards and ensuring that these standards respond to EU needs. The criteria foreseen in the IAS Regulation should be assessed to ensure the long-term adherence to the single set of financial reporting standards and comparability of financial statements of issuers across the world.

66. For these reasons, the possibility to modify the content of the standards issued by the IASB should only be used in exceptional circumstances and as the last resort measure. Granting more leeway to the EU to modify standards might increase the risk of developing regional rather than global standards and undermine the key objective of IFRS to provide decision-useful, comparable and transparent information.

Question 24

Have you experienced any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ('carve-out' for IAS 39 concerning macro-hedging allowing banks to reflect their risk-management practices in their financial statements)?

- Yes
- No
- No opinion

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67. Answer: No

68. ESMA notes that the scope of the carve-out of certain requirements of IAS 39 is limited and only affects a limited number of issuers

69. However, users of financial information may find it difficult to understand the financial statements of certain financial institutions as no specific disclosure requirement explain whether and how the carve-out is used. As highlighted in ESMA Review of Accounting Practices: *Comparability of IFRS Financial Statements of Financial Institutions in Europe* (ESMA/2013/1664), such differences may limit comparability and transparency in the financial statements of financial institutions. Therefore, it might be appropriate that the EU clarifies the disclosure requirements about the use of the carve-out.

70. Furthermore, in situations where the mandatory application date in the EU is delayed (which can be another difference between the IFRS as adopted by the EU and the IFRS as published

by the IASB), the IASB and IFRS IC are often reluctant to provide additional guidance or clarification to requests coming from the EU when other jurisdictions have already applied the new standard for a certain period of time. As such, the result of such delay might have consequences that are opposite to the intended aim.

Quality of IFRS financial statements

Question 25

What is your overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS?

- Very good
- Good
- Moderate
- Low
- Very low
- No opinion

71. Answer: No opinion

72. Without expressing full opinion on this question, ESMA believes that the application of IFRS strengthened transparency, understandability and comparability of financial statements. Even though issuers have developed expertise in IFRS and improvements have been noted in many areas, the financial statements of issuers vary in terms of complexity and understandability so that reaching a high level of quality remains more difficult.

73. ESMA has gained from discussions in its European Enforcers' Coordination Sessions an overview of the application of IFRS and performed a detailed assessment of the main topics which pose challenges to issuers. While issuers developed experience in IFRS accounting and improvement has been noted in many areas, ESMA identified significant gaps between practices and IFRS requirements in some areas. Such gaps have been illustrated in various ESMA reports , such as *ESMA Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe* (ESMA/2013/1664), *ESMA Report: European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements* (ESMA/2013/2), *Review on the application of accounting requirements for business combinations in IFRS financial statements* (ESMA/2014/643) or the annual reports on the enforcement activity in Europe.

Question 26

Given that firms have complex business models and transactions, how would you rate financial statements prepared in accordance with IFRS in terms of complexity and understandability?

- Very complex & difficult to understand
- Fairly complex & difficult to understand

- Reasonable
- Not complex or difficult
- No opinion

74. Answer: Reasonable

75. ESMA considers that IFRS promote understandability, transparency and comparability of financial statements across the EU. Financial information should allow users to understand financial statements.

76. In some cases, IFRS might be perceived as rather complex or burdensome because underlying transactions in specific areas (such as financial instruments or post-employment benefits) and/or business models of entities are complex. In general such complexity is not necessarily due to the financial reporting standards but rather due to the complexity of those underlying transactions. ESMA takes note that this issue is currently considered as a part of the IASB's disclosure initiative.

Question 27

How would you rate financial statements prepared using IFRS in terms of complexity and understandability – compared with other sets of standards you use?

	IFRS information is easier to understand than …	IFRS information is neither easier nor more difficult to understand than …	IFRS information is more difficult to understand than …	No opinion
Your local GAAPs				
Any other GAAPs				

What are your local GAAPs?

Please identify other GAAPs you are using as a basis for comparison.

Your local GAAP

77. Answer: No opinion

78. A large number of national regulators consider that IFRS information is neither easier nor more difficult to understand than their respective local GAAP.

79. However, some national regulators consider that IFRS financial statements are more complex with additional disclosures compared to those prepared using local GAAPs. However, their view was balanced by the argument that IFRS allow for better depiction of complex

transactions and require a level of disclosures that provide more relevant information for users' needs.

Any other GAAP

80. Answer: No opinion

81. This issue is not applicable to most national regulators. However, a few national regulators consider that IFRS information is easier to understand than US-GAAP while a few others think it is neither easier nor more difficult to understand than US GAAP.

Question 28

How do IFRS compare with other GAAPs in terms of providing a true and fair view of a company's (group's) performance and financial position?

	IFRS are better than …	IFRS are equivalent to …	IFRS are worse than …	No opinion
Your local GAAPs (as identified under question 27)				
Any other GAAPs (as identified under question 27)				

82. ESMA considers that, from a technical point of view, it is difficult to compare true and fair view of different financial reporting frameworks.

Your local GAAPs

83. Answer: No opinion

Any other GAAPs

84. Answer: No opinion

Question 29

How often is it necessary to depart from IFRS under "extremely rare circumstances" (as allowed by IFRS), to reflect the reality of a company's financial performance and position in a fairer way?

Often

- Sometimes
- Hardly ever
- Never

- No opinion

85. Answer: Hardly ever
86. On the basis of the enforcement experience, such cases almost never occur in the EU.

Question 30

How would you rate the extent to which IFRS allows you to reflect your company's business model in your financial statements?

- This is not an issue
- IFRS are flexible enough
- IFRS should be more flexible, so different business models can be reflected
- No opinion

87. Answer: IFRS are flexible enough
88. Although ESMA have no direct experience of attempting to reflect business models in financial statements, we consider that IFRS provide sufficient flexibility to entities to reflect their business model in their financial statements and to account for their transactions consistently so as to provide useful information to users. For a few regulators, this is not an issue.

Enforcement

Question 31

Are the IFRS adequately enforced in your country?

- Yes
- Yes, to some extent
- No
- Not applicable
- No opinion

89. Answer: No opinion
90. Most national regulators abstain from responding to this question, considering that a judgment on their own practice could be biased.

Question 32

Does ESMA coordinate enforcers at EU level satisfactorily?

- Yes
- Yes, to some extent
- No
- Not applicable
- No opinion

91. Answer: No opinion
92. ESMA prefers to abstain from responding to this question, even though it is aware that differences in powers of enquiry and enforcement occur in different countries and that, as such, enforceability can be applied differently.
93. In order to strengthen consistency of enforcement, ESMA published its *Guidelines on enforcement of financial information* (ESMA/2014/807), which will provide a more developed framework for coordination in this domain. They should enter into force by the end of 2014.

Question 33

Has enforcement of accounting standards in your country changed with the introduction of IFRS?

- Enforcement is now more difficult
- Same
- Enforcement is now easier
- Not applicable
- No opinion

94. Answer: No opinion
95. The mandatory application of IFRS in the EU was applicable for the financial years starting on or after 1 January 2005. Enforcement function has become mandatory following the transposition of the provisions of the Transparency Directive (2004/109/EC). Therefore, in some EU jurisdiction, the enforcement was put in place after the first year of IFRS application. Thus, it is difficult to assess the impact of the introduction of IFRS on enforcement. When analysing the IFRS enforcement over the last years, the quality of financial information provided by issuers has improved.
96. As most national regulators enforce both national GAAP and IFRS, some limited comparison might be done between them. On the one hand, it can be considered that enforcement might have become easier, as IFRS provide a broad set of principles and address more accounting issues. On the other hand, some IFRS provisions require significant judgment leading occasionally to enforceability matters. Suggestions have been made that the IASB should use the implementation group to deal with enforcement issues in cases where IFRS need additional clarifications or guidance in IFRS is insufficient.
97. Please also refer to the comments included in answer to question PA.1

Question 34

In your experience, have national law requirements influenced the application of IFRS in the EU country or countries in which you are active?

- Yes, significant influence
- Yes, small influence
- No
- No opinion
- Not applicable

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98. Answer: Yes, small influence

99. Depending on the country, national law requirements may have had an influence on the application of IFRS. A number of regulators did not have a disclosure culture and national law requirements made the adaptation to the introduction of IFRS challenging.

Question 34.1

If you have identified differences in the way IFRS are applied in different EU countries, to what extent does this limit the transparency and comparability of company financial statements?

- Much less transparent & comparable
- Slightly less transparent & comparable
- No impact on transparency or comparability
- No opinion

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100. Answer: No opinion

101. Some national regulators underlined that the flexibility allowed by the provisions of IAS 1 in relation to the presentation of the primary financial statements format might have a negative impact on the comparability between issuers.

Question 35

If you are aware of any significant differences in enforcement between EU countries or with other jurisdictions, do they affect your practice in applying IFRS or analyzing financial statements?

- Yes, significantly
- Yes, but the impact is limited
- No
- No opinion
- Not applicable

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102. Answer: No opinion

103. ESMA is aware of some situations where issuers might have chosen a different jurisdiction for listing their securities based on the lack of full harmonisation of enforcers' supervisory powers and practices. One of the objectives of the common European enforcement approach is to prevent regulatory arbitrage from happening.

Question 36

The recitals of the IAS Regulation stress that a system of rigorous enforcement is key to investor confidence in financial markets. However, the Regulation contains no specific rules on penalties or enforcement activities, or their coordination by the EU.

Should the IAS Regulation be clarified as regards penalties and enforcement activities?

- Yes
- No
- No opinion

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104. Answer: Yes

105. In order to strengthen the effectiveness of the enforcement, ESMA believes that additional provisions should be included in the IAS Regulation with respect to enforcement activities and their coordination across the EU. Introducing appropriate provisions in relation to the exercise and coordination of the enforcement activities would contribute to the achievement of the overall objective of the IAS Regulation by increasing consistent application of IFRS and strengthening the EU single market.

106. Due to the lack of relevant provision in the IAS Regulation, ESMA has used non-binding tools in accordance with Article 16 of its Regulation and issued guidelines on the enforcement of financial information, which include principles to be followed as part of the performance of enforcement activities. The recently issued guidelines on enforcement have been designed to address relevant issues in relation to enforcement activities.

107. Since the guidelines should only enter into force by the end of 2014, it has not been possible to perform any assessment of their effectiveness yet. Therefore some national regulators consider that, at this stage, the IAS Regulation does not require additional provisions with respect to enforcement activities and their coordination across the EU.

Question 37

Should more guidance be provided on how to apply the IFRS? If so, by whom?

- Yes
- No
- No opinion

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108. Answer: Yes

109. The provision of interpretation or guidance of IFRS should remain the responsibility of the IFRS IC and the principles-based approach should continue to be used as far as possible.

110. IFRS are a principles-based standard which means that additional detailed guidance is not required for each transaction. ESMA believe that more guidance should be provided by the IASB and the IFRS IC on a timely basis. By filling in these gaps in financial reporting, the application of IFRS will benefit from the reduction of diversity in practice.

Consistency of EU law

Question 38

How would you assess the combined effects of, and interaction between, different reporting requirements, including prudential ones?

111. Each of the reporting requirements has different objectives that demand different types of information. As the objective of the prudential regulation is fundamentally different from that of IFRS, it would be unrealistic to unify the goals of different reporting requirements.

112. Finally, ESMA supports the improvement and alignment of various disclosures requirements, where possible with the possibility of cross-references.

Question 39

Do you see any tensions in interaction between the IAS Regulation and EU law, in particular…

	No	**Yes**	To some extent	No opinion
Prudential regulations (banks, insurance companies)				
Company law				
Other				

If 'Other' please specify.

If you answered 'yes' or 'to some extent', please give details and state what the main effects of these tensions are.

Prudential regulations

113. Answer: To some extent

114. IFRS numbers are sometimes used as a base for input in calculating prudential requirements. The purpose of and approach towards prudential regulation is fundamentally different from that of IFRS.

115. The prudential reporting of financial institutions takes into account the macro-economic perspective. However, it mainly focuses on regulatory capital requirements and should not interfere with financial reporting. Prudential regulators tools should not affect financial statements (such as the use of prudential filters that adjust financial results).

116. On the contrary, the IAS Regulation focuses on providing a true and fair view for every entity from a micro economic perspective which also contributes to financial stability.

Company law

117. Answer: No

118. However, some regulators saw tensions to some extent.

Other

119. Answer: No opinion

User-friendliness of legislation

Question 40

Are you satisfied with the consolidated version of IFRS Standards adopted by the EU, which is not legally binding, or would you like to see improvements?

- Satisfied
- Need for improvements
- I wasn't aware of it
- I don't use it
- No opinion

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120. Answer: Need for improvements

121. National regulators consider the consolidated version of IFRS as a useful tool but suggest publishing consolidated versions with regular frequency and developing a user-friendly on-line version with hyperlinks.

122. They also support the translation of additional IFRS material such as the conceptual framework, basis for conclusions and illustrative examples, even though these are not part of European law.

Question 41

Are you satisfied with the quality of translation of IFRS into your language provided by the EU?

- Yes
- Yes, to some extent
- No

- No opinion
- Not applicable

123. Answer: Yes, to some extent

124. ESMA recommend implementing additional quality assurance process of translation as the meaning of a specific requirement of an IFRS may be difficult to understand in national language with a too literal translation which does not capture the economic meaning of the original text.

125. However, some national regulators answered 'No' to this question as they were unsatisfied with the present quality of translation.

General

Question 42

Do you have any other comments on or suggestions about the IAS Regulation?

126. In order to enhance the objectives of the IAS Regulation, the EC could direct the attention of the IASB to the necessity of having a stable set of standards.