



TRANSCRIPT

FEE Seminar IFRS Convergence and Consistency

ING Belgium Auditorium, Brussels
1 December 2005

The need of better involvement of the European Union in the process of the IFRS

Pervenche Berès: Chair Economic and Monetary Affairs Committee, European Parliament

Ladies and Gentlemen,

I am very pleased to take part at the FEE Seminar on IFRS Convergence and Consistency with such a group of distinguished people.

The European Federation of Accountants, acting as the voice of accounting professionals of the entire European Union and being a genuine forum of practitioners, has got a long track of distinct contributions to the debate on the European agenda in the accounting area.

As a European politician, as a Member of the European Parliament, as an advocate of highly competitive European companies at global level, and of strong, well-capitalized and attractive European capital markets, I very much support the idea behind the ambitious project aiming to establish a single set of accounting rules throughout the European Union.

However, as the title of my contribution suggests, I want to use this opportunity to share with you some of concerns that, as guardians of European interests and European legislators, we have in the European Parliament.

The debate we hold today is of paramount importance for all European companies, because the accounting standards, their quality, legal certainty, the way they are enforced, directly affect the European economy, and any shortcomings could put European companies at a competitive disadvantage.

The courageous decision to remove the co-existing plethora of national standards and to replace it with worldwide valid rules is a laudable one. So is the idea that European companies, armed with financial statements of great transparency, comparability, understandability, will enjoy better conditions for raising capital at global level. The IAS adoption was one of the leading FSAP initiatives aiming to upgrade the competitiveness of European companies at worldwide level.

The package of international accounting standards has been adopted; the European Parliament, as a co-legislator, and later exercising the right of scrutiny, has been involved in the adoption process and will certainly remain deeply involved in future.

The 2005 represent a landmark in the accounting history; it will be the first time that European listed companies will have to present their annual accounts in line with IAS/IFRS standards adopted in the EU. Therefore the degree of completeness, consistency and stability of the IFRS framework applicable in 2005 are of the essence.

Despite an important progress achieved in solving certain issues like the IAS 39 fair value carve-out, several issues still need to be addressed in order to achieve a complete and consistent IAS/IFRS framework, i.e. business combination, performance reporting, etc. This fact, together with frequent changes undertaken by IASB, results in difficulties in implementation, raises practical difficulties for the EU endorsement process; and consequently undermines the consistency of the framework in the EU.

Furthermore, every change to IFRS at IASB level must be subject to a close scrutiny by European institutions and their advisory bodies before it becomes an enforceable, binding European law.

The turmoil provoked by constant changes to IFRS standards at IASB level and the perpetual catching up at the European level above all undermine the legal certainty of IFRS platform in the EU.

Changes introduced by IASB in various standards, in particular a reconsideration of measurement techniques which in fact lead to a wider application of measurement at fair value, may not result in a conceptual change without an appropriate in-depth debate.

As I have stated before, the removal of disparities at national level and the cardinal move towards single accounting platform at European level is of great importance to the European economy.

But, European companies, which made important investments in order to comply with a brand new approach - principle-based accounting standards- need above all reliable, comparable, understandable, transparent and stable financial reporting standards. Therefore a call for a regulatory pause and a greater accent on enforcement is useful. At least in this case it would be completely in line with the policy of better law making pioneered by the Commission.

I can assure you that the European Parliament has dealt with the problems accompanying the adoption of the standards since the very beginning. Concerned by the pace of change of standards, the Economic and Monetary Affairs Committee urged the Commission to carry on an evaluation after the first year of implementation of IFRS and to report on this to the Parliament.

Debates on the constitutional review of the IASB and on the (future) role of European Financial Reporting Advisory Group (EFRAG) represent an outstanding opportunity to strengthen the voice and the role of Europe, to improve the IASB corporate governance, and to make the decision-making process at IASB level more balanced. We should fully take advantage of this momentum!

One of the European Parliament's very important concerns relates to the manner in which the EU is present and represented in the IASB, namely on the trustees and on the Board side. A greater transparency towards the European Parliament, especially when it comes to Commission's intended steps in this area, would be a clear asset in ensuring that the EU is represented in the IASB structures in an appropriate way.

EFRAG's role and operation should be enhanced in order to respond to current challenges at European and at worldwide level. This group should function as the European Accounting Board and the Commission and CESR should be more involved in its work.

Nevertheless, this cannot be achieved without finding a balanced solution to EFRAG's composition, financing, and its capacity to contribute to a coordinated European interpretation of accounting standards. The experience shows that an enhanced cooperation between private sector and bodies representing public interests, be it at national or at European level, can deliver a substantial positive contribution in defending European interests. We therefore encourage the Commission to find a speedy and appropriate solution. I know the legal arguments that have recently been used by the Commission. But, being a French socialist legislator, my feeling is that the Commission perfectly knows how to work closely with the private sector if it is willing to do so. Let me mention as an example the cooperation of the Commission with the automobile sector in the CAR 21 structure.

We should be also very careful and fully aware of far reaching implications when considering some of IASB initiatives; most notably when it comes to SMEs that form the very heart of the European economy. So far, the IASB has not proven to have the required expertise relevant for the SME area.

We pay close attention to developments in the Transatlantic Dialogue, in particular to the issues that put European companies at a competitive disadvantage such as the requirement to reconcile financial statements, which are fully in line with IFRS, also with US GAAP.

We also carefully follow the progress in the field of mutual recognition between IAS and US GAAP, and in the IASB-FASB convergence project. The Parliament has already expressed its concerns about the calendar of the convergence process. I believe that the transitory period set up by the SEC roadmap should be shortened in order to minimize turbulences and disturbances aggravating the competitive position of European companies in the US capital market.

Many fundamental issues that require thorough reflexions are still left open. Let me cite a few of them. How can we ensure a uniform interpretation and enforcement of IFRS standards at the EU level? How can we ensure a consistent interpretation and enforcement of accounting platforms at the worldwide level?

This is a focal issue that requires appropriate attention, in particular with regard to the precedent caused by the Basel II project, where rules created by an international standard-setter and deemed to constitute a common risk-based platform for management of financial institutions applicable at the worldwide level, have, up to now, failed to deliver the desired goal.

Ladies and Gentlemen, let me conclude.

The project of single accounting platform valid throughout the European Union and the project of creating a truly international financial reporting are of tremendous importance for European companies and for the European economy.

However, ahead of us we have three crucial tasks:

Firstly, we need a balanced decision-making mechanism for setting IFRS; and its structures need to be revisited with a due regard to the interests of European stakeholders.

Secondly, consistent interpretation and enforcement still need to be addressed in an appropriate manner.

Thirdly, several issues within the Transatlantic Dialogue, which could in future result in major imbalances, call for in-depth reflexions. Today's architecture of public bodies at the worldwide level (IMF, WTO) has up to now not been designed to cope with global challenges arising from the process of setting of the IFRS standards, nor with the issues brought by the convergence project, where consistent mutual implementation and interpretation are of major concern. This is the case for the accounting standards; it is also more and more the case for integration of the whole financial market. For the future, my belief is that we will need a democratic, transparent and accountable forum where these subjects will be discussed, where rules will be written and interpreted; a forum with transparent structures capable of making sure that once all partners have approved the setting of the rules, they all apply them on an equal basis. At the European level, to watch over this process we should maybe think of using the spirit of the Lamfalussy system, where, before entering into the details, politicians are involve right in the beginning in order to define the principles under which the rules should be written, with a right for review.

I will be pleased to discuss further in the future all these subjects with those of you who are willing to do so. Let me end by assuring you that it is of great importance for the European Parliament to make sure that the right balance between all stakeholders is being preserved when these issues are on the table.

Questions and Answers

[NOT YET EDITED BY HANS VAN DAMME]

Hans van Damme: Many thanks for your remarks and your addressing many of the issues as we have discussed today. I have one question myself and we have some time left for a few questions from the audience. You mentioned the evaluation of one year. Why particularly one year and can you be a little bit more explicit about what you have in mind?

Pervenche Berès: I believe it is an important pointer even for all accountants to make sure you have an engagement from the Commission to have this evaluation. Maybe in the end we will find out that one year is too short and that we will need to have an intermediary evaluation next year and to make sure there is a wider evaluation some time after. I think when you look at the kind of problem you're going to face; I would say there are three. How is the implementation going on and how do companies react to the new standards? Then what's going on in the IASB when it comes to new standards elaboration and third the point, obviously, where we need to have a political rendezvous to make sure things are going on the right way, is, of course, the whole subject of the day, the convergence mainly on the transatlantic base. In the European Parliament we were very much concerned after the declaration by the Commissioner in last April when he took this engagement of convergence where we had the feeling that the EU side was giving up their tools in the negotiation even between we knew anything about what the roadmap from the American side would be and because of this we wouldn't like to leave an open situation where European companies are under competitive burden towards American companies. On a technical aspect, as European Parliament, all these subjects are being discussed under comitology and as you know the European Parliament is very eager to use its power and to make sure we have even bigger power when it comes to comitology.

It's a mess because now the Commission is coming every three weeks with a new standard we have to endorse. It's very important, it's crucial but we can't do this every three weeks. The right way to do it is to have this rendezvous with the Commission and then to have a real evaluation of the state of play.

One last point, I have noticed that this is obviously one point the Commissioner has been picking up very clearly in the letter written by President Borrell to President Barroso, so for me it's a clear engagement from his side to come back to Parliament, to have this evaluation.

Hans van Damme: One point which I was thinking of while you speak, is that from the audience, as we sit here, might also be able to do something because you can claim that you are not an expert on accounting standards, well, I think people in this room, in this audience, do really have a distinct interest in accounting.

Pervenche Berès: But I have no doubt they will come to me and tell me what the problems are. They will know how to use the Parliament when they need someone to speak loud against the Commission.

Hans van Damme: I realise that but I was thinking of something else, maybe we can try to illustrate also that we can inform European Parliament in which cases there are no real difficult issues so that you are informed of the issues which are not really the most complex and where you could go easier through the whole process.

Pervenche Berès: You are welcome.

Olivier Azières, French Institute: Madame Berès, when you were not here this morning, we had an SEC speech referring to their decision and there was some optimism in the room that they would move forward as quickly as possible for the cancellation of the reconciliation footnote but in his speech he mentioned the political situation as well in the US and the need to explain to Congress what it is all about and whether the US investors will be well protected if the SEC relax the rule for foreign issuers. There is another role probably for the European Parliament that we could envisage, which is the transatlantic dialogue between the Committee you chair and your colleagues from the US Congress. Do you foresee such an activity in the coming 12 months or two years to help successful landing of this transatlantic initiative?

Pervenche Berès: Of course we will try to do what we can to help to reach that aim but as some of you might know, I have been conducting a delegation from the Economic and Monetary Affairs Committee to the US Congress this summer and the main subject appeared to be Basle II. At this stage I really realised that what I was thinking before going there was the truth that they would not apply Basle II in the right timetable and that we would be the good pupil implementing the standards they've been writing. But then they will come back to us and say now we have to go to a convergence. I think we have some kind of experience of this strategy and we are in strong competition. Now, you have competition through regulation but my feeling is the financial market issue will become a major one in the transatlantic dialogue. This is why at the end of my speech I mentioned this problem of how do you oversee the whole subject in a global strategy because

you can try to take it item after item and you have to do it but I think it's not enough and at some stage it's a question of global players. Nevertheless, when we were in the States this summer, we discussed the IAS issue with Commissioner Campos and Mr Tafara was there but the congressmen we met were not concerned at this stage by the subject so this tells you the long road that we still have to go on before you have real convergence. For me, as long as I don't see the results and the clear engagement, I will not think that the problem is solved. Goodwill is not enough.

Christian Dreyer, CFA Society, Switzerland: I am one of the rare species of investor representatives here and just as an aside I am strongly opposed to strengthening the role of politics within the standard setting field. My question actually is I don't understand where you see the competitive disadvantage that European firms are subjected to in that standard setting process because they're applicable to everybody and there is no competitive disadvantage that somebody could be subjected to.

Pervenche Berès: In Europe, the American companies don't need to apply IFRS because US GAAP are considered as convergent, waiting for the real solution. This is the situation in the EU but the European companies acting in the US need to have the two kinds of standards.

Christian Dreyer: Sorry about that. It's not quite true. That's only required if they actually are listed on the US market and then they are actually subject to the same rules, that makes sense.

Hans van Damme: They are exposed to different type of rules than if you were an American entity entering the European market where you are not in the same type of position and I have heard some discussions that, indeed, it was contemplated at some point in time to say, well, what they do to us they'll do to them and the question, of course, there is whether that is not really counterproductive if you go that route. Maybe, therefore, Madame Berès, was also saying that we have entered into the discussions with empty hands and that might not be the easiest situation to be in and probably from the political side, certainly not with empty hands, but you can discuss about how to apply these procedures in a different form but you would also agree with me that imposing restrictions and reconciliations from US GAAP to IFRS or to European GAAP, would certainly not be in the interests of the financial markets. There is a challenge there.

Christian Dreyer: Like I said, I am opposed to having politics impinging on standard setting everywhere so the same is true for the SEC of course.

Nigel Sleight Johnson, ICAEW, UK: Following your remarks, Madame, on the need to regularly review regulations on accounting standards recently, do you think there's any way in which the complex endorsement process can be simplified or shortened in Europe?

Pervenche Berès: There are two aspects to my answer. I don't like every three weeks that a member of my Secretariat comes up and says, there's a new IAS standard the Parliament has to endorse and you have three months to do it. That's not a good way to deal with legislation especially in very technical matters. I think on the two carve outs, there were very precise points where we clearly need to make sure that all steps of the legislation process would go on. But my feeling is that, in fact, the important subject is to find out and maybe this is up to you to answer to this question, at this stage is it not urgent to have a regulatory pause and that this creative mechanism of new standards would just for a while stop to make sure we have a good enforcement of what has been already decided.

Hans van Damme: Let me thank you again for your availability for this afternoon and for addressing this audience.