



Federation of European Accountants  
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## "Maystadt Review: ensuring EU influence over global financial reporting standards"

### REPORT



On 2 December 2013, FEE (the Federation of European Accountants) and ACCA (the Association of Chartered Certified Accountants) co-organised a roundtable called "**Maystadt Review: ensuring EU influence over global financial reporting standards**", hosted by Dr Wolf Klinz, MEP at the European Parliament in Brussels to debate how to ensure EU influence over global financial reporting standards.

In March 2013, EU Commissioner for Internal Market and Services Michel Barnier appointed Philippe Maystadt as Special Adviser to evaluate whether the EU's International Financial Reporting Standards (IFRS) adoption system was effective and enabled the EU to play its full role in the debate. After having presented his final recommendations at the ECOFIN Council meeting on 15 November 2013, Mr Maystadt discussed for the first time these recommendations - and how they might be progressed - with EU stakeholders.

The roundtable gave rise to a lively discussion. After the key note speech of **Dr Klinz, MEP** and the presentation of his findings by **Mr Maystadt**, a panel of stakeholders, made of representatives from the European Financial Reporting Advisory Group (EFRAG), national standard setters, the preparers/businesses and investors communities and from the accounting profession, debated issues such as how to reinforce the EU's contribution to IFRS, and how to improve the governance of the current EU structures in the field of financial reporting and accounting - EFRAG and the Accounting Regulatory Committee (ARC).

The roundtable was moderated by **Richard Martin**, ACCA Head of Corporate Reporting, and composed of **Hans Van Damme**, Acting Chair, Supervisory Board, EFRAG, **Melanie McLaren**, Executive Director Codes & Standards, Financial Reporting Council (UK), **Agnes Lépinay**, Directrice, Economie Finance, MEDEF, **Mark Vaessen**, Chair, Corporate Reporting Policy Group, FEE, **Jella Benner-Heinacher**, Vice President, Eurofinuse, **Ana Martinez-Pina**, Chair of Spanish Accounting and Auditing Institute (ICAC), and **Olivier Boutellis-Taft**, CEO, FEE.

The debate revealed that the Maystadt recommendations are broadly welcomed by EU stakeholders.

- There was strong support for global standards as well as for the current "standard-by-standard" endorsement system. Conversely, serious concern was expressed regarding flexible endorsement, involving carves-in and carves-out, even with the safeguards envisaged by the Maystadt report.
- It was stressed that EFRAG needs to be a genuine European organisation with participants that will approach issues from a European perspective, and not to be an aggregate of national interests. It needs an effective cooperation between all stakeholders, public and private. EFRAG's Board will need to be composed of high level people with the right background in terms of skills and experience and a strong European commitment. To secure a proper balance in the Board, there was a clear demand to increase the representation of the private sector as the prime stakeholder.
- EFRAG should aim to work on the basis of consensus. However concerns were raised that this may not always be possible and that some provision for decision-making in those cases will be needed.



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## **Main highlights**

### **Wolf Klinz, MEP**

- Accounting is not only a technical subject, but a highly political one too. It has a tremendous impact on the real economy. The financial crisis has shown that the accounting rules do matter and the question of the right valuation is particularly critical. It is in Europe's interest to have a homogeneous set of accounting rules to allow for comparability of accounts between different companies and amongst member states.
- Already in 2002, the EU decided to introduce the IFRS. Since then, not only the stock market listed companies are using it, but also other companies that are internationally active. The European Parliament wants the European interest to be taken into account when those standards are being established by IASB, but do not want to have a special set of accounts for Europe; we are on the contrary interested in seeing the IFRS developing into a truly global set of rules. It is now time to take a closer look at the EU 's endorsement system and see whether it can be made more effective and changed in a way that the EU can really be sure to take care of its interests appropriately.

*NB On 4<sup>th</sup> December, the Council and the European Parliament reached a **trilogue agreement on the EU co-financing of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG), and the Public Interest Oversight Board (PIOB)**. The proposed regulation will form the legal basis for the continuation of the financing of IFRS Foundation and PIOB for the period 2014-2020 and of EFRAG for the period 2014-2016. It namely proposes to contribute annually approximately 4.3 million euro to the IFRS Foundation (17% of its budget), 3.4 million euro to EFRAG (43% of its budget) and 0.3 million euro to PIOB (22% of its budget). The agreement limits the financing period of EFRAG to three years in view of prospective reforms of this organisation following the Maystadt recommendations. After that period, the Commission could propose to continue the financing of EFRAG on the basis of an assessment of its activities and the implementation of these reforms. The vote in EP plenary is set for February 2014.*

### **Richard Martin, ACCA Head of Corporate Reporting**

- The Maystadt recommendations are articulated around 3 main axes: the IFRS endorsement process and criteria, the identification of three options to strengthen the European Union's influence in international accounting standard-setting, and the involvement of EU bodies such as ARC or the European Parliament at an earlier stage with EFRAG. The objective of today's discussion is to try to see where some of the issues of the implementation of these recommendations might come out and what sort of implications they might have.

### **Philippe Maystadt, Special Adviser EC**

- When the mission assigned by Commissioner Michel Barnier started, Mr Maystadt had no preconceived ideas about the outcome. Many meetings were held with stakeholders, which triggered debates and fed into the drafting of the final report. The objective is clear: to enhance the European Union's role in promoting high quality accounting standards. And there is a wide support for that from the stakeholders.

- Key points from the report:
  1. Without any doubt there is a wide support from EU stakeholders to continue using global accounting standards. There is a very broad consensus that IFRS are the best solution for the moment.
  2. More diverse views were received on adoption procedure and the level of flexibility. Most think that the EU should keep the standards published by the IASB. According to the report, the current *standard by standard* adoption procedure should be maintained. It represents the best system to guarantee a sufficient level of EU sovereignty while preserving the comparability of financial reporting worldwide. Some stakeholders would like to go further and have more flexibility. We should be very cautious and precise in this respect. There is a European interest at stake and a qualified majority would be needed in order to go that way. In addition, two endorsement criteria are recommended: accounting standards should not endanger financial stability and economic development of the European Union.
  3. Three options have been examined that could contribute to reinforcing the efficiency of the European contribution to international accounting standards: 1. transforming the current EFRAG; 2. transferring the task of EFRAG to ESMA; 3. creating a new European agency. There is some potential in the second option; however, there is a broad opposition from the majority of stakeholders. According to them, ESMA has a too limited vision of accounting standards which does not necessarily take into account macro-economic consequences and financial stability. Most member states are not in favour of such transfer as well; therefore it is impossible to pursue this option. The third option is from a budgetary point of view no longer realistic. This is why it is recommended to pursue the first option: to restructure the current EFRAG, to ensure a fair balance in the decision making process between private and public bodies and among different member states. Hopefully the new structure will enable EFRAG to continue to play its technical role. At the same time, it would enable EFRAG to carry out a more strategic analysis on the economic impact of IFRS because we would rely on new high level board with increased interactions with technical expert group (TEG). A proposal is made for this board with three new components: 4 members proposed from European public institutions; 5 members representing private stakeholders; 7 members representing national standard setters. 4 largest member states would always have their national standard setters represented in this board and that there would be rotation amongst the others. EFRAG should also play a bigger role in the analysis of the compliance of the standards with the public good criteria. This can be only done through robust impact assessment.
  4. Limited proposals regarding all the bodies involved in the endorsement system. ARC should intervene at the earliest stage of the standard development process, so that it should properly influence EFRAG's activities. Concerning the European Parliament, there should be an early warning system set up. EFRAG should warn the EP in order to guarantee better involvement in this matter.
- There is a tension and many opposite views on different topics. The current system is appropriate; however, there are some stakeholders that are willing to go towards a more flexible approach. If we chose to go this way, it only can be done under tight restrictions. We must stay cautious and make sure that it is done only in exceptional circumstances.
- The goal is to put forward recommendations that can be implemented quickly and, where possible, without legislative proposals by the European Commission. The ECOFIN has given the proposals a 'green light', with some specific tasks given to the Commission for clarification. We need a quicker and more efficient system as soon as possible, given the major IFRS proposals that will have to be endorsed in the months to come, such as on lease-accounting and IFRS9 and also in light of the upcoming European Parliament elections in May.



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**Jella Benner-Heinacher**, Vice President, Eurofinuse

- Private investors see themselves as a translator for the individual investors with regard to accounting. Individual investors do not have the time and the know-how to study in depth annual reports and analyze financial accounts. It is a very important role that they play. Financial reporting principally serves the shareholders to enable them to make reasonable investments. It is essential for individual investors that financial statements are based on high quality, that they are economically neutral and consistently applied. They are looking for standards which deliver reliable financial information.
- First recommendation in the Maystadt report is raising a possibility of carve-ins and more flexibility. From the investors' point of view, a flexible endorsement procedure could also mean that it would be even more difficult to reach global standards. If we apply carve-ins, this will reduce comparability on a global level. Therefore there shouldn't be any national or regional modifications of IFRS standards since it goes in the wrong direction and against the idea of having common international standards.
- Eurofinuse supports the idea in the second recommendation of introducing 2 criteria (not to endanger financial stability and not hinder the economic development in the EU).
- Regarding the recommendation on the board and its composition, one board seat shared by 3 different user groups (private investors, financial analysts and institutional investors) is insufficient, we need a second seat for end-users.
- Europe should have an equal say in accounting standards, therefore the new role of EFRAG to become a strong European voice must be supported.

**Hans Van Damme**, Acting Chair, Supervisory Board, EFRAG

- The endorsement criteria have been amended in 2012 to add a condition of 'respecting the EU public good'. In a letter responding to Mr Maystadt draft report, EFRAG has mentioned the following on endorsement criteria:
  1. The proposal is to clarify that the criterion of "European public good" encompasses both "not endangering financial stability" and "not hindering economic developments of the region". Introducing additional criteria may lead to a change of the IAS Regulation. EFRAG is in principle not against including such criteria, but there is a concern about their application and operability in practice.
  2. In the draft report the suggestion is made that EFRAG should analyse compliance with the prudence principle more thoroughly. EFRAG believes that introducing such a requirement needs further examination.
- In the final Maystadt report it is indicated: "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 Union". These are part of what the Commission describes as the European public good. The recommendation continues: "Alternatively, the Commission could issue a Communication giving guidelines for the interpretation of the "public good" criterion." This may form an angle for discussion and is in line with the comment of clarifying the criterion of "European public good". So far EFRAG is only reporting in its endorsement advices whether it has any reason to believe that the IFRS is not conducive to the European public good. It was the role of the Commission to assess with the ARC whether a standard was conducive to the European public good.
- With the recommendations of Philippe Maystadt an enhancement of the role of EFRAG is envisaged. It is therefore important that members of the new Board are high-level members with adequate profiles notably with a good understanding how financial reporting may affect economic growth and financial stability. This requires profiles very different from the EFRAG TEG members that are technical experts. The new Board has to bring this additional angle to the EFRAG positions.





- Since the publication of the EFRAG, ANC, ASCG, FRC and OIC bulletin on prudence, the subject of prudence has been heavily debated first in the Accounting Standards Advisory Forum (ASAF) and in outreach events that EFRAG has organised with National Standards Setters (NSS) and the IASB. From the debates it has become clear that there is a widely shared common understanding of the prudence principle, what it is and the role it plays in standard setting. The difference of view arises as to whether it needs to be explicitly defined. It therefore seems that the IASB has a good support for reintroducing the concept as playing a role in making financial information reliable in conditions of uncertainty. Everyone insists that it needs to be well defined.

**Mark Vaessen**, Chair, Corporate Reporting Policy Group, FEE

- The Board as proposed would become the decision-making body with respect to endorsement advice and the comment letters to be sent to the IASB. FEE agrees with shifting the decision-making to the Board-level. The composition of the Board has become more skewed towards the public sector, with 5 public interest seats (assuming the Chair will also be from a public interest background) and 7 national standard setters, some of whom (although not all) are semi-public sector bodies. This only leaves 5 out of 17 members directly from the private sector, of which 3 preparers. The balance between public and private should be more even. In particular, having only 1 user and 1 representative from the accounting profession seems to be an under-representation of two important stakeholders groups in the financial reporting chain.
- The collective strength of the new Board as proposed will depend for a significant part on the quality and profile of the representatives, in particular from the national standard setters.
- It will be important that we have a clear description of the profile we expect for future Board members. Mr. Maystadt in his report acknowledges this, it refers to high-level members with adequate profiles, notably with a good understanding of financial reporting and in particular how it is used and how it may affect economic growth and financial stability. Financial reporting knowledge and experience should also be emphasised.
- The Board should be focused on key messages and on major impacts, costs and benefits, and not on the technical detail, with a very good understanding of the standards and the standard-setting process.
- There should a process in place to make sure that the Board as a whole has the right balance of profiles and competencies. In FEE's views, this is a key implementation issue, to be done by a nominating committee, appointed by the General Assembly.
- Key for the success of a restructured EFRAG, to be more effective as the single European voice towards the IASB, is that all Board members come to the table with a truly European mindset. This is going to be a Big Ask, especially from those who will be representatives of bodies who carry a national mandate. In this context, the voting at the Board level is important. Mr Maystadt states in his report that decisions should be made by consensus, and in a footnote clarifies that consensus would not necessarily mean unanimity, but that Board members may also abstain. There are doubts whether this is going to work in practice. It should not be possible for a single Board member, or a small minority, to block decisions because they have to be made by consensus. This issue needs further clarification in the implementation. There could be an alternative of a super-majority (of say 80%) or, no more than, 3 Board members against, as a workable interpretation of what consensus would mean.

**Melanie McLaren**, Executive Director Codes & Standards, Financial Reporting Council (UK)

- The FRC welcomes the inclusive and pragmatic approach Mr Maystadt has taken in his review. It is important to recognize that accounting has a broader impact in the world than the narrower view the professional accountants often bring. We must look across Europe and different cultural backgrounds. Fit for purpose accounting standards are vital to Europe- risk capital and financing key to long term growth in a world where bank and public financing diminished.
- We often tend to agree with each other more often than we disagree. And we do have a habit of emphasizing differences rather than focusing on commonalities. With that in mind, it is important to look at where we have a common approach.



- Different investors may have slightly different perspectives. They are not necessarily coming from a professional background and don't have one organization that unifies them. That being said, looking specifically at the Board - we would prefer to see more investor (user) representation – investors are a broad church. If not, more investors will need to look at how NSS approach investor engagement/representation to gain assurance as to fit for purposeness criteria.
- We are probably putting too much emphasis on an advisory body having to vote rather than give advice. It would perhaps be helpful to have some greater clarity on this. If the board is going to be taking decisions about advice, then it should be capable of giving colour, setting out the pros and cons and highlight the consensus (majority) and outliers. It depends on what choice we make as the European Union.
- Endorsement advice does perhaps require more clarity of input. We agree more often than not – the final balance will need to be agreed with member states.

**Ana Martinez-Pina**, Chair of the Spanish Accounting and Auditing Institute (ICAC)

- The main change is that the comment letters issued by EFRAG TEG would be submitted to the approval of the Board. This is an appropriate measure as EFRAG's main role is achieved through the comment letters that are sent to the IASB and the Commission. Having the approval of the Board, which is composed by European public institutions, stakeholders and Standard Setters, contributes to the objective of transparency and reliability and reinforces European influence on IFRS. Independence of TEG members is compatible with the approval of the Board.
- One concern is the “consensus based decisions” of the Board. This consensus should be clarified in order to avoid blocking the adoption of a standard or its amendment just with a negative vote out of 16/17.
- Regarding the composition of TEG, it is proposed that four experts should come from National Standard Setters provided they meet the expertise criteria. It should be defined which NSS, not just the 4 coming from the NSS with more resources, a rotation system should be included, and also their status (voting members versus observers as it is nowadays).
- The role of TEG should be to give its technical advice, as it is composed by financial information experts.
- All TEG members should have voting rights and decision may be taken with the majority of the voting rights

**Agnès Lépinay**, Directrice, Economie Finance, MEDEF

- MEDEF welcomes the Maystadt report and supports the recommendations.
- The funding of EFRAG depends on the scope of the mission. This should lead to further assessment of how much is needed for EFRAG to fulfil its mission.
- We need to think about the role of different stakeholders in EFRAG. This is a very important question regarding finances. EFRAG is a very specific body and therefore it is very important to note that we need to have a first level of consensus within different stakeholders, not just private interest, at the European Union level.
- There is no miracle solution regarding the funding of EFRAG. If we want to provide EFRAG with a sustainable funding mechanism, we have to:
  1. Preserve the interest of private European organisations to contribute to EFRAG;
  2. Make sure that all member states contribute. At the moment it is not the case. MEDEF is not in favour of mandatory contributions. The real incentive should be to invest in EFRAG. We should motivate people to do so;
  3. Make sure that all contributors have a clear commitment to ensure funding for EFRAG within a certain period. This is crucial in order to get some predictability on financial resources.



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**Olivier Boutellis-Taft, CEO, FEE**

- Accounting is very technical, but also very political. We should not forget that accounting shouldn't be hostage to technicalities, nor to politics, it is a means to an end: trust and transparency. It is time to make it work because it is in the public interest. EFRAG's attention now needs to be focused on Europe's interest in global standard setting, not internal matters or on power fights with or amongst NSS.
- We need investment in Europe, especially foreign investment, therefore we need global standards. We won't have that if we go for flexible endorsement, carve-ins carve-outs - this was rightly outlined by investors who should remain our prime focus.
- We won't have standards at all if we won't use IFRS. We have to remember many difficulties we have faced in order to agree on the accounting directive and the many options opened to member states that are unable to agree on harmonising financial reporting: those who call for flexible, European or local standards – incl. in this Parliament – are simply disregarding reality.
- There is a risk that the same difficulties to agree on anything reappear in EFRAG if it is built like an aggregate of national interests (f.i through NSS) instead of being genuinely European with strong involvement of markets participants that think European or global.
- This is not a fight for power and control, this is not a fight for public or private sector; we are all on the same boat and it is all about cooperation. It is important that the composition of the board is right in terms of quantity and quality. The board, as it is being proposed, is maybe more appropriate for a planned administrative economy than for today's free market global economy. This means that the place of private sector stakeholders will need to be significantly increased.
- Consensus is possible, but very difficult. Consensus is not unanimity; it is ending up to a mutually acceptable solution. To reach that goal you need incentives. We cannot wait because the influence on IASB cannot depend on national or political fights. Europe will become irrelevant if we continue to go this route.
- Financial reporting is aimed at market participants, and first and foremost at investors. Public interest will be best met by cooperation between all stakeholders: public and private. It is interesting to remember that at the beginning EFRAG was exactly that: a private sector initiative in the public interest. There should be more recognition of the private sector contribution as without this initiative Europe would have been at a loss.
- The presented report is a very useful step forward. It is now time for the Commission to make its intentions clear on how we are going to take this forward. It is time to put national and sectoral divergences aside and unite Europe to make its voice heard on the global stage.

**For more information please contact**

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