afme/ Finance for Europe

30 September 2013

Ms Anne Francoise Melot
DG Internal Market & Services
Rue de Spa 2
1000 Brussels
Belgium

By email: Anne-Francoise.MELOT@ec.europa.eu

Dear Anne Francoise Melot,

Should IFRS standards be more European? – Mission to reinforce the EU's contribution to international accounting standards

The Association for Financial Markets in Europe (AFME)[1] welcomes the opportunity to comment on the Draft Report by Philippe Maystadt entitled "Should IFRS standards be more European? – Mission to reinforce the EU's contribution to international accounting standards" ("the Report").

We note the letter from ISDA dated 25 September 2013 on the Report. AFME members broadly support ISDA's comments on the recommendations in the Report and its observations on some of the key additional topics discussed in the Report, which were considered in formulating those recommendations. Further to the above, AFME's members have the following specific comments on the recommendations in the Report:

Recommendation 2.1

AFME members continue to strongly support the concept in recommendation 2.1 of developing a single set of high-quality global accounting standards. We also support the G20's call for the IASB and FASB to finalise, by the end of 2013, their work on the key outstanding projects for achieving convergence on a single set of high-quality accounting standards in order to enhance the resilience of financial markets, as noted in their communication from Moscow dated 19-20 July 2013. Our members believe that the work of the IASB and FASB on convergence has improved the quality, comparability and reliability of financial information and, despite their recent differences, strongly encourage the two boards to continue to work together to further converge their accounting standards in order to develop a single set of global high quality accounting standards.

Recommendation 2.2

Our members support the consensus in recommendation 2.2 of maintaining a standard-by-standard adoption procedure for adoption of IFRS in the EU. Like ISDA in their letter dated 25 September 2013, we strongly disagree with

[1] AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

Association for Financial Markets in Europe

St. Michael's House, 1 George Yard, London, EC3V 9DH T: +44 (0)20 7743 9300 F: +44 (0)20 7743 9301 www.afme.eu
Company Registration No: 6996678 Registered Office: St. .Michael's House, 1 George Yard London EC3V 9DH

amending the existing endorsement process to allow for either changes to be made to a standard issued by the IASB (i.e. a 'carve-in') or the development of alternative standards for use by EU companies. [2]

As noted by ISDA, we believe that this would be a first step in the fragmentation of accounting standards, ultimately reverting back to a system of national standards, and would therefore relinquish the many advantages that the implementation of IFRS in the EU in 2005 and the recent convergence efforts of the IASB and FASB have brought including, for example, the elimination of the US GAAP reconciliation previously required by the SEC for foreign private issuers in the US.

As also noted by ISDA, we do not believe it would be appropriate for the EU to set up a separate standard setting body, and we agree with ISDA that this would be a retrograde step that should be avoided as it would, in our view, ultimately disadvantage EU companies.

Recommendation 2.3

In relation to Recommendation 2.3, we support the proposals in option 1 of transforming EFRAG including, in particular, the requirement for EFRAG to continue to focus on its technical role regarding IFRS, and for the establishment of a high-level supervisory board to approve comment letters to the IASB and the adoption opinions proposed by the Commission.

We believe that this structure would enable EFRAG to continue to fulfil its technical advisory role, but would also facilitate the assessment of the economic and political impact of new standards, to the extent that is feasible, and their contribution to the public interest in Europe, thereby addressing one of the main criticisms of the existing operational structure.

Our members further believe that the revised structure would, to the extent possible, allow the economic and political implications of new standards to be assessed at an earlier stage in the development process, thereby reducing the need for a 'carve-out', 'carve-in' or similar arrangement. This contrasts to the existing operational structure, where such drastic action may be the only available option for the ARC given the late stage at which it becomes involved in the approval process.

Notwithstanding the above, our members do have significant concerns over the practicalities of reviewing and assessing the economic and political impact of new and amended accounting standards on European companies, and with how that process can be effectively put into operation. We therefore believe that the continued focus of EFRAG on the technical merits of new and amended standards remains of critical importance and should accordingly continue to be a key driver in the EU process.

We do not support option 2, whereby the responsibilities of EFRAG would be transferred to ESMA to create a European body similar to the Securities Exchange Commission (SEC) in the US. Like ISDA in their letter dated

[2] Please note, one of our members would support the EU retaining the option to make specific amendments to IFRS in very rare, narrow and specific circumstances.

25 September 2013, we believe that enforcement of securities and market rules should be separated from involvement in the standard setting process (although ESMA should of course have involvement in the standard setting process, both in terms of feeding in to the PIRs and also commenting to EFRAG), and that this structure would not address concerns that the current process does not sufficiently consider stakeholder input.

Like ISDA, we also believe that option 3, which proposes the replacement of EFRAG by an agency of the EU, should not be given further consideration as this would not be an efficient use of resources given that, in our view, the same objectives can be effectively achieved by reforming the existing structure.

Finally in relation to recommendation 2.3, although we accept that the European influence on the IASB would be strengthened if the position taken by EFRAG represented a coordinated European view, we are not certain that it would be feasible in practice to achieve consensus or at least the adoption of a common position by the majority of stakeholders given the diversity of views that frequently prevails amongst European constituents.

Furthermore, we also believe that developing a consensus view and not expressing the differing views held amongst constituents could detract from the standard setting process by not identifying all potential issues during the development of a standard. Moreover, given the time taken to develop new or amended standards, we do not believe that the process should be further delayed in order to allow for the gradual development of a consensus or majority view amongst European constituents.

Recommendation 2.4

Our members support the expected development of the ARC into a group of experts with a more advisory role for the Commission, including discussions on accounting policy subjects. We believe that this would facilitate earlier discussion of the economic and political impact of new and amended standards for European companies which, as noted above, should allow more time for these to be addressed without having to resort to such drastic action as a 'carve-out' or 'carve-in'.

Recommendation 2.5

We support the measure proposed in recommendation 2.5 of setting up an early warning system from EFRAG to the Parliament. In order to achieve this measure in the most efficient and cost effective way, we would suggest exploring whether the measure could be effectively fulfilled by the ARC or the new Supervisory Board referred to in recommendation 2.3.

Recommendation 2.6

In principle, we agree with the concept of setting up an advisory group of “standardisation specialists” to advise the Commission on its participation in the Monitoring Board of the IASB as proposed in recommendation 2.6. However, we believe that this role could be performed through EFRAG and the new Supervisory Board proposed in option 1 of recommendation 2.3. In our view this would avoid the introduction of another level of bureaucracy into the process and should therefore be more efficient and cost effective.

We would be pleased, of course, to further discuss the issues covered in this letter or to provide further information about any of the matters which our members have raised if that would be helpful.

Yours sincerely,

RD Middleton

Richard Middleton
Managing Director
Accounting