NON-PAPER OF COMMISSION SERVICES DG FISMA

MEETING OF THE ACCOUNTING REGULATORY COMMITTEE (ARC)

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AGENDA ITEM V

This non-paper has been drafted for the sole purpose of continuing the discussions within the ARC on the meaning of the European public good criterion and its relevance to the endorsement process.

This non-paper does not bind the Commission services to continue the analysis or to initiate any other type of action on this matter.

European Public Good

The Regulation 1606/2002 (hereafter the IAS Regulation) was adopted under the current Article 114 TFEU – Approximation of laws – which aims at establishing or ensuring the functioning of the internal market. This regulation states that in order to contribute to a better functioning of the internal market, publicly traded companies must be required to apply a single set of high quality international accounting standards for the preparation of their consolidated financial statements.

Those international accounting standards are then endorsed in the Union law, if the criteria stated in Article 3 of the IAS Regulation are met. In other words it has to be proven in the context of the endorsement process that the international accounting standards can only be adopted if:

• They are not contrary to the principle set out in Article 4(3) of Directive 2013/34 and **are conducive to the European public good** and,

• They meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

Guidance on the reading of certain criteria has been provided by the case law of the Court of Justice of the European Union (see working paper on the true and fair principle already distributed to the ARC members). In the case of the criterion of public good neither the European legislation nor the case law of the Court of Justice provide a definition of this criterion in the context of the IAS Regulation.

The ultimate purpose of the IAS Regulation is the adoption and use of international accounting standards in the EU with a view to harmonising the financial information presented by the companies in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market. Moreover, it attaches importance to financial reporting standards becoming accepted internationally and becoming global standards so that

EU companies could compete on an equal footing for financial resources in the world capital markets.

At the time of adoption of the IAS Regulation by the co-legislators, the endorsement of the International Accounting Standards were considered as a proportionate means of meeting the general objectives of the IAS Regulation listed in the recitals.

By enhancing the transparency and comparability of financial reporting, the following objectives would be achieved:

→ Building an integrated capital market;

→ Reinforcing freedom of movement of capital in the internal market;

→ Competitiveness of Community capital markets.

The recent work done by the Commission in the context of the Report on the evaluation of the IAS Regulation on the application of international accounting standards (COM(2015)301) and its related staff working document of 18 June 2015 confirmed that the objectives of the IAS Regulation were reached via the EU endorsement process of IFRS and these objectives remain relevant today. Moreover the report recognised the concept of public good as being generic enough to have meaning and as allowing flexibility in practice.

Therefore assessing whether a standard meets the criterion of public good, should in general take into account the following elements:

→ It should not endanger financial stability;

→ It should not hinder the EU economic development;

→ The impact of the new standard on the competitiveness of European undertakings.

→ It should have added value for the Union, for example it is an improvement on the accounting rules with respect to the issues at stake.

The above mentioned shall not be considered, in any case, as exhaustive. In the context of the endorsement procedure of International accounting standards it will be decided on a case by case basis which of these particular elements EFRAG should focus on in its analysis when assessing the public good criterion and whether any other factors (e.g. long-term investment) should be considered.