AccountancyAge

EU tells IASB and Efrag to toughen up governance regimes

by Jeremy Woolfe 08 Oct 2013

A MOVE to toughen up the governance regimes for IFRS standardsetter the IASB, and, in Brussels, the Efrag advisory body, has been cleared through the committee stage in the European Parliament.

MEPs are unhappy about the undue influence players in the financial sector are able to wield over these bodies.

The Economic and Monetary Affairs Committee (Econ) of the European Parliament is asking that funding arrangements for the IASB and Efrag "will be reliant on the IASB achieving certain milestones in terms of updating its own governance".

This comes in a series of amendments that will have the payments made annually, and be renewable under conditions set by the parliament. This will replace the financial support regime for the institutions from a guaranteed payment of the €60m (£50.7m) funding for the period 2014 to 2020.

The bulk of the funding is for the IASB. Also involved, to a lesser extent, is the Public Interest Oversight Board, based in Madrid.

One prime mover of reform on the subject, Syed Kamall MEP, welcomes Brussels's dig at the IASB-Efrag parties. He referred to issues surrounding the accounting for bankers' bonuses as an example of its failings.

He stated: "Investor groups have questioned whether [IFRS standards] were faulty...thereby allowing banks to pay bonuses out of non-existent reserves and to avoid provisioning for potential losses."

Another of his gripes concerns that, in both the IASB and Efrag, investors are not represented fully. Here, a justification note with the amendments calls for "full consultation with relevant stakeholders". Kamall also complains of what is described as undue influence by US interests on the IASB.

In a press release, he writes that the initiative from the parliament means that MEPs have sent a strong signal that the "status quo is unacceptable". Among other charges, as set out in the text of the amendments, is a note that a particular IAS regulation has, since 2002, been changed in "several significant manners".

It points the finger at the word "prudence". By this it refers to rules that allow "not booking unrealised profits". It also includes a stewardship role, dealing with the capital maintenance function of accounts.

Support for the "prudence" amendment comes from Kamall, Sven Giegold (German, green party), Theodor Dumitur Stolojan (Romanian, liberal), Wolf Klinz (German, liberal) and Sharon Bowles (British, liberal, and chair of the Econ committee).

As for Efrag, it is told to: "take up the role of the ‘single European accounting voice'." The relevant amendment seeks to combat what it describes as "significant differences of opinion that already exist between member states".

Efrag was established in 2001, under encouragement of the European Commission, to provide input into the development of IFRS issued by the IASB and to provide the European Commission with technical expertise and advice on accounting matters. Also on the MEP's target for change is influence by Efrag on the IASB.

Strong support for the parliament's initiative comes from the retail shareholders' interest lobby, the European Federation of Financial Services Users (EuroFinuse). Its managing director, Guillaume

Prache, comments that Efrag, which benefits from public funding, should have a more balanced representation.

At present, of the 17 current members of its supervisory board, only four represent the "user" side, three from banks, only one from asset management, and none representing "true" investors. Others represent national reporting authorities, auditors, accountants and executives of listed companies, Prache tells *Accountancy Age*.

Another commentator, in the offing, is Philippe Maystadt, former president of the European Investment Bank. A report from him, for the European Commission, is expected to be presented in November. It may suggest significant changes to Efrag.

Unsurprisingly, opposition to the Brussels stance comes from the oversight body of the IASB, the IFRS Foundation. Michel Prada, its chairman, wrote in July that: "While the trustees recognise that the draft amendments include valid topics...it would not be possible for the IFRS Foundation to accept funding contributions that are contingent on the outcome of the IASB's independent standard-setting process."

In his letter, addressed to the MEP Theodor Stolojan, he warned that the actions "may well lead to retaliatory actions, from other jurisdictions, seeking influence".

Another body opposing the amendments is the Federation of European Accountants. In September, it wrote, also to Solojan, warning that: "A European standard setter producing European standards would not only be costly but...would isolate Europe on the world stage..."

Its president, André Kilesse, and Olivier Boutellis-Taft, chief executive, find that the amendments would go against the European public good.

Now, the subject is about to be dealt with in three-way, 'trialogue', sessions in the Council of the EU, the podium for EU member state governments - in this case finance ministries, plus the parliament, and the European Commission.

Currently, the council matters are coordinated by its presidency, which is held by Lithuania until the end of December. Then Greece takes over for the following six months. Separately to the IASB-Efrag amendments, the council is being censured for lumbering progress in failing to clear financial legislation through in any reasonable time.

For instance, it took the member state governments a good part of a year just to come up with their own common position on the MiFID package, which includes measures to control OTC trading.

The council is also accused by MEPs, including Giegold, of "listening to big banks in the respective countries", meaning outside lobbying, causing delay. He fears that hope for the planned clearance of the legislation before the end of the year is in danger.

Jeremy Woolfe is a freelance journalist based in Brussels

© Incisive Media Investments Limited 2013, Published by Incisive Financial Publishing Limited, Haymarket House, 28-29 Haymarket, London SW1Y 4RX, are companies registered in England and Wales with company registration numbers 04252091 & 04252093