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Michel Prada, Chairman
IFRS Foundation
30 Cannon Street
London
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United Kingdom

12.09.2016, Brussels

Dear Mr Prada,

We welcome the opportunity to share our comments on the Trustees' Exposure Draft of amendments to the IFRS Foundation Constitution to review the governance structure of the IFRS Foundation and its effectiveness.

In its resolution[1] of 12 April 2016 on the EU role in the framework of international financial, monetary and regulatory institutions and bodies, the European Parliament has pointed out the need for further measures to enhance democratic legitimacy, transparency, accountability and integrity.

With regard to the IFRS Foundation and the IASB, this concerns, inter alia, public access to documents, open dialogue with diverse stakeholders, the establishment of mandatory transparency registers and rules on transparency of lobby meetings as well as internal rules, in particular prevention of conflict of interests and diversity of hired experts.

Beyond that, as expressed in European Parliament's resolution[2] of 7 June 2016 on International Accounting Standards (IAS) evaluation and the activities of the IFRS Foundation, EFRAG and PIOB, we support the European Commission recommendations that the Monitoring Board of the IFRS Foundation should shift the focus of its attention from the issue of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation. We want to point out that IASB's legitimacy is at stake if the Monitoring Board continues to disagree over its responsibility while depending on consensus decisions.

Additionally, we support better integration of the IASB into the system of international financial institutions that will guarantee high-quality accounting standards.

Moreover, we support the European Commission in urging the IFRS Foundation to ensure that use of the IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB. Therefore, we call for

[1] P8_TA(2016)0108.
[2] P8_TA(2016)0248.

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exploring ways to reform the IFRS Foundation and the IASB in order to remove veto rights from members which do not fulfil the aforementioned criteria.

With regard to the IASB, we note the dominance of private actors and point out that medium-sized businesses (SMEs) are not represented at all. However, we are convinced that all relevant stakeholders (such as SMEs, trade unions, consumer representation agencies and finance ministries) should be represented on the IASB.

As International Financial Reporting Standards (IFRS) represent a public good, they should serve the common good and not only the interests of investors, lenders and creditors. Tax avoidance and tax fraud of multinational companies are currently undermining public confidence in the social market economy. Therefore, we reiterate European Parliament's view that public country-by-country reporting can play a decisive role and therefore we call for mandatory country-by-country reporting under IFRS.

Additionally, we ask the IASB to involve the European Parliament and the Council of the European Union at an early stage when developing financial reporting standards in general and in the endorsement process in particular.

Equally, the IFRS Foundation continues to rely on voluntary contributions, often from the private sector, which may give rise to a risk of conflicts of interests. Therefore, we call on the IFRS Foundation to aim for a more diversified and balanced financing structure, including on the basis of fees and public sources.

As a matter of principle, we call on the IFRS Trustees, the IFRS Monitoring Board and the IASB to promote an appropriate gender balance within the respective forums.

Furthermore, we are convinced that only simple rules can be effectively applied by users and controlled by supervisors. Therefore, we recall that, in its statement of 2 April 2009, the G20 called for less complexity in accounting standards for financial instruments and for clarity and consistency in the application of valuation standards internationally, working with supervisors. As we are concerned about the persisting complexity of the IFRS, we call for this complexity to be reduced wherever appropriate and possible when developing new accounting standards. We believe that a less complex accounting standards system will contribute to more uniform implementation so that company financial data are comparable between countries. This factor should be monitored by a specific mechanism in the internal governance.

Moreover, we believe that the effects of an accounting standard must be fully understood. In the absence of a quantitative impact assessment, as it is the case for IFRS 9, it is not possible to assess the impact of new accounting standards on financial stability and long-term investment. The G20 Leaders' Statement of 2 April 2009 and the report of the High-Level Group on Financial Supervision in the EU, chaired by Jacques de Larosière, of 25 February 2009 highlighted key issues with respect to accounting standards ahead of the financial crisis including off-balance sheet accounting, the procyclicality related to the mark-to-market principle and profit and loss recognition, the underestimation of risk accumulation during cyclical upturns and the lack of a common and transparent methodology for the valuation of illiquid and impaired assets. Therefore, we insist that it

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should be a priority for the IASB to strengthen its impact analyses, notably in the field of macroeconomics, and to assess the different needs of the wide variety of stakeholders as well as the general public.

Equally, we support the European Commission's proposal to consider the reporting needs of investors with different investment time horizons and to provide specific solutions, in particular for long-term investors, when developing new IFRS.

We take the view that key long-term structural issues such as the valuation of stranded carbon assets in undertakings' balance sheets should be explicitly added to the IFRS working programme with a view to developing related standards. Therefore, we welcome the activities of the IFRS Foundation/IASB in carbon and climate reporting and call on the IFRS bodies to put the challenge of carbon reporting and carbon risks on their agenda.

Finally, we are of the opinion that the remuneration of the IASB Board members does not correspond with the public interest orientation of IFRS/IASB. For example, the IASB Chairman Hans Hoogervorst received USD 875 458 as compensation from the IFRS Foundation in 2014.[3] Therefore, we call for reducing immediately any excessive remuneration.

Kind regards,

Sven Giegold
MEP

[3] http://990s.foundationcenter.org/990_pdf_archive/134/134164140/134164140_201412_990.pdf?_ga=1.173606179.1005172915.1433700404

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