Martin Boer
Director
Regulatory Affairs

July 20, 2018

Mr. Olivier Guersent
Director General
Directorate-General Financial Stability, Services and Capital Markets Union
European Commission
Rue de Spa 2
1000 Brussels Belgium

Re: European Commission Fitness Check on the EU Framework for Public Reporting by Companies

Dear Mr. Guersent:

The Institute of International Finance ("IIF") would hereby like to contribute to the European Commission's (EC) consultation on the European Union ("EU") Framework for Public Reporting by Companies (the "Consultation") and reemphasize its longstanding position on the importance of a consistent international accounting framework[1]. We appreciate that the Consultation covers a broad range of issues pertaining to the EU public reporting framework, and our comments are concentrated specifically in regard to international consistency and the convergence of accounting standards.

First, the IIF welcomes the EC's initiative and agrees that sound and effective financial public disclosures are crucial in that they contribute to helping companies raise capital on public markets. In that context, the IIF has long advocated for high-quality and globally consistent accounting standards. International consistency is key to ensure a global level playing field and we believe as well that consistent application and implementation of international accounting standards allow users of financial statements to assess and compare key financial information across jurisdictions, which in turn promote market discipline. In this regard, the adoption of the IFRS standards by the EU in 2005 has clearly improved the transparency and comparability of financial reporting within the EU and brought added value to the EU in creating a common accounting language for capital markets.[2]

Furthermore, the IIF would like to underscore the importance of interaction between international prudential regulatory and accounting standards. As stressed in the Consultation, prudential requirements and capital ratios are primarily based on accounting values. Differences between national GAAPs or between national GAAPs and IFRS would lead to different prudential outcomes, which would inevitably complicate comparability of firms' regulatory and other financial metrics.

Against this background, we are concerned by the possible implications of Question 19 of the Consultation, which questions whether Regulation 1606/2002 ("IAS Regulation") should allow modifications to the contents of IFRS. Indeed, the introduction at the European level of a mechanism that allows changes to the contents of IFRS may turn out to undermine global consistency of accounting standards. Rather, we strongly urge the EC to pursue its well-established engagement in the international standard setting process and continue to give preference to approaches consistent

[1] The Institute of International Finance is the global association of the financial industry, with close to 450 members from 70 countries: www.iif.com

[2] See EC, *Report on the Evaluation of IAS Regulation* (June 2015)

with international accounting.

It is especially important to note that the IASB already provides effective mechanisms to address possible concerns at the international level. Firstly, the IFRS Interpretations Committee (IFRIC), which supports the application of the IFRS standards, is designed to deal with any issues around interpretation. Secondly, the Post-Implementation Review (PIR) is especially worthy of consideration in the context of this discussion as it determines whether the standards have achieved their objectives and whether additional work is desirable. As an illustration, the upcoming PIR of IFRS 9 will be of foremost importance for the financial services industry, and provides a way to address EC's possible concerns like the effects of IFRS 9 on long-term investment in the EU.[3]

If, however, the EC ultimately considered that there was a need to allow the EU regulation to depart from the IFRS Standards, the reasons for differences should be well understood, articulated, and subject to public discussion. Such explanation would be especially crucial if differences are driven by perceptions of specific features of the EU economy or business models. More importantly, any modification of IFRS should be used as a last resort and "strictly regulated by precise and restrictive criteria and conditions" as recommended in the Maystadt report.[4]

Finally, the IIF believes that, at this point in time, the key priority should be to ensure the success of the adoption of IFRS 9 in the EU. The banking industry shares the EFRAG's view that IFRS 9 brings a distinct improvement over the IAS 39 and the new standard should be overall conducive to the EU public good.[5] The industry has been committed to a high-quality implementation since its finalization, but the implementation of IFRS 9 has represented a significant challenge for banks. Specifically, the shift from the IAS 39 incurred loss models to the IFRS expected loss models required substantial investments in new models, IT infrastructure, data collection and human resources. In this regard, any regulatory fragmentation would be particularly detrimental as it would undermine consistent application of the standard at group level as well as give way to costly and unnecessary duplication of local set-ups to meet specific national requirements.

The IIF hopes you find this letter helpful and we remain at your disposal for further elaboration and discussion of the issues we have raised. If you have any questions on this letter please contact the undersigned or Hassan Haddou at the IIF (hhaddou@iif.com).

Yours sincerely,

Martin Boer
Director
Institute of International Finance (IIF)

[3] See IASB, *Sue Lloyd: IFRS 9 and equity investments* (April 2018) at https://www.ifrs.org/news-and-events/2018/04/ifrs-9-and-equity-investments/
[4] See Philippe Maystadt, *Should IFRS Standards Be More "European"?* (November 2013)
[5] See EFRAG, *Endorsement Advice on IFRS 9 Financial Instruments* (September 2015)