



July 27, 2018

Directorate-General for Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Bruxelles/Brussel
Belgium

Dear Sirs and Madames:

The Institute of Management Accountants (IMA) is a global association representing over 100,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, proposed standards and other documents issued by standard setters and regulators. The FRC proactively brings relevant issues to the attention of these organizations and suggests solutions on behalf of IMA's members and the profession at large. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The FRC is pleased to comment on the European Commission's Consultation Document, *Fitness Check on the EU Framework for Public Reporting By Companies*. The FRC has completed an on-line submission to the Consultation Document, and wishes to highlight specific points in this letter.

Based on the expertise of our committee members our response is limited to the following Question 19 of the Consultation Document.

Given the different levels of commitment to require IFRS as issued by the IASB around the globe, is it still appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS?

For the reasons stated in this letter, the FRC believes that, 'Yes,' it is still appropriate for the IAS Regulation to require the use of IFRS as issued by the IASB for the consolidated accounts of listed companies.

No New Arguments

The FRC is previously on record, in a April 2011 letter to the US SEC Chairman about the IASB's due process and in a July 2011 letter to the IFRS Foundation Chief Operating Officer about the Report of the Trustees' Strategy Review, of supporting a goal of countries adopting IFRS without modification.

Setting aside issues related to interaction with national legislation, technical superiority, or administrative burden since taking its positions in 2011, the FRC has not identified compelling arguments to support changing the current endorsement process, which prevents the Commission from modifying the content of IFRS.



Transparency and Comparability

The FRC believes that the reasons cited by the Commission Evaluation of the IAS Regulation in 2015 for preventing modification of IFRS remain relevant. The primary reason for opposing modification was to achieve greater transparency and comparability of financial reporting. Permitting modifications of IFRS for EU financial reporting purposes could prompt other jurisdictions or countries to modify IFRS, thereby negatively affecting global financial reporting transparency and comparability, and consequently affecting access to capital markets.

Both financial markets and the investor community have become global. Unmodified IFRS facilitates the efficient flow of capital. This would include small and medium-sized enterprises (SME's) entering the financial markets.

Some have argued that the lack of flexibility (i.e., inability to modify IFRS) prevents the EU from reacting if these standards pose an obstacle to broader EU policy goals such as long-term investments and sustainability. The FRC believes that argument is unfounded, and notes that, in fact, the Commission Evaluation found evidence of improved capital market outcomes, specifically, higher liquidity, lower costs of capital, increased cross-border transactions, easier access to capital within the EU and at a global level, improved investor protection, and maintenance of investor confidence.

Credibility and Acceptance in a Global Economy

The FRC believes that using unmodified IFRS has significantly increased the credibility and use of IFRS worldwide and within the EU. Countries that adopt IFRS without modification recognize that participants in a global economy need a body of global standards that is applied consistently and, equally important, applied in its entirety. EU companies that use modified IFRS might find their access to capital impaired because their financial statements would lack credibility and acceptance in the global capital markets.

The FRC notes that the 2015 European Commission review of implementation of IFRS corroborated the findings of the earlier Maystadt Review that introducing modifications to IFRS would have negative effects on advancing globally accepted financial statements including encouraging regional standards rather than global standards, and encouraging pressure on standard setting by private interests. In addition, we believe that the EU, which is a significant constituent in the IFRS community, would be perceived to be placing its own objectives above the fundamental financial reporting objectives adopted by the broader IFRS community, thereby undermining the goal of a single set of global standards.

Potential Consequences

There could be unintended consequences in US capital markets of modifying IFRS in the EU. The US SEC allows foreign issuers to use IFRS in US markets. Permitting modified IFRS within the EU would create an administrative burden for an EU company that would then have to reconcile its financial statements for use in US capital markets, and would increase the cost of compliance for the financial statement preparer community.

In summary, the FRC observes that the issue of allowing modifications to IFRS has been debated in many forums during the last 20 years. Until groups advance compelling new arguments to support modification, IMA's FRC believes it is appropriate for the EU to continue to endorse IFRS without modifying its content.



The Association of
Accountants and
Financial Professionals
in Business

Thank you for the opportunity to respond. We would be pleased to discuss our comments with the staff of the Directorate-General at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA
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Institute of Management Accountants
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