More transparency and accountability needed in bodies setting international accounting standards

MEPs are calling for improvements to the governance of the International Accounting Standards Board and the International Accounting Standards Committee Foundation to address concerns that they may lack transparency and accountability since they are not under the control of any democratically elected parliament or government.

In a report drawn up by Alexander Radwan (EPP-ED, DE) and adopted by 373 votes in favour to 21 against with 13 abstentions, Parliament welcomes the moves made by the IASB – the body which draws up the International Financial Reporting Standards (IFRS) which EU law requires stock exchange-listed companies to use for their accounts – and the International Accounting Standards Committee Foundation – the IASB’s oversight body – have made to redress these deficiencies, but it argues that there is more to be done. A debate should be launched, it says, on integrating the IASB into the system of international governance with the IMF, OECD and World Bank.

More European representation and more public oversight

MEPs believe that since the EU is the largest jurisdiction which has adopted the IFRS, there should be more representatives of a European background in the standard setting bodies, and that all trustees of the IASB should come from nations that have signed up to the IFRS, or intend to do so.

Parliament wants to see a public oversight body set up involving all IASCF/IASB public stakeholders, including legislators and supervisors, and a body representing market participants, which would deliver an annual report on the functioning of the IASCF/IASB. Such a body could also be responsible for selecting and appointing trustees in a transparent manner with a geographically balanced representation of all stakeholders.

More use of impact assessments and involvement of stakeholders

The report urges IASB to carry out impact studies among all interested parties before adopting new accounting standards.

As for the funding of the IASB, MEPs want to ensure that all user groups are adequately involved, that there is no conflict of interest between financiers and users and that access to the standards themselves is made universal. They call on the Commission to examine whether and how it might be able to contribute to funding the IASCF/IASB.

MEPs are keen to ensure the IFRS themselves are interpreted in a consistent manner. They ask the Commission to develop an EU structure as an international partner for third country bodies on this issue and to guarantee uniform interpretation and application. They want Parliament to be seriously consulted on the IASB work programme.

IFRS for SMEs – too complicated for most

The report says that the IASB’s proposed version of the IFRS for small and medium sized enterprises (SMEs) is far too complicated for most of them. While it might be a transitional option for larger SMEs hoping to expand, it should not be used for enforced harmonisation of SME accounting standards on this basis. Parliament says the Commission should arrange a proper consultation procedure for an EU accounting framework for SMEs.

Convergence with GAAP and fair-value

Among other points, the report emphasises that convergence with third-country standards (such as US GAAP) must be based on a prior assessment of the impact and merits of changes for EU
companies and users of financial statements. It also calls for the “fair value” principle to be limited in scope, noting that it can be costly and lead to unrealistic valuations in some circumstances.