

IFRS Enforcement in Europe



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Agenda

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1. Definition and purposes of enforcement of standards on financial information
3. Enforcement system and activities in Europe
5. Analysis of findings in respect of the application of IFRS
7. CESR co-operation with third country authorities



1. Definition and purposes of enforcement of standards on financial information

Definition of enforcement (Principle 2 of CESR Standard 1)

- To monitor compliance of the financial information with the applicable reporting framework
- To take appropriate measures in case of infringements discovered

Purposes of enforcement (Principle 1 of CESR Standard 1)

- To protect investors
- To promote market confidence
- To contribute to the transparency of financial information relevant to the investors' decision making process
- To contribute to a consistent application of the IFRS in the EU



2. Enforcement System and activities in Europe (1)

- Main rules on enforcement system in Europe
- Structure of CESR activities in accounting
- Main functions of EECS
- CESR publication of enforcement decisions
- Enforcement activity in Europe
- CESR Fin activities



2. Enforcement System and activities in Europe (2)

➤ Main Rules on Enforcement System in Europe (1)

- The enforcement system in Europe was firstly regulated in 2002 by European Regulation 1606/2002 (IAS regulation)
 - “A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement.”
- And in the Transparency Directive from 2004:
 - “Each competent authority shall have all the powers necessary for the performance of its functions. It shall at least be empowered to:
... examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.”



2. Enforcement System and activities in Europe (3)

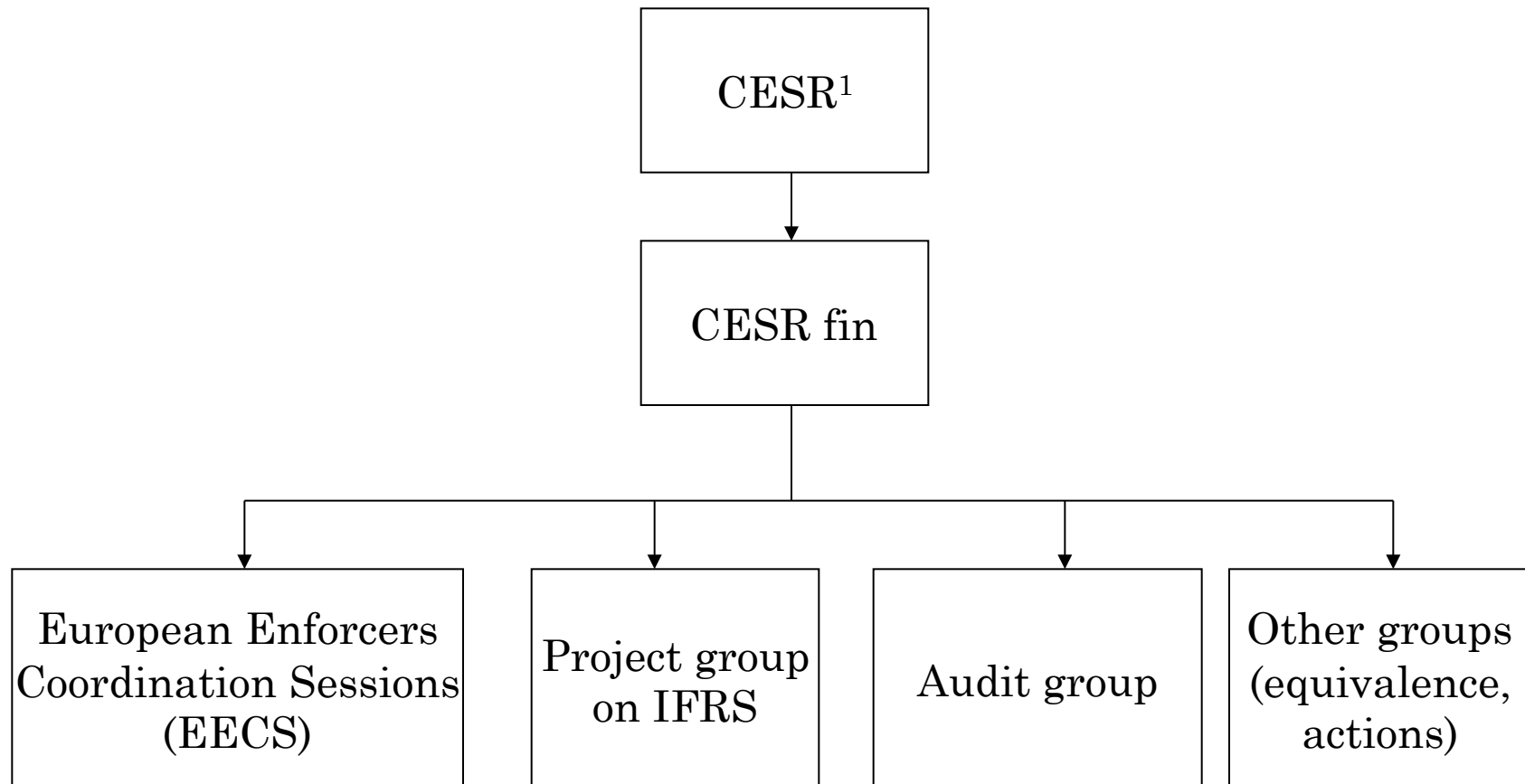
➤ Main Rules on Enforcement System in Europe (2)

- CESR developed guidelines in
 - CESR standard no 1:
 - Enforcement of standards on financial information in Europe
 - Aims at harmonizing the oversight systems in the EU
 - Is also aimed at achieving a high level of coordination and convergence in the enforcement decisions.
 - Sets out 21 high-level principles on the purpose of enforcement, powers of enforcers, methods of enforcement, actions and EU coordination
 - CESR standard no 2:
 - Coordination of enforcement activities
 - Implementation Guidance
 - EECS (European Enforcers Coordination Sessions) is a forum of EU National Enforcers, whether CESR Members or not
 - EECS members are obliged to submit enforcement decisions that meet some criteria to an internal database



2. Enforcement System and activities in Europe (4)

➤ Structure of CESR activities in accounting



¹ Committee of European Securities Regulators, will become European Securities and Markets Authority (ESMA)



2. Enforcement System and activities in Europe (5)

➤ Main functions of EECS

- The main functions of the European Enforcers Coordination Sessions are
 - To analyze and discuss decisions taken or to be taken by EU National Enforcers on the enforcement of financial information requirements to achieve harmonization and coordination of future decisions
 - To identify issues which are not covered by financial reporting standards or which may be affected by conflicting interpretations for referral to standard setting or interpretive bodies such as IASB or IFRS IC (formerly named IFRIC)
 - To share and compare practical experiences in the field of enforcement on issues such as selection, risk assessment and enforcement methodology
 - To help identify and provide advice on enforcement issues that may require future CESR standards and guidelines
- All enforcement decisions are taken on national level under the responsibility of the national enforcer and according to the national laws
- EECS also provides members with the means of sharing their national publications with fellow enforcers –, e.g. enforcers' Activity Reports and other announcements to national markets on issues relating to the monitoring of IFRS



2. Enforcement System and activities in Europe (6)

➤ CESR Publication of enforcement decisions (1)

- CESR publishes enforcement decisions on a regular basis with the purpose of contributing to the promotion of market confidence and consistent application of IFRS
- CESR has published eight packages of enforcement decisions containing 101 decisions where almost two thirds of the decisions (67 out of 101) relates to the following standards:
 - IFRS 3 Business Combinations
 - IAS 39 Financial instruments: Recognition and measurement
 - IAS 32 Financial instruments: Presentation
 - IAS 38 Intangible assets
 - IAS 27 Consolidated and separate financial statements
 - IAS 34 Interim Financial Reporting
 - IAS 19 Employee Benefits



2. Enforcement System and activities in Europe (7)

➤ CESR Publication of enforcement decisions (2)

- Between 2005 and September 2010, enforcers in EECS
 - Have submitted 365 decisions to the confidential EECS database and have discussed most of them (relating to these main standards: IAS 32/39, IFRS 3, IAS 1, IFRS 1, IAS 27/SIC 12, IAS 8)
 - Have discussed 130 emerging issues in addition to the decisions in the database
 - Have had 42 meetings with an average of 7-8 meetings per year
 - Have as mentioned published 101 major decisions
 - Have more decisions ready for publication which are expected to be published later in 2010
- All decisions discussed in EECS are published by CESR unless the decisions specific criteria are met (breach of confidentiality at national level, the decision is simple and similar to other decisions published etc.)
- The decisions not published by CESR may still be published by the national enforcer



2. Enforcement System and activities in Europe (8)

➤ Enforcement activity in Europe (1)

- Enforcement activities in Europe started in 2005
- Approximately 7.000-7.500 listed companies have been identified by European regulators as IFRS users and are under supervision of competent authorities.
- Ex-ante activities: provide helpful guidance to issuers in advance of their preparation of their financial information. May include
 - Issuance alerts indicating the main areas of examination for the forthcoming financial year
 - Preclearance: proposed accounting treatment by issuers in advance of their accounts
 - Open seminars with issuers and auditors in advance of the interim or year-end financial reporting



2. Enforcement System and activities in Europe (9)

➤ Enforcement activity in Europe (2)

- Full /partial review of financial statements: compliance with the requirements of the relevant reporting framework
 - Selection of issuers subject to a full review is based on a risk-based approach combined with random selection or rotation (CESR Standard No.1 and its application guidance)
- Enforcement actions, depending on whether the infringement is considered material or not:
 - Issuance of new financial statements accompanied by a new audit opinion (where applicable)
 - Public corrective note or other type of communication to public
 - Correction in the next financial statements
 - Notification of the issuer of the infringement but normally no information is published to the market



2. Enforcement System and activities in Europe (10)

➤ CESR Fin activities (1)

- CESR is actively monitoring the developments regarding fair value accounting and financial instruments
- CESR has published a number of papers regarding fair value accounting in 2008 and 2009:
 - CESR statement on fair value measurement and related disclosures of financial instruments in illiquid markets, October 2008
 - Joint statement CESR, CEBS and CEIOPS regarding the latest developments in accounting, October 2008
 - Press statement: CESR welcomes IASB's guidance on measuring and disclosing the fair value of financial instruments in non-active markets, November 2008
 - CESR statement on the reclassification of financial instruments and other related issues, January 2009
 - CESR statement on the application of and disclosures related to the reclassification of financial instruments, July 2009
 - CESR statement on the application of disclosure requirements related to financial instruments in the 2008 financial statements, October 2009



2. Enforcement System and activities in Europe (11)

➤ CESR Fin activities (2)

- Additionally, in 2009 a group was set up to investigate the range of actions available to European enforcers and to identify the circumstances in which these had been used since the establishment of EECS in 2005, based on decisions submitted to the database
- Soon CESR will publish an activity report on IFRS enforcement in Europe in 2009 through the activities of EECS



3. Analysis of findings in respect of the application of IFRS (1)

- Main results of review process in 2009
- Overall assessment of the quality of IFRS reporting in Europe
- Recurring issues identified by EECS members



3. Analysis of findings in respect of the application of IFRS (2)

➤ Main results of review process in 2009

- European enforcers performed full review of around 1.200 companies' accounts, both annual and interim (18% of listed entities in Europe)
- Some 900 accounts were subject to partial review (15% of listed entities). The main areas reviewed were: impairment of assets, financial instruments disclosure, operating segments, going concern, current/non-current classification of liabilities
- Around 900 enforcement actions were taken by the enforcers as a result of their reviews, split as follows:
 - Issuance of revised financial statements (19)
 - Public corrective notes or other public announcement (160)
 - Corrections in future financial statements (560)
 - Notice to the issuer without requiring any corrective action or public announcement (170)



3. Analysis of findings in respect of the application of IFRS (3)

➤ Recurring issues identified by EECS members

Examples of areas that featured more commonly in decisions brought to EECS for discussion:

- Financial Instruments (IAS 32, IAS 39 and IFRS 7)
- Impairment of non-financial assets (IAS 36)
- Operating segments (IFRS 8)
- Business combinations (IFRS 3)
- Presentation of Financial Statements (IAS 1)



3. Analysis of findings in respect of the application of IFRS (4)

➤ Overall assessment of the quality of IFRS reporting in Europe

- Since 2005 quality of issuers' financial reporting has improved
- There is still room for improvement based on the number of actions taken in 2009
- Enforcers drew attention to the heightened importance of quality disclosures relating to the risks and uncertainties that issuers faced
- Great diversity was found in the extent to which issuers disclosed the judgements management has made in the process of applying accounting policies
- Complain about boiler-plate disclosure and explanations in areas like goodwill allocation to cash generating units, factors affecting the identification of goodwill and summaries of accounting policies



4. CESR co-operation with third country authorities (1)

- Co-operation with the SEC
- Co-operation with other authorities



4. CESR co-operation with third country authorities (2)

➤ Co-operation with the SEC (1)

- CESR-SEC Work Plan (2006)
 - To promote high quality and consistent application of reporting standards
 - To avoid conflicting regulatory decisions on the application of both IFRS and US GAAP
- Most common enforcement issues discussed
 - Impairment of financial and non-financial assets
 - Timing of the recognition of impairment charges
 - Reporting of operating segments
 - Revenue recognition issues
- Accounting issues - convergence
 - Key issue discussed: development of the new IFRS 9
 - Overall the IASB-FASB convergence project



4. CESR co-operation with third country authorities (3)

➤ Co-operation with the SEC (2)

- Exchange of information between the SEC and EECS members
 - At the end of 2009, several European countries had signed individual protocols with the SEC relating to the exchange of confidential information relating to dual listed issuers. The SEC has indicated that it would continue to remain in contact with other European enforcers on a case by case basis

➤ Co-operation with other authorities

- First seminar on enforcement of IFRS (December 2009)
 - To share experiences with fellow regulators outside the EEA
 - Attended by 69 participants representing enforcers from 33 countries, representatives of the IASB and other European fora