

European Commission Green Paper on a Capital Markets Union: IFRS Foundation response (12 May 2015)

The European Commission has asked for responses to be submitted through an online questionnaire. The International Financial Reporting Standards (IFRS) Foundation (the Foundation) has submitted responses to a number of questions, as set out below, together with an accompanying paper.

Response to individual questions

8) *Is there value in developing a common EU level accounting standard for small and medium-sized companies listed on MTFs? Should such a standard become a feature of SME Growth Markets? If so, under which conditions?*

The Foundation's views in response to this question are set out in the accompanying paper that we are submitting with this questionnaire.

In summary:

- the Foundation believes that the use of a single set of financial reporting requirements is important to the successful achievement of a Capital Markets Union (CMU). The introduction of IFRS in the EU has been beneficial for those companies whose securities are admitted to trading on a regulated market and the Foundation believes that those benefits will hold true for companies, regardless of size, listed on alternative trading venues such as MTFs;
- the Foundation also believes that the success of a CMU also depends on its ability to attract cross boarder investment and compete internationally. To achieve that there is a need to take into account the global context and that it is important that the financial reporting requirements are internationally – as well as EU-wide - comparable;
- the Foundation's view is that, by admitting their securities to trading, even on non-regulated markets, companies (including SMEs) take on public accountability. That public accountability requires those companies to prepare and publish financial information that is compiled in accordance with financial reporting standards that are viewed by market participants as being credible, authoritative, comparable and familiar to investors and needs to ensure an effective level of investor protection (in particular where companies are seeking to raise funds outside their home Member State). IFRS meets these requirements;
- while the Foundation acknowledges differential reporting for SMEs, it does so on the basis of public accountability. The *IFRS for SMEs* has specifically been designed for non-publicly accountable SMEs and the users of those entities' financial statements. The IASB's experience in developing 'full' IFRS and the *IFRS for SMEs*, together with its

international constituent base, puts the IASB in a unique position to appreciate the financial reporting standard requirements for entities of different types and sizes;

- the Foundation notes that many entities which seek to have their securities listed on non-regulated markets do so in the expectation that they may eventually seek a listing on a regulated market. These entities often seek to compete for investment funds with entities which are listed on regulated markets. The Foundation notes that investors often invest in both regulated and unregulated markets, and seek to compare their investment performance across both platforms. Consequently, it is the view of the Foundation that there is benefit to be sought in applying the same financial accounting framework to entities on both regulated and unregulated markets, or having a similar framework that minimises any differences. This facilitates both comparability and mobility.

As the accompanying paper notes, the Foundation and the IASB stand ready to work with the European Commission, and our other constituents across the globe (including the users of financial statements) in considering the financial reporting implications raised by the CMU proposal.

21) Are there additional actions in the field of financial services regulation that could be taken ensure that the EU is internationally competitive and an attractive place in which to invest?

As explained in the accompanying paper, the use of IFRS in the EU already contributes to the promotion of Europe as an internationally competitive and attractive place to invest. The global reach of IFRS and the positive effects that it has brought in terms of the quality, transparency and comparability of financial reporting is core to this promotion.

22) What measures can be taken to facilitate the access of EU firms to investors and capital markets in third countries?

As explained in the accompanying paper, IFRS provides EU companies with the benefit of a global financial reporting framework which gives them the ability to access international capital markets using their IFRS financial statements, without reconciliation to national Standards.