

Evento celebrativo del decennale OIC  
*Il ruolo del National Standard Setter*

Intervento del Direttore della sezione  
Financial Reporting della Commissione Europea  
Mr Jeroen HOOIJER

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Thank you very much Chairman. Ladies and gentlemen, good morning. It is a pleasure to be here and I am very pleased to have been invited to your birthday party.

I think that when you turn 10 it is a young age but you know what your rights are and you also know already what your obligations are. You also know that you have certain responsibilities in life, in your future life. I think that transpired very clearly from the previous two speeches.

We are in a global world and sometimes we wonder by ourselves, amid national standard setters, is there a contradiction among that? I think Angelo Casò mapped out very clearly that there is no contradiction. These two things go hand in hand, and the more global we are, the more important it is also to look back and look at our own national situation and experience.

I know that in Italian politics, the European thinking, the European mind-set is very strong in the way you operate, in the way you make policies. This transpired very much from both of the previous speeches, in particular, Angelo's. That makes it a pleasure for me and also for us, European officials, to be here in Italy because we have the same kind of thinking, we have the same kind of spirit, the European spirit that drives us forward.

I would like to give you a short update of what we are doing in Brussels on a number of files and I will start with IFRSs. I think the introduction of IFRSs has been a success. Already in 2006, between the Commission and EFRAG, a MOU was signed to arrive at working arrangements. Already at that time, the Commission realised the importance of working towards a European platform in this area.

Sometimes we in Europe are being criticised for being so difficult or critical on IFRSs. As we all know, there is only a little carve out in IAS 39.

I would like to highlight that up until now Europe has adopted all IAS/IFRS/IFRIC. I think that is something to bear in mind. We have adopted what we had to adopt. This has happened sometimes after long discussions, sometimes maybe with hesitation, but we are on track and we are fully part of the system. This is something we should sometimes tell ourselves, that we are doing a good job here.

In this area of accounting, there are so many players, so many organisations. It is sometimes important to see who is playing which role.

We start with IASB. We do not want to have a European standard setter in this area but over time we have insisted more and more that the IASB carries out far earlier during the process field-testing and afterwards post-implementation reviews to make sure that the standards they develop are really up to speed and what we need.

The second organisation, less known, is IFRIC, that gives interpretations. We have a principal-based system and that is a deliberate choice, but still there are sometimes interpretation questions. Certainly now in this period of crisis. My personal view is that IFRIC should do more, in particular, more quickly and maybe better.

As far as the European side is concerned, we have now since early this year, ESMA that coordinates application and enforcement – that is very important. As some of you may know, the United States issued a report relatively recently, two or three weeks ago, criticising the worldwide application of IFRSs, considered to be not always coherent and consistent. Also in Europe there is work to be done in this area. It is good to have ESMA. It is clear that the ultimate responsibility for enforcement is at a national level, with the national competent authorities, but ESMA has an essential role at EU-level.

Then we have EFRAG, already mentioned several times. EFRAG provides technical advice to the European Commission. In a way, the work that the IASB does, needs to be checked and valued by EFRAG. But it is also very important that EFRAG is able to influence in a pro-active manner the standard-setting process in the future. It already does this, in close coordination with the national standard setters. It cannot do this alone, it is team work.

As far as the Commission is concerned, EFRAG is a success. The people who created EFRAG 10 years ago, had foresight.

It was very important already 10 years ago to start thinking how we had to position ourselves in Europe and how we had to organise ourselves. EFRAG is there and it is a success. It has been two years now that the Commission contributes for 50% to the budget of EFRAG. We think this is money well spent.

Presently, there is a review in progress of EFRAG, because even if you work very well there are always things that you can improve. We committed to a review of EFRAG already 2 or 3 years ago. My view is “don’t fix what is not broken”. In other words, the things that work should remain as they are. At this stage, we think that it is important to continue to involve the big standard setters as well as the smaller ones.

EFRAG should be an organisation that works for Europe, for all 27 Member States. Therefore, also the small countries need to have the feeling of ownership.

EFRAG is a kind of regional organisation and now, just as in Asia and South America, countries realise it is important to have this kind of regional platform. We have that already and so, we can only embark on it further.

I much appreciated Angelo’s speech and I would like to read something from it, which I strongly agree with. Angelo said “*When each National Standard Setter feels entitled, in the due process of setting the IAS/IFRS, to interact directly with the IASB without first coordinating its efforts with its counterparts in other European countries or even to go against that put forward by EFRAG, the most probable outcome is that the views of the standard setters from other geographic regions will prevail*”. We

must realise this in Europe because in a globalising world, Europe is becoming smaller.

We know that the United States is very well organised with the SEC and the FASB and that there are regional standard setters in Asia. Only together we can stand strong. Angelo's speech represents exactly what the Commission thinks. Any talk about a regional organisation of standard setters needs to be done in the context of EFRAG. We can discuss the governance, we can discuss how the set-up is, but if we fail to cooperate, there could be a risk of doubling the work and losing the force of unity. We are working in an area of very scarce resources. EFRAG is there and in EFRAG the European voice needs to be organised.

The National Standard Setters have an important role to liaise. It is essential to organise collectively this accounting force of Europe. In my view, the upstream input to the IASB is ever-more important. We must try to get that act together in order not to lose our weight against others. So this EU-wide coordination is indispensable and the Commission is firmly behind this. So if this governance review that has just started, leads to a greater involvement of the national standard setters in EFRAG, I think we can only welcome this and it is probably the only choice we have.

Now, I would like to move to the non IFRS world and provide you with an update on where we are. As most of you know, the Commission tabled two and a half years ago a proposal to exempt micro-entities from the 4<sup>th</sup> directive. Six weeks ago we tabled a proposal to revise the 4<sup>th</sup> and the 7<sup>th</sup> directives.

The main issues as far as we are concerned are the following.

We must in particular focus on SMEs. The motor of our economy is and will be in the future, SMEs. So the business environment for SMEs is essential for Italy and for Europe. Therefore the review of the 4<sup>th</sup> and 7<sup>th</sup> Directives is very important. There have been quite a number of studies on the burden that is put on micro and small entities. Not only by accounting rules but by many other regulatory requirements. This is the problem of SMEs. There are so many regulatory requirements that it is sometimes very difficult to do your business. What we have done as far as accounting rules are concerned, is to look in particular at the disclosures which small companies have to provide and which are essential to have. What are the essential disclosures for instance for a bank? What do they absolutely want to know? There are many disclosures that are nice and interesting to know but for a company it is a lot of work to provide them. It can be very expensive to do this, so we have tried to make that split.

As far as small companies are concerned, last week I found a very interesting report about the composition of the economy in Italy. Probably you know this better than me: in Italy there are 4.3 million SMEs. So your economy has a flat structure and many SMEs. 4.1 million out of them have less than 10 people. They cover 69% of the jobs in the private sector and they produce 71% of the GDP of Italy. So, very small companies are highly important for the economy of Italy.

Our proposal initially was to outright exempt these companies and we get strong support from the European Parliament. 21 Member States supported the European Commission to exempt these companies. As there was this blocking minority, we created a micro-regime. Basically, for the micro entities there will be a very simplified financial statement and either they do not publish, in which case they have to list their accounts or they still publish their accounts. As a result it is a real burden reduction for micro-entities.

As far as the philosophy behind the review of the 4<sup>th</sup> directive is concerned, we tried to reduce the administrative burden for the small and smallest companies, in order to allow these companies to free-up resources for doing their business, to create products, to create growth. Hopefully, also jobs. We also think that the accounting framework can be far more effective, relevant and understandable. At the same moment of course it must protect the needs of the users.

So what did we do? We tried to eliminate many requirements in particular in the disclosure fields. We consulted a lot of businesses, small businesses. We went away from Brussels, to Latvia, to Finland, to Portugal. We spoke to business organisations. We tried to use the principal “think small first”. What does a small user need? What is proportionate for a small company? So the result of the proposal we made two weeks ago is a far clearer instrument to work upon. It resulted in far more comparability of accounts and still it retained essential information that is necessary for the user needs.

The first reception in the Council working group has been positive. Most Member States are happy that the Commission has put this on the table. There are always things to discuss and improve, but there is support for this. The Danish Presidency will take this up with great enthusiasm. They see this as one of their priorities. The European Parliament has also accelerated. In the current crisis these are the kinds of instruments we need to create jobs. The micro proposal, I mentioned before, was adopted yesterday (15 December 2011) in the plenary of the European Parliament. It is very difficult to make an estimate but the burden reduction should be in the area of 3 billion Euro. I think that every step helps and this proposal will definitely help our industry.

So to try to summarise, in the directives we have tried to group the overarching accounting principles without reinventing new principles. They were scattered around in the directives to bring them together. We will work on a mini regime for small companies and work on maximum harmonisation. We use the building block approach. With large and bigger companies, a Member State can require more disclosures.

We also think it is important for companies to be able to prepare and to file abridged accounts and to facilitate this.

As far as auditing is concerned, we have changed the wording a little bit to make it clear that small companies are not necessarily subject to an audit. So now, it is the full responsibility of each Member State to require audits. We all know that these can be rather expensive for small companies.

One remark as far as IFRS for SMEs is concerned, an instrument developed by the IASB, not on our request. We did a consultation and the overall conclusion was that this was not seen as an alternative for the European directive. There are a number of differences.

A few other points. Many things have been updated or changed. What is important is that the thresholds for all the companies will be harmonised. That was also a difficulty. In every Member State there were basically different thresholds. We tried to align this. We have also merged the 4<sup>th</sup> and the 7<sup>th</sup> directive. I think it makes a lot of sense to have this all into one instrument.

To summarise, the full IFRS system for listed companies exists and is here to stay as it is. The directives will be the basis for unlisted companies. We are working on a strong simplification of these directives, particularly bearing in mind the regulatory burden for the small companies.

Thank you very much.