

EFRAG 15th Anniversary Event

Keynote speech by Matthew Baldwin, *Head of the Cabinet of Commissioner Jonathan Hill*

Address JP Gauzès as new president and Andrew Watchman as CEO.

Pleasure to be at EFRAG's 15th Anniversary, even if you will forgive me for noting that the overall circumstances are rather sad. It is indeed with a heavy heart today that I am representing Commissioner Hill, who could not join us today, but who asked me to present his very best wishes to EFRAG both today and for the future.

Today, and his behalf, I want to look briefly look back at what's been achieved and the reforms we've implemented – before briefly considering the challenges ahead.

A global economy needs a global accounting language. The rapid internationalisation of Europe's companies and the gradual integration of global capital markets have made that clear.

In 2002, we led by example. We applied International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB) in Europe.

The main objective was to improve the efficient functioning of the EU capital markets and the internal market.

Consolidated financial statements of listed EU companies have been prepared in accordance with IFRS since 2005.

Last year the Commission undertook an assessment of how this was working in practice. It found

- IFRS has been successful in creating a common accounting language for capital markets.
- IFRS has increased the transparency of financial statements by improving the quality of accounting
- And IFRS has helped deliver more accurate reporting, leading to more accurate forecasts, clearer market expectations, and financial statements that can be compared across different industries and different countries.

IFRS has been seen as positive for companies and investors.

That's an achievement we should celebrate, and it is very much in the pragmatic, nuts and bolts approach of my Commissioner.

Role of EFRAG

Because its principal role is to ensure that IASB standards are carefully considered as to whether they are appropriate for the European economy before becoming part of EU law - EFRAG has made an important contribution.

But in reality, your work has gone well beyond this. It has done a great deal to influence the IASB during the development of the standards and to ensure that EU interests are defended upstream.

By working with national regulators, practitioners and users of financial statements, EFRAG has shown it can play an important role in the standard setting process itself.

Reform of EFRAG (Maystadt reform)

The Commission has always valued EFRAG's work. But in 2013, the Maystadt report examined ways to reinforce the EU's contribution to IFRS.

To improve its accountability it recommended reforming the governance of EFRAG.

The reform was implemented in 2014. How have things progressed this then?

Well, several new members were admitted to EFRAG and a new decision making Board has been set up, with the ECB playing an important role as an observer.

The reform has improved the coordination of all those involved in the endorsement process. It has led to more specific, tailor made requests to EFRAG for endorsement advice on new or amended standards.

The appointment of Mr Gauzes as the President of the Board of EFRAG and Mr Andrew Watchman as its CEO marks the final step of the reform.

This year, the Commission assessed the implementation of these reforms and its impact on the EU voice in the international standard-setting process. Its assessment was overwhelmingly positive.

And we proposed to extend the co-financing of EFRAG for the period 2017-2020 that was adopted in April.

Challenges ahead

Of course, challenges remain.

Some recommendations of the Maystadt report still need to be fully implemented.

In particular – there's good work being done by EFRAG to develop impact assessments for new or amended standards to see how these are working in practice.

The big test will be the impact assessment on the new IFRS 16 standard on leases - which will be completed shortly.

This brings to an end to a decade's work to overhaul the accounting of leases with the aim to increase transparency of companies' lease assets and liabilities.

And, if I may, it might be useful for EFRAG to encourage wider participation in its work across the whole EU. It's clear that we need better representation of some Member States – particularly those to the east and south of the EU.

The rotation of the EFRAG Board in 2017 will present an opportunity to address this issue and attract new Members.

Concluding remarks

The experience of the last few years has shown that accounting standards can contribute to maintaining stability in financial markets.

So that international standards are fit for Europe, EFRAG has a vital role to play.

Under the new leadership of President Gauzes and CEO Watchman, EFRAG will continue to provide high quality advice supported by solid impact assessments of new standards. To increase transparency. To make cross border investments easier. And support growth in Europe.

Lord Hill will leave the Commission on 15 July, but he has asked me to thank you for the helpful and close cooperation with EFRAG and the accounting standards community during his regrettably short time in office.

And for my part, I wish you a successful conference.