



WELCOME SPEECH

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PRESIDENT OF THE SUPERVISORY BOARD

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Ladies and gentlemen,

Please allow me to extend a special welcome to Jean-Paul Gauzès, EFRAG Board President, to Andrew Watchman, Chair of the EFRAG TEG, to Françoise Flores, member of the IASB, and to Andreas Barchow, Chairman of the German NSS and vice-President of the EFRAG Board, who together with Angelo Casò, will moderate the roundtables.

I am also pleased to give a very warm welcome to everyone here today, in particular to the EFRAG Board members and to the members of the Panels. Thank you for such a wide and prestigious participation.

I am very glad that OIC and EFRAG have organized today's event in Rome, in occasion of the EFRAG Board meeting that will take place here tomorrow. This meeting will offer the possibility to discuss in depth important topics and, therefore, will contribute to the development of common positions between EFRAG and its stakeholders. We share and appreciate this way of working and therefore we have actively cooperated in organizing this event and in defining the subjects for the debate.

The last time we had the pleasure of having the President of EFRAG as a speaker at our event, was on the occasion of the OIC 10th anniversary in 2011. At that time, the President of EFRAG was Françoise Flores, now member of the IASB, and today our welcome guest.

Important changes have occurred since 2011 that have affected EFRAG. The Maystadt reform has implied a major change in EFRAG governance and mandate.

Recalling Maystadt's words, the aim of the reform was to improve the ability of EFRAG to represent effectively the European view in the standard-setting process. To reach that, it was necessary, on the one hand, to strengthen its skill in order to actively participate to the standard-setting process from its initial stage and, on the

other hand, to acquire an institutional legitimacy to represent the European position speaking with “only one voice”. The complete involvement of NSSs in the EFRAG governance and in its due process together with the presence of the Authorities and a more institutional connection with the European Commission would have contributed to both of these objectives.

As a result of the reform, the OIC, like other NSSs, became a member of EFRAG and participates in the EFRAG Board, in the EFRAG TEG and in its activity which has become a common heritage. Thanks to the increased interaction with the NSSs, the EFRAG mandate, which previously was limited to technical advice, was subsequently extended to the economic impact assessment of the new standards in order to evaluate the fulfilment of the European public good.

The experience in these first years of implementation of the reform fits with the purposes. The legitimacy and role of EFRAG have actually been strengthened as Maystadt hoped. In these first three years of activity, EFRAG has demonstrated its capability to involve all stakeholders from the initial stage of standard setting up to delivering endorsement advice. The two phases (standard-setting and endorsement advice) are strictly linked. In order to have high-quality IFRSs, meeting the European needs and therefore eligible for the endorsement, the ongoing interaction with the IASB is fundamental from the early phase of the standard-setting process, representing the European positions and working to ensure that the interest of Europe is well understood.

The recent case of the deferral of IFRS 9 for insurance companies is a relevant example. I am not sure that without the reform, EFRAG would have had the same strength to convince the IASB to modify the standard on insurance contracts to that direction.

Obviously, as in all new set-ups, it takes time to optimize new working procedures. An important test for impact assessment will be the endorsement process of the

new standard for insurance companies, which I am sure could have many potential implications to be assessed in terms of public good.

The topic of impact assessment will be explored today in the first roundtable, composed of an extraordinary panel and moderated by the OIC Executive Board chairman Angelo Casò. However let me spend some words on this subject.

The first experience of the EFRAG Board with impact assessment has not been an easy task. It was related with the endorsement of the new standard on financial instruments, the IFRS 9. At that time it was impossible for the Board to benefit from quantitative information about the impacts generated by the most important changes of the new standard: the impairment of all loans in the balance sheet based on the expected credit loss model. Indeed the European banking sector, while expressing its support for the adoption of IFRS 9, was not able to provide such data, so EFRAG released its advice based on a primarily qualitative analysis.

Nowadays such information is of public domain, since the EBA carried out impact analyses of the adoption of IFRS 9. According to the EBA assessment the negative impact on the CET1 ratio resulting from the application of IFRS 9 would be on average equal to a 45 basis point reduction.

The introduction of the expected loss model for loan losses provisioning is a fully shared change, since it is certainly tailored to ensure financial stability, providing for a more timely and adequate recognition of credit risk. This need was expressed, in particular, by the G20 in occasion of the 2008 financial crisis. However, in concrete, the application of the expected credit loss will not be easy to implement. This is because, on the one hand, there will be the risk of non-consistent applications with consequent inequalities, and, on the other hand, it will require significant time and costs for the need to use appropriate valuation tools in order to estimate the expected losses. To mitigate those risks I believe that all institutional parties involved, including EFRAG and Standard Setters, will continue to support entities in

this delicate phase of adoption of the standards, including the Transition Resource Group on IFRS 9 established by the IASB. It is prominent for National Standard Setters and EFRAG to contribute to a smooth and consistent application of the accounting standards, in order to reduce the administrative burdens arising from the change in accounting standards. In the case of financial instruments I believe that the calculation of the expected loss should be the same, when consistent, between the prudential and accounting requirements.

The second roundtable will deal with the proposal on how to improve the communication of financial statements. I expect a very interesting discussion considering the extraordinary quality of all the panelists and the ability of the moderator, Andreas Barchow.

The issue of how to improve the financial information in the future is a priority. Today's level of disclosure required by IFRS is seen as too long and burdensome. There is a need to rationalize it. Disclosures on financial statements are often perceived as being too long with a consequence that the document results difficult to read.

Another aspect of interest regarding this project is the relation with technology. The evolvement of technology and artificial intelligence, not only the role of XBRL, may need to reconsider some disclosure requirements, since it could change how readers have access to financial information.

Moreover the connection between information given within financial statements and other means of financial reporting needs to be defined, including the role of non-GAAP measures. Some basic information may need to be defined by the IASB, for instance EBIT, others are probably more entity specific. One point that the IASB may need to investigate is the definition of net debt. I feel that there is much difference in practice in determining such figures.

An item related with those non-GAAP measures is about the non financial information. I note that European directive on this item already exists, which has

been implemented in Italy through a specific law. The application of such requirements and its auditability is being debated by many classes of stakeholders. I would also find useful that European Standard Setters could be part of this discussion.

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Ladies and gentlemen,

making appropriate and timely proposals for developing international accounting standards, participating proactively to their due-process, providing Commission with endorsement advice based on even more reliable impact analysis, following their implementation, are the tasks carried out by EFRAG and its stakeholders with an increasing efficiency. It is necessary to continue investing in consolidating a role, which I hope, will never be open to discussion again.

Thanks to the Maystadt reform, an environment has been created in which the accounting profession can express its capability of self-regulation keeping the Authorities involved.

However, the coordination needs between National Standard Setters are not limited to the common action towards the IASB, even though essential.

There is a specific European dimension in the formation and implementation of the IFRS, as well as a need for a dialogue amongst the National Standard Setters to promote convergence also in National GAAPs.

Could EFRAG play this role?

Maybe the debate will give, if not an answer, at least some reactions to this question.

Time goes too fast and I have no wish to subtract valuable time from the forthcoming discussions, therefore, once again expressing the thanks of both the OIC and myself, I am now pleased and honoured to hand over to Jean-Paul Gauzès, President of the EFRAG Board.