



The Corporate Reporting Users' Forum

9th March 2018

CRUF UK letter to BEIS re Adoption and Endorsement of IFRS after EU Exit

CRUF UK are grateful to Seema Jamil-O'Neill and John Conway from Business Energy & Industrial Strategy (BEIS) for attending the CRUF London meeting on 30th January 2018 and presenting on the adoption and Endorsement of IFRS after EU Exit. This letter sets out a summary of the views expressed at that CRUF meeting and also the views of some CRUF participants who did not attend (but have seen and read the presentation) in answer to the key questions posed by BEIS.

CRUF understands:

- that it has been agreed across government that there is a commitment to IFRS and that the government accepts the business need for this to continue in the future.
- currently the decision to adopt a new or amended IFRS is made by the European Parliament and the Council of the European Union. The UK gets a say in the process as it is involved in the Accounting Regulatory Committee (ARC) and EFRAG which provides endorsement advice to the European Commission for developing a proposal and includes an FRC representative.
- all IFRS adopted by EU will freeze on the day of EU exit and will become part of UK law. After this date, as changes come through, the UK will no longer be part of ARC and as it stands today, they will have no mechanism to adopt future IFRS changes or new standards.

CRUF UK view on the current government stance as explained by BEIS

CRUF UK is very strongly supportive of staying with IFRS as the financial reporting regime for listed companies in the UK. Divergence from any future IFRS should be strongly resisted unless it can be proven that (and explained in clear terms why) any particular proposed standard is against a True & Fair View. Set out below in more detail are views on the alternatives presented by BEIS as to how this might be achieved.

International accounting standards reflect the international nature of the major capital markets in promoting a common language for communication between preparers and users. CRUF UK is therefore concerned at the use of Brexit as a pretext by some preparers (from particular industrial sectors such as insurance) to dilute, delay or modify IFRS and by some special interest groups to undermine IFRS use in the UK. BEIS should apprise the government of the views of the broad range of users represented in the CRUF UK membership that believe these spoiling efforts should be ignored. Our firm view is that maintaining convergence with IFRS will send an important message about the UK's capital markets remaining open to the world and that great damage would be done by any decision to diverge.

The three main options

BEIS sought feedback on three options that BEIS is currently looking at to address this issue. The three main options are for the UK to apply:

1. IFRS as issued by the IASB
2. IFRS as adopted in the EU (this would be like the approach used by Norway)
3. IFRS as endorsed by a new UK process

CRUF UK notes the work done by BEIS on researching what other countries do, in particular, Canada, Australia, US and Japan. BEIS provided the following background:

- The Canadian model is a formal mechanism for adoption set up as a separate body from government and endorses standards without formal government legislation. Canadian companies can't use the standard until it has been officially endorsed.



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- In Australia they have their own standard setters (Australian Accounting Standards Board – AASB) and they have a dual responsibility with government in endorsing. The difference to the Canadian model is that the AASB is required by law to advise government and it is then adopted into Australian law.
- In the US and Japan, there is no endorsement mechanism and the companies that use IFRS in those countries use IFRS as issued by the IASB.

CRUF UK also notes that during the planned transition period, the EU is mandating that the UK complies with all EU law (but the UK will not be part of the decision making unless invited), which would mean that option 2 would remain in effect until the end of the transition period.

CRUF UK views on the three main options

Some CRUF participants commented that option one (IFRS as issued by the IASB) would be the easiest to do, but accept that this is unlikely to be politically acceptable. Option 2 is expected to apply by default during any transition period. Post transition, Option 3 would be necessary if the UK were to retain a voice in applied standards and accordingly won more support than any other.

Further points and views:

If the UK were to set up its own endorsement process, there were concerns about the costs of setting up and running it, as well as the risk of carve outs. It was noted that the UK has been a main voice in Europe on the carve in / carve out debate and it is essential that the UK voice remains consistent in the international market

EU endorsement of IFRS has in the past been subject to political pressure (e.g. French banking) and handing over complete control to the IASB seems equally undesirable. Total convergence and compliance with IFRS is highly desirable and IFRS as endorsed by a new UK process is the least bad option that would allow the UK to opt out in extremis.

A CRUF participant also stressed that it is important that whatever option is selected, it should be addressed from day one of exit (noting the arrangements for the transition period) as there is apprehension that the transition period could form a “new habit” if not agreed.

CRUF participants commented on the value of IFRS being a universal language for the global capital markets and that there is the risk of financial statements not being comparable any longer if there are too many carve-ins or carve-outs which differ between countries.

Some also noted that UK investors are key to investment in EU companies, and therefore they should still have a say in the EU standard setting process. CRUF UK would still be able to provide its views to EFRAG (noting that EFRAG’s discussion papers are also public and available to UK investors) and would expect EFRAG to continue to be interested in the perspective of non-EU users, particularly investors in the capital of EU companies.

CRUF will continue to remain actively involved in the IASB’s standard setting process as it has done for over a decade and notes with support that so too will the FRC.



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Options for UK endorsement, if the UK were to create its own endorsement process:

1. Require endorsement criteria similar to the EU criteria (not contrary to notion of “true and fair”; results in understandable, relevant, reliable and comparable financial information; and specifically consider UK public good).
2. Permit the endorsement body to decide the criteria that new IFRS should meet before being adopted in the UK.
3. Require a different set of endorsement criteria to those currently used by the EU (whether the standard is likely to improve the quality of reporting, and if it is likely to have an adverse effect on the economy).

CRUF UK views on options for UK endorsement

CRUF participants commented

- that the wording for these criteria should be addressed, particularly on the first point where information should be neutral and “true and fair”.
- the wording “public good” was not necessary as this cannot be in conflict with what is “true and fair”. To the extent it is deemed necessary then it should be clear that this must always reflect a long term impact rather than a short term perspective which might be driven by politics or specific preparer lobby groups.
- the extent to which an impact on the economy becomes a criteria for endorsement, again we would suggest that this must always be long term as transparency can sometimes adversely affect the economy in the near term, as was the case leading up to the global financial crisis, but must always be beneficial long term.
- the UK should retain IFRS as its accounting standards and the desire to diverge from any future IFRS should be strongly resisted unless it can be proven that it is against a “true and fair” view with a clear explanation for the failings in the proposed new IFRS that highlight a fundamental failing in the basis of conclusions from the standard.

Alternatives for the UK government’s role in the endorsement and adoption process:

1. The adoption and endorsement process is fully independent of Government – this would be similar to the Canadian model.
2. Adoption and endorsement powers delegate to the independent body but government retains powers to block the adoption of an IFRS standard or change by the endorsement body – this option is similar to the Australian model.
3. Government retains powers to adopt IFRS – this option is the same as the current EU process.

CRUF views on the UK Government’s role

Some CRUF participants commented that they could see option one as the best route to take. Others were of the view that the government should control the framework for endorsement - criteria for assessment and composition of the independent body which could be revisited at any time with due process. All agreed that government should have no ability to approve an individual standard as this would lead to politicisation, short term thinking and be open to capture by lobbying from special interest groups. It would thus risk undermining investor confidence in the standards and in the coherence of future reporting by UK companies. Endorsing an accounting standard requires technical expertise and a standing committee at an endorsement body is the best way to ensure that such expertise is brought to the review process.

CRUF participants all agreed that the endorsement process should be timely.



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About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

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