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Brussels' blind faith in IFRS

From Syed Kamall MEP.

Sir, While the ongoing debate in the FT has highlighted alleged deficiencies in [International Financial Reporting Standards \(IFRS\)](#), there has been no reference to the European Commission's role in endorsing and adopting them in the European Union.

According to the 2002 International Accounting Standards regulation, the Commission can only endorse IFRS if they are compliant with the true and fair view principle in the 4th and 7th accounting directives. Given that the European Court of Justice has ruled that this principle has an objective requirement that limited liability companies must demonstrate maintenance of capital, and must not understate or overstate assets and liabilities, investor groups have suggested that IFRS are in fact not compliant with EU law.

When I questioned the Commission on this point, it responded that the European Financial Reporting Advisory Group (Efrag), the body responsible for identifying whether IAS are compliant with EU law, believes that there are no grounds for concern. However, I have been contacted by investor groups, which suggest that we need to look at Efrag's role and any potential conflicts of interest as well as investigating whether Efrag has been fulfilling its mandate as required under the IAS regulation.

Given that there is widespread recognition of the problems of IFRS and the need to update them, some investors remain concerned that the Commission continues to endorse and adopt other IAS rules before addressing the deficiencies. The Commission should consider tempering its blind faith in IFRS and put pressure on the International Accounting Standards Board to speed up its review processes to ensure that accounting standards are fit for purpose.

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