European Securities and Markets Authority

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PUBLIC STATEMENT

Retrospective Adjustments to Financial Statements Following Rejection Notes Published by the IFRS Interpretations Committee

The Committee of European Securities Regulators (CESR), the predecessor of ESMA, issued in April 2007 a Statement[1] to European companies having their securities traded on a regulated market and preparing consolidated financial statements under IFRS as adopted by the EU and more specifically to the users of the information published by these companies.

CESR published together with its Statement (CESR/07-121b) a position prepared by CESR, BUSINESSEUROPE and FEE on the retrospective adjustment following the publication of a rejection note of the IFRS Interpretations Committee[2]. Issues reach the Interpretations Committee generally because there are various possible understandings of IFRS requirements or there is a conflict of views. At the time of issuing the statement, it was argued by some that many such conflicts are transitional issues and would disappear over time as all stakeholders become more familiar with the interpretation and application of IFRS.

The issue was whether or not the rejection notes published by the IFRS Interpretations Committee itself or the explanatory text included in such a rejection note, should result in an accounting change and, if so, whether the change should be regarded as the correction of an error or a change in accounting policy in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* (based on IAS 8 paragraph 5 and as set out in respectively IAS 8 paragraph 14 (changes in accounting policy) and IAS 8 paragraph 42 (correction of an error).

ESMA believes that, 6 years after the implementation of IFRS, we are no longer in such a transitional period. Rejection notes published by the IFRS Interpretations Committee often provide clarification of the standards. There is an expectation on the part of the stakeholders in IFRS that rejection notes concluding that IFRSs are sufficiently clear will be carefully considered by preparers in determining their accounting policies. In the case of a change in a previous accounting treatment following the issue of a rejection note, an issuer should apply IAS 8 and provide proper and sufficient disclosure on the reasons for the change, having regard to the particular facts and circumstances of the individual case, including reference to the rejection note.

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[1] http://www.esma.europa.eu/popup2.php?id=4463
[2] http://www.esma.europa.eu/popup2.php?id=4480

Notes for editors

1. To view the original CESR Press Statement see (CESR/07-121b) *As EU listed groups prepare to publish their second set of IFRS financial statements, CESR stresses that its members remain watchful and note the continued need for companies to deliver, as true, fair and complete information as possible, for investors, under IFRS.* http://www.esma.europa.eu/popup2.php?id=4463

2. ESMA is an independent EU Authority that was established on 1 January 2011 according to EU Regulation No. 1095/2010 as published on December 15, 2010, in the Official Journal of the European Union (L 331/84). The Authority contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. In particular, ESMA fosters supervisory convergence both amongst securities regulators, and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA).

3. ESMA's work on securities legislation contributes to the development of a single rule book in Europe. This serves two purposes; firstly, it ensures the consistent treatment of investors across the Union, enabling an adequate level of protection of investors through effective regulation and supervision. Secondly, it promotes equal conditions of competition for financial service providers, as well as ensuring the effectiveness and cost efficiency of supervision for supervised companies. As part of its role in standard setting and reducing the scope of regulatory arbitrage, ESMA strengthens international supervisory co-operation. Where requested in European law, ESMA undertakes the supervision of certain entities with pan European reach.

4. ESMA also contributes to the financial stability of the European Union, in the short, medium and long-term, through its contribution to the work of the European Systemic Risk Board, which identifies potential risks to the financial system and provides advice to diminish possible threats to the financial stability of the Union. ESMA is also responsible for coordinating actions of securities supervisors or adopting emergency measures when a crisis situation arises.

5. ESMA replaced the Committee of European Securities Regulators (CESR), an advisory body comprised of EU securities regulators that advised the European Commission from 2001 to 2010 on policy issues around securities legislation.

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