

Eurostat
Walter Radermacher
Director-General
5, rue Alphonse Weicker
2721 Luxembourg
Luxembourg

Suitability of IPSAS for EU Member States

Dear Mr Radermacher,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that 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 by enhancing investor protection.

ESMA has considered the public consultation on *The Suitability of the International Public Sector Accounting Standards (IPSAS) for EU Member States*. We thank you for the opportunity to contribute to the consultation process. ESMA's comments focus primarily on the role of governments in financial markets as issuers of securities and less on the importance of data for the proper functioning of the budgetary surveillance framework.

EU Member States issue a significant amount of securities on financial markets. According to recent data published by the International Monetary Fund (IMF) the sovereign debt in the Euro area amounts to about 10,5 trillion US dollar.

The financial crisis underlines the importance of timely and reliable financial and fiscal data and evidences the consequences of insufficient financial reporting in the public sector. Some governments were forced over the last years to play an important role in the efforts to restore stability in the financial sector through bailouts, takeovers and guarantees which are likely to result in new liabilities and other obligations. To allow investors in sovereign debt to understand these new liabilities and obligations, they need to be properly reflected in governments' financial reports.



ESMA supports a single set of high quality and up to date public sector accounting standards for EU Member States and European Institutions. In particular, we believe that accrual based public accounting would provide a firmer base to understand the economic position of governments at all levels.

It is our opinion that there is an increasing demand and need for public accountability and transparency on the financial position and performance of governments. ESMA thinks that introducing a single set of public sector accounting standards would contribute to a better functioning of the internal market by ensuring a high level of transparency and comparability of government financial reporting which is a necessary condition for building an integrated capital market which operates effectively, smoothly and efficiently. Investors in government securities can currently not rely on a comparable level of transparency as provided by IFRS for listed companies.

Introducing a single set of public accounting standards would reinforce the freedom of movement of capital in the internal market and help investors to compare the financial activities of governments and by consequence permit Member States to compete on an equal footing for financial resources available in the Union markets, as well as in the world capital markets.

It is our understanding that IPSAS are based on IFRS. ESMA has guided the transition to IFRS for listed companies in the European Union in 2005 through its predecessor body CESR – the Committee of European Securities Regulators – and contributes today largely to the effective and consistent application of IFRS in the European Union. IFRSs have improved both the quality and quantity of the financial information provided by European listed companies. The standards have resulted in an increased transparency by providing decision-useful information to investors.

ESMA does not yet have specific expertise on IPSAS. However, from the outset ESMA is supportive of a single set of high quality accrual based public sector accounting standards in the EU. Ideally such standards should be accepted internationally. We however acknowledge that harmonised accrual based standards would be a challenging project for EU Member States that would need sufficient transition time to be implemented.

IPSAS are developed by the IPSAS Board which is a private independent standard-setting body. The structures and processes that support the operation of the Board are facilitated by the International Federation of Accountants (IFAC). Based on our extensive experience with the IFRS standard-setting process and the governance framework around the IFRS Foundation we believe that there is a clear need to assess the governance around IFAC and the IPSASB before adopting IPSAS for EU Member States. We note that within the current oversight/monitoring structure the activity performed by the IPSAS Board is not subject to oversight of the Public Interest Oversight Board and the Monitoring Group. ESMA believes that



IPSAS standard-setting activities should be subject to public sector oversight before the EU takes a decision on the suitability of IPSAS.

To conclude, ESMA strongly believes that a single set of high quality standards for public sector accounting would greatly contribute to investor protection as well as to the stability and sustainability of public finances. The need for sound and transparent financial reporting in the public sector has never been greater.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'SM', written over a faint blue grid background.

Steven Maijoor
Chair ESMA