

Union programme to support specific activities in the field of financial reporting and auditing (2014-2020)

2012/0364(COD) - 17/09/2015 - Follow-up document

According to Regulation No 258/2014 of the European Parliament and of the Council, the Commission presented a report on the activity of the IFRS Foundation (The International Financial Reporting Standards), the Public Interest Oversight Board (PIOB) and the European Financial Reporting Advisory Group (EFRAG) in 2014.

To recall, Regulation No 258/2014 extends a Union programme to support specific activities in the field of financial reporting and auditing for the period from 1 January 2014 to 31 December 2020.

The general objective of the Union programme is to improve the conditions for the effective functioning of the internal market by **supporting the transparent and independent development of international financial reporting and auditing standard**. The beneficiaries of the programme are the European Financial Reporting Advisory Group (EFRAG), the International Financial Reporting Standards (IFRS) Foundation. In the field of auditing, the beneficiary is the Public Interest Oversight Board (PIOB).

(1) IFRS Foundation: the report shall cover:

- its activity and in particular the general principles against which new standards have been developed;
- whether IFRS take due account of different business models, reflect the actual consequences of economic transactions, are not overly complex, and avoid artificial short-term and volatility biases.

The report also addressed any changes that have been introduced in the Conceptual Framework, with a particular focus on the concepts of prudence and reliability.

In 2014, the **International Accounting Standards Board (IASB) finalised two major standards** that are of fundamental importance for users of financial statements, namely **IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers** and made significant progress in other important projects.

IFRS 15 seeks to provide companies with more complete and up-to-date guidance on revenue recognition. Following positive assessment of the standard by EFRAG, its endorsement process is currently ongoing. As far as **IFRS 9 Financial Instruments**, EFRAG issued a positive draft endorsement advice on 4 May 2015 and is expected to finalise it in the second half of 2015.

As far as the **Conceptual Framework** is concerned, the Commission reiterated its **support to the re-introduction of the concept of prudence** and will closely follow the developments of the situation. Although the term 'prudence' was taken out of the Conceptual Framework in 2010, the IASB has maintained that prudence is reflected in their standards. It is likely that there will be further debate around this topic.

The Commission also invited the IASB to consider the **specific needs of investors with different investment time horizons** and to provide specific solutions, in particular to long-term investors, when developing their standards. Finally, the Commission urges the IASB to strengthen their analysis of impact and to better coordinate with EFRAG.

(2) **EFRAG**: the report focused on:

- whether EFRAG in its technical work on international accounting standards takes appropriate account of the requirement of Article 3(2) of [Regulation \(EC\) No 1606/2002](#), in particular, in assessing whether new or amended IFRS are consistent with the ‘**true and fair view**’ principle and conducive to the European public good;
- whether EFRAG in its technical work on IFRS provides adequate assessment of whether draft, new or amended international accounting standards developed by the IASB are **evidence-based**, respond to the Union’s needs, taking into account the diversity of accounting and economic models and views in the Union; and

EFRAG’s progress in the implementation of its **governance** reforms, taking into account developments following the recommendations set out in the special advisor’s report.

The report stated that in in 2014, the governance reform of EFRAG was implemented. It involved establishing a new Board of EFRAG, its new decision-making body, with balanced representation of public and private interests. As a result, **EFRAG is now well equipped to strengthen the legitimacy of its positions** and significantly contribute to the objective of Europe speaking with one voice.

EFRAG took account in its endorsement assessments of whether IFRS were meeting all technical criteria of the IAS Regulation. Following its governance reform, EFRAG has strengthened its scope of assessment of whether new or proposed financial reporting requirements are conducive to the public good.

Thanks to its extensive due process, EFRAG was in a position to **provide adequate assessment** of whether draft, new or amended international accounting standards responded to the Union’s needs while taking into account the diversity of accounting and economic models and views in the EU. This activity proved particularly important in the development phase of new standards by the IASB.

In that context, the Commission welcomed EFRAG's willingness to further develop its capacities with respect to the analysis of the effects of standards including macro-economic effects such as any detrimental effects on financial stability or economic development in the EU.

(3) **PIOB**: the report studied the **diversification of funding sources**. It noted that the diversification of funding sources has progressed significantly. The total portion provided by the International Federation of Accountants (**IFAC**) is 58%; not far away from the ideal benchmark of less than 50% and is also well below the two-thirds threshold stipulated in the Regulation.

For the coming years, the Commission will **continue monitoring the funding developments** and will cooperate with other interested stakeholders, in particular with other Monitoring Group members, to ensure that the PIOB benefits from a clear, stable, diversified and adequate funding system so that it can accomplish its public interest mission in an independent and efficient manner.