

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

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According to Regulation No 258/2014 of the European Parliament and of the Council, the Commission presented its annual report to **support specific activities in the field of financial reporting and auditing** for the period from 1 January 2014 to 31 December 2020, namely:

- the International Financial Reporting Standards (IFRS) Foundation,
- the European Financial Reporting Advisory Group (EFRAG) and
- the Public Interest Oversight Board (PIOB).

The main conclusions of the report are as follows:

1. IFRS Foundation

The two major standards issued by the IASB in 2014, namely **IFRS 9** Financial Instruments and **IFRS15** Revenue from Contracts with Customers, are currently in the process of being endorsed in the EU following positive assessment of these standards by EFRAG.

In 2015, the IASB finalised another major standard: **IFRS 16** Leases, which was published in January 2016. In addition, the IASB continued to work on a number of other major projects, in particular Insurance Contracts, the Disclosure Initiative and the Conceptual Framework.

The report noted that IFRS 9 explicitly recognises the importance of business models in determining measurement of financial instruments and IFRS 15 is considered flexible enough to meet different business models.

The Conceptual Framework gives business models more emphasis. • reflect the actual consequences of economic transactions: IFRS 15 achieves this and IFRS 16 also seeks to better reflect the actual consequences of economic transactions and provide much-needed transparency about companies' lease assets and liabilities.

IFRS 4 Insurance Contracts, currently finalised by the IASB, is also expected to provide a realistic depiction and better comparability of financial performance of the insurance industry across different constituencies.

Furthermore, the **Conceptual Framework** will introduce the **concept of substance over form**, which is important for portraying economic transactions appropriately.

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 development the Revised Conceptual Framework by the IASB.

Prudence is described as the exercise of caution when making judgements under conditions of uncertainty.

2. EFRAG

EFRAG provides its input throughout the standard setting process by commenting on IASB pronouncements and by providing proactive work to stimulate a debate in Europe on important accounting issues.

The report concluded that following the implementation of its governance reform in 2014, EFRAG has been well equipped to **strengthen the legitimacy of its positions** and significantly contribute to the objective of Europe speaking with one voice.

EFRAG continued to carry out endorsement assessments on whether IFRS were meeting all technical criteria of the IAS Regulation, including the true and fair view principle, and also strengthened its assessment on whether new or proposed financial reporting requirements were conducive to the public good.

The Commission welcomed EFRAG's efforts to further develop its capacities with respect to the analysis of the effects of standards including macro-economic effects such as effects on financial stability or economic development in the EU. In 2016, the Commission will continue to monitor the development of impact assessment capacities of EFRAG.

3. PIOB

The PIOB is in charge of overseeing the process leading to the adoption of International Standards on Auditing (ISAs) and other public interest activities of IFAC (The International Federation of Accountants). In order to properly carry out this important public-interest function it should be financed in such a way as to preserve its independence. Proper diversification of funding sources would help not only to preserve its continuity and guarantee that independence but also to reinforce the perception of independence.

The report noted that the **diversification of funding sources has continued** as the year before with the exception of the World Bank. The total portion of revenue sources provided by IFAC in 2015 is **60.67%** what is a little higher than in 2014 but still 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.