

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

2012/0364(COD) - 23/11/2017 - Follow-up document

In accordance with Regulation No 258/2014 of the European Parliament and of the Council, the Commission presented its annual report on the activity of the beneficiaries of the 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, namely:

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

The main conclusions of the report for **2016** are as follows:

1) IFRS Foundation: in 2016, two major standards issued earlier by the IASB, namely IFRS 9 Financial Instruments and IFRS15 Revenue from Contracts with Customers, were endorsed in the EU. In January 2016, the IASB issued another major standard: **IFRS 16 Leases**. In addition, the IASB continued to work on a number of other major projects, in particular the new Insurance Contracts standard IFRS 17.

The report noted that IFRS 9 explicitly recognises **the importance of business models** in determining measurement of financial instruments. The Commission is committed to monitoring closely the impact of IFRS 9 to ensure that it serves the EU long-term investment strategy.

The Commission asked EFRAG by mid-2018 to identify whether and how IFRS 9 could be improved.

IFRS 9 is a complex standard however it has introduced simplifications in the accounting for financial instruments. In EFRAG's view, IFRS 9 does not contain any complexity that may impair understandability.

IFRS 16 Leases seeks to better reflect the actual consequences of economic transactions and provide much-needed transparency about companies' lease assets and liabilities. **IFRS 17 Insurance Contracts** is also expected to provide a realistic depiction and better comparability of financial performance of the insurance industry across different constituencies. This issue will be looked at in detail by EFRAG.

In 2016, the IASB continued to work on the **revised conceptual framework**. It expects to publish it around the end of 2017. In May 2016, the Board tentatively decided to confirm that the revised conceptual framework should include a reference to prudence described as the exercise of caution when making judgements under conditions of uncertainty.

The Commission reaffirmed its support for the reintroduction of the **concept of prudence** and will closely follow the final phase of this project.

2) EFRAG: following the implementation of its governance reform and the appointment of the President of its Board, EFRAG has strengthened the **legitimacy of its positions** and significantly contributed to the objective of Europe speaking with one voice.

The Commission appreciated the comprehensive effects analysis, which supported EFRAG's endorsement advice on IFRS 16 Leases, and encourages EFRAG to further develop its capacities in this area.

3) PIOB: the final objective for the PIOB is to ensure that those standards are developed in the public interest. In order to properly carry out this essential public-interest function it will be important to ensure that the funding of the institution is designed as to preserve its real and perceived independence.

The report noted that the **diversification of funding sources has continued** with the incorporation of the CFA Institute as a donor. The total portion of revenue sources provided by IFAC in 2016, as shown in page 1 of its 2016 financial statements, is 58.50 % what is lower than in 2015 (60.67%) and 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 potential donors, 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.