## Financial services, financial reporting and auditing: Community programme 2010-2013 to support specific activities

2009/0001(COD) - 27/09/2010 - Follow-up document

The Commission presents a report on the funding of the International Financial Reporting Standards (IFRS) Foundation in accordance with thee requirements under Decision No 716/2009/EC establishing a Community programme to support specific activities in the field of financial services, financial reporting and auditing, The Decision allows the EU to provide a financial contribution towards the IFRS Foundation budget, subject to satisfactory progress being made to enhance the IFRS Foundation governance. The Commission examines in this report the latest developments concerning governance, without prejudging the debate about the need for further, more comprehensive reforms of the IFRS Foundation's governance, which are currently being reviewed through the IFRS Foundation's Monitoring Board. Until the latter formulates its recommendations and until they are implemented, it is essential that the International Accounting Standards Board (IASB) continues to have sufficient resources to deliver a number of urgent projects, notably those related to the financial crisis as well as key priorities for the EU, such as insurance accounting.

Recent changes to the IFRS Foundation's constitution: following a review by the Trustees in 2009, the issue of public accountability was addressed by creating a link to a Monitoring Board of public authorities. The membership of the IASB was increased from 14 to 16 members (to be implemented no later than July 2012) in order to ensure a broad geographic distribution within the Board. Further changes in 2009 focussed on enhancing the transparency and accountability of the IFRS Foundation and the IASB and expanding stakeholder engagement and outreach, whilst enhancing governance. The report outlines the key changes:

- the IASB will in future be required to carry out a public consultation every 3 years about its work programme, starting no later than mid-2011;
- the term of office of IASB members will become shorter (5 years, extendable by 3 years maximum), except for the Chair who will remain eligible for a full 5 years second term;
- there will be a possibility to shorten the due process below the minimum 30-day duration in the IASB's Handbook. This brings greater flexibility in cases of urgency, like those at the height of the financial crisis, which made it necessary to introduce new reclassification rules for financial instruments:
- the objectives of the IFRS Foundation are amended to emphasise that the overall objective is the global adoption of IFRS, whereas convergence is only a means to facilitate this objective.

Composition and powers of the Monitoring Board: the report sets out the Board's composition and powers and notes that the Monitoring Board is still developing its procedures and working arrangements to accomplish in practice its public interest mission. The Commission considers that the Monitoring Board is a useful step towards greater accountability and transparency of the IFRS Foundation's work. Nevertheless, the Commission considers that a comprehensive review of the IFRS Foundation's governance framework – including the role of the Monitoring Board - is appropriate, in particular to assess the need to strengthen its accountability towards public authorities.

Other commitments made by the Board of Trustees: the Trustees have agreed to undertake immediately a full strategic review of the Foundation beyond June 2011, i.e. beyond the completion of the convergence agenda of the IASB and the US Financial Accounting Standards Board (FASB), including

the financing of the organisation. The review will include public consultation with stakeholders and the Monitoring Board. The Trustees have also decided to undertake a full review of the effectiveness of the IFRS Advisory Council, and a review of the oversight framework of the IASB. The Commission welcomes the launch of these reviews. Consultations have already started in a number of fora.

**Future governance reforms:** the Commission considers that further steps are necessary and the Monitoring Board has established a Governance Working Group (WG) to carry out a comprehensive review. The Governance WG has been given broad mandate to cover all relevant aspects of the IFRS Foundation's governance, including its institutional structure as well as the link between accounting standards and various public policy objectives, including market transparency and financial stability. The Commission considers that the Governance WG should aim to report its conclusions and recommendations by the end of 2010 and that the latter should be implemented as soon as possible thereafter.

Roadmaps for third countries to apply IFRS to their domestic issuers: many countries have continued to make progress towards the full convergence of their standards with IFRS and towards the eventual adoption of IFRS for their domestic issuers. The Committee of European Securities Regulators (CESR) has provided advice to the Commission and has indicated that China, Canada, India, and South Korea continue to make progress in pursuing their convergence or adoption programmes. The United States Securities and Exchange Commission issued a policy statement confirming that it intends to take a decision about IFRS during 2011. Japan has announced its intention to take a decision around 2012 on whether to adopt IFRS by 2015 or 2016. In the meantime, some Japanese companies can already apply IFRS on a voluntary basis.

**Conclusions**: the Commission concludes that the IFRS Foundation has made progress on several key benchmarks referred to in Decision 716/2009/EC. As part of any future comprehensive reform of the IFRS Foundation, the latter's funding arrangements would need to ensure a non-voluntary, transparent and stable funding platform with a broad geographical basis. In this respect, it is particularly important that all major jurisdictions contribute towards the budget of the IFRS Foundation in proportion to their weight in global capital markets.

While discussions continue concerning a more comprehensive reform of the IFRS Foundation's governance model, the IASB should be appropriately funded to ensure that it can deliver urgently required standards, including those related to the financial crisis such as the reform of the accounting requirements concerning financial instruments. The Commission therefore considers that the **short-term funding needs of the IASB should be supported**, in accordance with the Decision 716/2009/EC, while a comprehensive review of its governance model is carried out by the Monitoring Board.

On the basis of the preceding analysis, the Commission recommends that the EU should provide the IFRS Foundation with the funding provided for in Decision

716/2009/EC from 2011. The Commission nevertheless emphasises that a comprehensive review of the IASB's governance model should be carried out as a matter of urgency. The recommendations arising from this assessment will need to be available by 2011 and implemented as soon as possible thereafter.