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

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The Commission presents a report on the progress achieved in the implementation of the reform of the European Financial Reporting Advisory Group (**EFRAG)**, following the recommendations provided in the report by M. Maystadt, who was appointed in 2013 by Commissioner Michel Barnier as a special adviser with the mandate to assess the current system of adopting international accounting standards (IFRS) in the EU.

The European Union has long been an advocate of one single set of global accounting standards. The G20 has also called for global accounting standards and convergence on several occasions

The Regulation of the European Parliament and of the Council, which 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, came into force on 9 April 2014. 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 standards.

The beneficiaries of the programme in the field of financial reporting are EFRAG, and the *International Accounting Standards Committee Foundation* (IASCF), which was legally succeeded by the IFRS Foundation. In the field of auditing, the beneficiary is the *Public Interest Oversight Board* (PIOB).

Recommandations of the Maystadt report: in his final report, M. Maystadt identified three different options for strengthening the European Union's influence in international accounting standard-setting: transformation of EFRAG, transfer of responsibilities of EFRAG to ESMA or replacement of EFRAG by an EU Agency. **The report recommended the restructuring EFRAG.**

The recommended option – the transformation of EFRAG – essentially involves the appointment of a high-level Board, which would enhance the organisation so as to meet three objectives: (i) to bring to EFRAG’s positions an institutional legitimacy in addition to the legitimacy that its due process provides; (ii) to have a different and supplementary set of skills to develop its positions and (iii) to involve National Standard Setters more fully in the organisation and to allow for their participation in all stages of the decision-making process. The recommendations in the Maystadt report gained a **broad support** at the ECOFIN Council meeting on 15 November 2013. The Commission considers these as a benchmark in the implementation of EFRAG reforms.

Position taken by the European Central Bank (ECB) and European Supervisory Authorities (ESA): in a joint letter to the Commission of 20 January 2014, **the three ESAs**, namely the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) **expressed concerns** with respect to the planned reform of EFRAG. The ESAs stressed the importance of their involvement in the endorsement process but pointed out that the body to be entrusted with such responsibilities should serve the public interest and, thus, its decision-making processes should be centred on public authorities.

The Commission noted the concerns expressed by the three ESAs and the European Central Bank and considered that these organisations should play an important role in EFRAG by participating at least as observers to the Board.

Progress achieved and next steps: the Commission concluded that overall, EFRAG has made **promising progress** in implementing the reforms following the key recommendations of the Maystadt report. In order to carry out the key changes, **the statutes and the internal rules of EFRAG have been modified** to reflect the amendments necessary to its structure and operations. The amended statutes and internal rules were finally approved by the general assembly of EFRAG on 16 June 2014.

In this respect, it should be recognised that **the level of detail of these amendments goes beyond the recommendations provided in the Maystadt report** (e.g. the methodology of allocation of voting rights in the General Assembly, the profile criteria for Board Members, the responsibilities of the Board and TEG). A collective effort has been made by different stakeholders participating in the process to find an agreement acceptable to all parties.

As regards the expected departures from Mr Maystadt's original recommendations, the most substantial change results from the fact that the ECB and **the three ESAs accepted observer status only rather than full Board membership.** As this resulted in just two pillars of members of the Board, a new balance was found by granting an additional three seats to private stakeholders.

The Commission will continue to monitor closely the implementation of the reform of EFRAG and will duly report on that to the European Parliament and the Council from 2015 it will prepare an annual report on the activity of EFRAG, which will cover the latter's progress in the implementation of its governance reforms.