

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

2012/0364(COD) - 19/10/2018 - Follow-up document

The Commission presents its report on the activities of the IFRS Foundation, EFRAG and PIOB in 2017.

The report covers the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB) in 2017.

Activities overview

1) IFRS

In 2017, the IFRS Foundation commissioned an external study about its perception by stakeholders. The results highlighted strong appraisal for its independence and transparency but mixed views as regards the balance between responsiveness and quantity of due process.

The IFRS Advisory Council comprised 43 organisations with 49 individual members. The European Commission participates as an observer. A full account of the development of IFRS to the European Parliament was provided with a view to increasing accountability.

As member to the IFRS's Monitoring Board, the Commission has initiated a dialogue with the Trustees and the IASB in order to enhance the effects analysis methodology in particular in terms of scope, timing and method. This will especially include monitoring the Trustee's review of the IFRS Due Process Handbook, with an expected finalisation by 2020.

In 2017, the IFRS Foundation received a EUR 4.6 million grant from the European Union which makes up 16.5% of the total funding received. As part of the Multiannual Financial Framework, this amount may be revised each year.

Though reported contributions from stakeholders were up by 4.2% in 2017, after taking into account the impact of exchange rate fluctuations, they turn-out to be down by 2%. In particular Saudi Arabia (-100%), Nigeria (-100%), Brazil (-34%) and the United States (- 25%) have decreased their contributions. As a consequence whilst the Americas make up 27% of the Trustees membership they only pay 6% of the total contributions.

The IFRS Foundation reported a net profit of 8.7 million GBP. The total retained surplus as at 31 December 2017 mounted to 31.5 million GBP.

2) EFRAG

The Commission has appreciated the comprehensive effects analysis, which supported EFRAG's endorsement advice on the new or revised IFRS Standards. The Commission encourages EFRAG to continue developing its capacities in this area to ensure that endorsed IFRS Standards are fit for Europe. EFRAG started its endorsement advice work in 2017 but the main part of the work will take place in 2018.

EFRAG has also enhanced its relationship with the European Parliament. Meetings allow the Parliament to provide input to EFRAG's activities and being updated on EFRAG's main activities in all stages of the standard setting process.

3) PIOB

The PIOB regularly communicated with the Standard setting boards under its oversight (International Auditing and Assurance Standards Board (IAASB); the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA), their three Consultative Advisory Groups, the Compliance Advisory Panel and the Nominating Committee and IFAC leadership.

The PIOB carried out two outreach events and together with the Monitoring Group, also invested in the development of a public interest framework that aims at providing a better mechanism for assessing how the public interest is captured throughout the standard setting process.

According to the Regulation, if funding by IFAC in a given year reaches more than two-thirds of the total annual PIOB funding, the Commission shall propose to limit its annual contribution for that year to a maximum of EUR 300 000. In year 2017 (as in 2014-2016), this has not been the case.

The composition and role of the PIOB is likely to evolve in the coming years pursuant to the reform process launched by the Monitoring Group. However, independent oversight will inevitably also be one of the key features of any future model. Moreover, efforts to diversify the funding of the PIOB should continue in the meantime.

Conclusion

The report concluded that in 2017, the Union funding programme remains fully relevant in the context of the EU's efforts to establish a Capital Markets Union and to safeguard financial stability. The three beneficiaries (EFRAG, the IFRSF and the PIOB) delivered on their mission to defend the European public interest and play a major role in the functioning of the internal market.

However, although the overall results of these actions were positive in terms of implementation modalities, there does appear to be scope for improvement. The Commission will engage with the beneficiaries in 2018 in order to ensure (even) higher standards of transparency, in particular with regard to the establishment of mandatory transparency registers on meetings with external stakeholders.