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

2012/0364(COD) - 29/10/2019 - Follow-up document

The Commission presents its report on the activities of the International Financial Reporting Standards Foundation (IFRSF), the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB) in 2018.

Activities overview

1) IFRS

In 2018, the IFRS Foundation carried-out significant outreach activities to support and monitor the implementation of IFRS 17 Insurance Contracts. In November 2018, the IASB considered a comprehensive list of operational challenges arising from the implementation of the standard and decided to consider potential amendments to ease application. The Board tentatively decided to postpone the application date of IFRS 17 from 1 January 2021 to 1 January 2022 and to extend the optional deferral of IFRS 9 granted to the insurance industry. An exposure draft was released in June 2019 with a view to finalizing a revised standard by the middle of 2020. Meanwhile, the EU endorsement procedure of IFRS 17 has been suspended.

In 2018, the Board launched a new project to consider the implications of the reform of interest rate benchmarks on hedge accounting.

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 it 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.

In 2018, EFRAG has been active on the endorsement advice on IFRS 17 Insurance Contracts. It carried out a major impact analysis on the anticipated impact of IFRS 17 consisting of an extensive case study with 11 insurers, a simplified case study with 49 insurers; and a detailed user outreach. In addition, EFRAG commissioned an economic study to obtain an economic analysis in areas such as industry trends, any potential impact on competition for capital and customers, and any potential impact on offerings of products and service by insurers. In October 2018, the European Parliament adopted a Motion for a Resolution on IFRS 17 which raised some concerns about the broader impacts of IFRS 17 on financial stability, long-term investment and the European insurance market and highlighted specific technical issues for consideration in the endorsement advice.

EFRAG incorporated the issues identified by the Parliament in its work plan so as to consider them as part of the draft endorsement advice.

In addition, the creation of the European Corporate Reporting Laboratory at the request of the Commission represents a logical extension of its mandate to provide valuable inputs to the European Commission on best practices on non-financial reporting.

3) The PIOB

In 2018, 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 critical input from the PIOB has sharpened the discussions on the development of new international standards on auditing and has thus contributed to standards that are more responsive to the public interest than would otherwise have been the case.

The report concluded that the PIOB's independent oversight function exists to provide assurance to investors and others that audit-related standard setting has taken place in the public interest. Although 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, independent oversight will remain one of the key features of any future governance model. Moreover, efforts to diversify the funding of the PIOB should continue in the meantime.

Conclusion

In 2018, the Union funding programme remains fully justified 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) have been in line with the annual work programme set out in the annex to Commission Implementing Decision 2018. At this point there are no reasons to question the relevance of the programme for the remaining period of the current financial perspective.