Basic information

2012/0364(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	Procedure completed
Union programme to support specific activities in the field of financial reporting and auditing (2014-2020) Repealing Decision No 716/2009/EC 2009/0001(COD) Repealed by 2018/0231(COD) Amended by 2016/0110(COD) **Subject** 2.50.03 Securities and financial markets, stock exchange, CIUTS, investments 2.50.04 Banks and credit 2.50.05 Insurance, pension funds 2.50.08 Financial services, financial reporting and auditing	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	STOLOJAN Theodor Dumitru (PPE)	14/01/2013
	Shadow rapporteur EL KHADRAOUI Saïd (S&D) KLINZ Wolf (ALDE) GIEGOLD Sven (Verts/ALE) KAMALL Syed (ECR) KLUTE Jürgen (GUE/NGL)	

Committee for opinion	Rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	
CONT Budgetary Control	The committee decided not to give an opinion.	
JURI Legal Affairs	STOYANOV Dimitar (NI)	22/01/2013

Council of the European Union

Council configuration	Meetings	Date

	Agriculture and Fisheries	3307	2014-03-24

European Commission	Commission DG	Commissioner
	Financial Stability, Financial Services and Capital Markets Union	BARNIER Michel

European Economic and Social Committee

Key events

Date	Event	Reference	Summary
19/12/2012	Legislative proposal published	COM(2012)0782	Summary
15/01/2013	Committee referral announced in Parliament, 1st reading		
24/09/2013	Vote in committee, 1st reading		
01/10/2013	Committee report tabled for plenary, 1st reading	A7-0315/2013	Summary
12/03/2014	Debate in Parliament		
13/03/2014	Decision by Parliament, 1st reading	T7-0245/2014	Summary
13/03/2014	Results of vote in Parliament		
24/03/2014	Act adopted by Council after Parliament's 1st reading		
03/04/2014	Final act signed		
03/04/2014	End of procedure in Parliament		
08/04/2014	Final act published in Official Journal		

Technical information

Procedure reference	2012/0364(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Repealing Decision No 716/2009/EC 2009/0001(COD) Repealed by 2018/0231(COD) Amended by 2016/0110(COD)
Legal basis	Treaty on the Functioning of the European Union TFEU 114-p1
Other legal basis	Rules of Procedure EP 165
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/11560

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE508.016	26/03/2013	
Committee opinion	JURI	PE508.229	30/05/2013	
Amendments tabled in committee		PE513.274	13/06/2013	
Committee report tabled for plenary, 1st reading/single reading		A7-0315/2013	01/10/2013	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0245/2014	13/03/2014	Summary

Council of the EU

Document type	Reference	Date	Summary
Draft final act	00134/2013/LEX	03/04/2014	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2012)0782	19/12/2012	Summary
Document attached to the procedure	SWD(2012)0444	19/12/2012	
Commission response to text adopted in plenary	SP(2014)455	10/06/2014	
Follow-up document	COM(2014)0396	02/07/2014	Summary
Follow-up document	COM(2015)0461	17/09/2015	Summary
Follow-up document	COM(2016)0559	08/09/2016	Summary
Follow-up document	COM(2017)0684	23/11/2017	Summary
Commission document (COM)	COM(2018)0705	19/10/2018	Summary
Follow-up document	COM(2019)0549	29/10/2019	Summary
Follow-up document	COM(2020)0807	14/12/2020	
Follow-up document	COM(2022)0104	15/03/2022	
Follow-up document	COM(2022)0504	06/10/2022	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	PT_PARLIAMENT	COM(2012)0782	14/02/2013	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES1031/2013	20/03/2013	

Additional information		
Source	**Document**	**Date**
National parliaments	IPEX	
European Commission	EUR-Lex	

Final act	
Regulation 2014/0258 OJ L 105 08.04.2014, p. 0001	Summary

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

2012/0364(COD) - 08/09/2016 - Follow-up document

According to Regulation No 258/2014 of the European Parliament and of the Council, the Commission presented its annual report 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) and
- the Public Interest Oversight Board (PIOB).

The main conclusions of the report are as follows:

1. IFRS Foundation

The two major standards issued by the IASB in 2014, namely **IFRS 9** Financial Instruments and **IFRS15** Revenue from Contracts with Customers, are currently in the process of being endorsed in the EU following positive assessment of these standards by EFRAG.

In 2015, the IASB finalised another major standard: **IFRS 16** Leases, which was published in January 2016. In addition, the IASB continued to work on a number of other major projects, in particular Insurance Contracts, the Disclosure Initiative and the Conceptual Framework.

The report noted that IFRS 9 explicitly recognises the importance of business models in determining measurement of financial instruments and IFRS 15 is considered flexible enough to meet different business models.

The Conceptual Framework gives business models more emphasis. • reflect the actual consequences of economic transactions: IFRS 15 achieves this and IFRS 16 also seeks to better reflect the actual consequences of economic transactions and provide much-needed transparency about companies' lease assets and liabilities.

IFRS 4 Insurance Contracts, currently finalised by the IASB, is also expected to provide a realistic depiction and better comparability of financial performance of the insurance industry across different constituencies.

Furthermore, the **Conceptual Framework** will introduce the **concept of substance over form**, which is important for portraying economic transactions appropriately.

As far as the **Conceptual Framework** is concerned, the Commission reiterated its support to the **re-introduction of the concept of prudence** and will closely follow the development the Revised Conceptual Framework by the IASB.

Prudence is described as the exercise of caution when making judgements under conditions of uncertainty.

2. EFRAG

EFRAG provides its input throughout the standard setting process by commenting on IASB pronouncements and by providing proactive work to stimulate a debate in Europe on important accounting issues.

The report concluded that following the implementation of its governance reform in 2014, EFRAG has been well equipped to **strengthen the legitimacy of its positions** and significantly contribute to the objective of Europe speaking with one voice.

EFRAG continued to carry out endorsement assessments on whether IFRS were meeting all technical criteria of the IAS Regulation, including the true and fair view principle, and also strengthened its assessment on whether new or proposed financial reporting requirements were conducive to the public good.

The Commission welcomed EFRAG's efforts to further develop its capacities with respect to the analysis of the effects of standards including macro-economic effects such as effects on financial stability or economic development in the EU. In 2016, the Commission will continue to monitor the development of impact assessment capacities of EFRAG.

3. PIOB

The PIOB is in charge of overseeing the process leading to the adoption of International Standards on Auditing (ISAs) and other public interest activities of IFAC (The International Federation of Accountants). In order to properly carry out this important public-interest function it should be financed in such a way as to preserve its independence. Proper diversification of funding sources would help not only to preserve its continuity and guarantee that independence but also to reinforce the perception of independence.

The report noted that the **diversification of funding sources has continued** as the year before with the exception of the World Bank. The total portion of revenue sources provided by IFAC in 2015 is **60.67%** what is a little higher than in 2014 but still 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 stakeholders, 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 in an independent and efficient manner.

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.

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 whist 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 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.

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 event 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.

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.

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

2012/0364(COD) - 19/12/2012 - Legislative proposal

PURPOSE: to establish a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: the crisis in the financial markets which has unfolded since 2008 has put **the issue of financial reporting and auditing at the centre of the Union's political agenda**. A well- functioning common financial reporting framework is essential for the internal market, for the effective functioning of the capital markets and for the realisation of the integrated market for financial services in the EU.

In a global economy, there is a need for a global accounting language. International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB) were adopted by the EU in 2002 and used in many jurisdictions around the world. Accordingly, Europe will **need more weight in the international standard setting process for its voice to be heard.**

It is in the interests of the EU to:

- promote the global adoption of IFRS;
- ensure the EU's weight in influencing the formation of IFRS;
- contribute to the independence of audit standard settings' public oversight.

Decision No 716/2009/EC of the European Parliament and of the Council established a Community programme to support specific activities in the field of financial services, financial reporting and auditing. On the basis of that Decision, (i) the European Financial Reporting Advisory Group **(EFRAG**), the European Commission's technical adviser in accounting matters, (ii) the International Financial Reporting Standards Foundation (IFRS Foundation; the legal successor of the International Accounting Standards Committee **Foundation, IASCF**) and (iii) the Public Interest Oversight Board **(PIOB)** benefit from Union co-financing in the form of operating grants until 31 December 2013.

The purpose of the proposed Regulation is to **renew that Programme** for the next financial framework (2014-2020) and enable direct contributions to the funding of the Programme's beneficiaries from the Union budget during that period.

IMPACT ASSESSMENT: in the *ex ante* evaluation accompanying this proposal, the Commission found that the Programme for 2009 to 2013 had met the expectations and objectives set and that financing should be continued.

Moreover, the financing Programme was set up with the aim of meeting long-term objectives. Thus, it is appropriate to propose it being continued in the next financial framework of 2014-2020.

LEGAL BASIS: Article 114 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the proposal aims to establish a Union programme for the period from 1 January 2014 to 31 December 2020 **to support the activities of bodies which contribute to the achievement of the policy objectives of the Union in relation to financial reporting and auditing.**

The co-financing programme is expected to contribute to the objectives of:

- ensuring comparability and transparency of company accounts throughout the EU;
- ensuring the global harmonisation of financial reporting standards by promoting the international acceptance of IFRS;
- promoting convergence and high quality international standards for auditing in all Member States.

The programme also contributes to the Europe 2020 strategy by reinforcing the single market of financial services and capital, and contributes to the strategy's external dimension as well.

The Programme covers: (i) the activities of developing or providing input to the development of standards; (ii) activities relating to applying, assessing or monitoring standards or overseeing standard-setting processes in support of the implementation of Union policies in the field of financial reporting and auditing.

The **beneficiaries** under the Programme are the following:

- in the field of financial reporting: (i)the European Financial Reporting Advisory Group (EFRAG); (ii) the International Financial Reporting Standards Foundation (IFRS Foundation);
- in the field of auditing: the Public Interest Oversight Board (PIOB).

Within the current institutional framework, the new funding arrangements will ensure stable, diversified, sound and adequate funding to enable the relevant bodies to carry out their Union-related or Union public interest mission in an independent and efficient manner.

BUDGETARY IMPLICATIONS: the total amount to be borne by the Union's budget is **EUR 58.01 million** in commitment appropriations for the 2014-2020 period. The financial envelope is divided up as follows:

- IFRS Foundation: EUR 32 227 000
- EFRAG: EUR 23 508 000
- PIOB: EUR 2 275 000 EUR.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union (TFEU).

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

2012/0364(COD) - 01/10/2013 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Theodor Dumitru STOLOJAN (EPP, RO) on the proposal for a regulation of the European Parliament and of the Council on establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020.

The committee recommended that the Parliament's position adopted in first reading following the ordinary legislative procedure should amend the Commission proposal as follows:

Scope of the Programme: the report clarifies that the Programme must cover:

- **the International Financial Reporting Standards Foundation** (IFRS Foundation), which, through the International Accounting Standards Board (IASB), develops International Financial Reporting Standards (IFRS);
- **the European Financial Reporting Advisory Group (EFRAG)** which assesses whether or not an IFRS standard complies with Union company law as part of the endorsement process of the Union and provides inputs to the development of standards;
- **the Public Interest Oversight Board (PIOB)** which oversees international audit, ethics and education standards for the accounting profession.

Bodies working in the field of accounting and auditing which receive Union funding through the Programme shall have a **duty of care in ensuring their independence** and the economical use of public money, irrespective of the diverse funding streams they may receive.

The Programme must enable regulators to enforce prudential regulation and to **strengthen corporate governance.**

Beneficiaries of the Programme: any financing of new beneficiaries shall be subject to **approval by the European Parliament and the Council** in accordance with Article 294 TFEU.

The Commission will not have the power to adopt **delegated acts** for the selection of new beneficiaries.

Financing: this shall be provided in the form of operating grants on an annual basis, and shall be **conditional on compliance with criteria** relating to the objectives and content of the standards, and with criteria concerning developments in Union governance, namely regarding EFRAG, the IFRS Foundation and IASB.

The criteria relating to the standards and governance shall be based on certain principles such as the requirement of the **'true and fair view'** laid down in Article 4(3) of Regulation (EC) No 1606/200, of the European Parliament and of the Council on the application of international accounting standards as well as the **principles of prudence and reliability**.

The Commission shall conduct, annually, an assessment of whether the criteria are fulfilled and whether the beneficiaries have achieved the goals laid out in the Programme.

The Commission's assessment shall be presented and need to be approved by the European Parliament.

The financial envelope - over the period 2014-2020 this shall be EUR 58 010 000 in current prices. That figure may be **reduced or adjusted** if the Commission finds that the beneficiaries have not achieved the goals.

Evaluation: the Commission must:

- submit, by 31 March 2014, a first report on necessary governance reforms in the area of accounting and financial information (EFRAG and ARC) based);
- submit, by 31 March 2014, a report, accompanied by a legislative proposal to amend Regulation (EC) No 1606/2002 and, where appropriate, by a legislative proposal on reform in the area of accounting and financial information;
- with regard to the PIOB (or its successor organisation), monitor developments in the diversification of funding observed, for the first time in 2013, and subsequently on an annual basis;
- report by June 2019, on the achievement of the Programme's objectives.

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

2012/0364(COD) - 13/03/2014 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 474 votes to 28 with 72 abstentions, a legislative on the proposal for a regulation of the European Parliament and of the Council on establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020.

Parliament adopted its position in first reading following the ordinary legislative procedure. The amendments adopted in plenary are the result of a compromise between Parliament and Council.

Role of financial statements: the new text recalls that as well as playing a central role in ensuring that investors are equipped with important information relating to the balance sheet, the profit and loss statement and cash flow, financial statements support effective corporate governance. As well as playing a vital role in protecting shareholder and creditor interests, financial statements form the bedrock of prudential regulation.

Standard-setting: the amended text stresses that t is essential that the interests of the Union are adequately taken into account in that international standard-setting process. Those interests include the maintenance of the principle that financial statements should give **a 'true and fair view'**, and the concept of **prudence,** and should be reliable and understandable, comparable and relevant.

Scope: the Programme covers the implementation of Union policies in the field of financial reporting and auditing that are carried out by the **IFRS Foundation** (International Financial Reporting Standards Foundation), the European Financial Reporting Advisory Group (**EFRAG**) or the Public Interest Oversight Board (**PIOB**).

Bodies working in the field of financial reporting and auditing, which receive Union funding through the Programme, shall have a **duty of care to ensure their own independence** and that public money is used economically and efficiently, irrespective of the diverse funding streams from which they could benefit.

EFRAG will be funded for the period from 1 January 2014 to 31 December 2016.

Financing under the Programme shall be provided in the form of operating grants awarded on an annual basis. The financial envelope for the implementation of the Programme for the period 2014 to 2020 shall be **EUR 43 176 000** in current prices.

The indicative breakdown of the financial envelope laid down in paragraph 1 for the three beneficiaries shall be as follows:

- €€€€€€ for EFRAG: EUR 9 303 000;
- €€€€€€ for the IFRS Foundation: EUR 31 632 000
- €€€€€€ for PIOB: EUR 2 241 000.

Evaluation: the Commission will submit report in March 2014 and then every year from 2015 before 30 June each year, on necessary **governance reforms in the area of accounting and financial information in respect of EFRAG.**

If appropriate, the Commission shall submit a legislative proposal to continue financing of EFRAG after 31 December 2016.

The IASB has initiated the review of the Conceptual Framework. Following the issue of the revised Conceptual Framework, the Commission should report to the European Parliament and to the Council on any changes that have been introduced in the Conceptual Framework and reasons thereof, with a particular focus on the concepts of prudence and reliability ensuring that a 'true and fair view', as laid down in Directive 2013/34/EU, is respected. The beneficiaries should ensure the efficient and economic use of public money, including travel and related expenses.

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

2012/0364(COD) - 02/07/2014 - Follow-up document

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.

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

2012/0364(COD) - 03/04/2014 - Final act

PURPOSE: to establish a Union programme aiming to support specific activities in the field of financial reporting and auditing for the period of 2014-20

LEGISLATIVE ACT: Regulation (EU) No 258/2014 of the European Parliament and of the Council establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC.

CONTENT: the Regulation aims to establish a Union programme for the period from 1 January 2014 to 31 December 2020 to **support the activities of bodies** which contribute to the achievement of the policy objectives of the Union in relation to financial reporting and auditing.

Objectives and scope: the crisis in the financial markets which has unfolded since 2008 has put the issue of financial, reporting and auditing at the centre of the Union's political agenda. The objective of the Programme is to improve the conditions for the efficient functioning of the internal market by supporting the transparent and independent development of international financial reporting and auditing standards.

The programme covers activities relating to the development of standards, applying, assessing or monitoring standards or overseeing standard-setting processes by the International Financial Reporting Standards Foundation **(IFRS)** and the European Financial Reporting Advisory Group **(EFRAG) i**n the area of financial information or by the Public Interest Oversight Board **(PIOB)** in the field of auditing.

Budget: the financial envelope for the implementation of the Programme for the period 2014 to 2020 shall be **EUR 43 176 000** in current prices, divided as follows:

- for EFRAG: EUR 9 303 000;
- for the IFRS Foundation: EUR 31 632 000;
- for PIOB: EUR 2 241 000.

Financing under the Programme shall be **provided in the form of operating grants awarded on an annual basis.**

Transparency: any beneficiary of funding awarded under the Programme shall indicate in a prominent place, such as a website, that it has received funding from the budget of the Union and a breakdown of figures of other funding from alternative sources.

The Commission shall take appropriate measures to ensure that, when activities financed under the Regulation are implemented, **the financial interests of the Union are protected**.

Evaluation: by 31 March 2014, the Commission shall submit a first report to the on necessary governance reforms in the area of accounting and financial information in respect of EFRAG.

From 2015, the Commission shall prepare an annual report on the activity of the IFRS Foundation as regards the development of IFRS, of PIOB and of EFRAG. If appropriate, the Commission shall submit a legislative proposal to continue financing of EFRAG after 31 December 2016.

No later than 12 months before the end of the Programme, the Commission shall submit a report on the achievement of the Programme's objective.

ENTRY INTO FORCE: 08/04/2014. The Regulation is applicable from 01/01/2014 until 31/12/2020.

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

2012/0364(COD) - 17/09/2015 - Follow-up document

According to Regulation No 258/2014 of the European Parliament and of the Council, the Commission presented a report on the activity of the IFRS Foundation (The International Financial Reporting Standards, the Public Interest Oversight Board (PIOB) and the European Financial Reporting Advisory Group (EFRAG) in 2014.

To recall, Regulation No 258/2014 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.

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 standard**. The beneficiaries of the programme are the European Financial Reporting Advisory Group (EFRAG), the International Financial Reporting Standards (IFRS) Foundation In the field of auditing, the beneficiary is the Public Interest Oversight Board (PIOB).

(1) IFRS Foundation: the report shall cover:

- its activity and in particular the general principles against which new standards have been developed;
- whether IFRS take due account of different business models, reflect the actual consequences of economic transactions, are not overly complex, and avoid artificial short-term and volatility biases.

The report also addressed any changes that have been introduced in the Conceptual Framework, with a particular focus on the concepts of prudence and reliability.

In 2014, the **International Accounting Standards Board** (IASB) **finalised two major standards** that are of fundamental importance for users of financial statements, namely **IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers** and made significant progress in other important projects.

IFRS 15 seeks to provide companies with more complete and up-to-date guidance on revenue recognition. Following positive assessment of the standard by EFRAG, its endorsement process is currently ongoing. As far as **IFRS 9 Financial Instruments**, EFRAG issued a positive draft endorsement advice on 4 May 2015 and is expected to finalise it in the second half of 2015.

As far as the **Conceptual Framework** is concerned, the Commission reiterated its **support to the re-introduction of the concept of prudence** and will closely follow the developments of the situation. Although the term 'prudence' was taken out of the Conceptual Framework in 2010, the IASB has maintained that prudence is reflected in their standards. It is likely that there will be further debate around this topic.

The Commission also invited the IASB to consider the **specific needs of investors with different investment time horizons** and to provide specific solutions, in particular to long-term investors, when developing their standards. Finally, the Commission urges the IASB to strengthen their analysis of impact and to better coordinate with EFRAG.

(2) EFRAG: the report focused on:

- whether EFRAG in its technical work on international accounting standards takes appropriate account of the requirement of Article 3(2) of Regulation (EC) No 1606/2002, in particular, in assessing whether new or amended IFRS are consistent with the '**true and fair view'** principle and conducive to the European public good;
- whether EFRAG in its technical work on IFRS provides adequate assessment of whether draft, new or amended international accounting standards developed by the IASB are **evidence-based**, respond to the Union's needs, taking into account the diversity of accounting and economic models and views in the Union; and

EFRAG's progress in the implementation of its **governance** reforms, taking into account developments following the recommendations set out in the special advisor's report.

The report stated that in in 2014, the governance reform of EFRAG was implemented. It involved establishing a new Board of EFRAG, its new decision-making body, with balanced representation of public and private interests. As a result, **EFRAG is now well equipped to strengthen the legitimacy of its positions** and significantly contribute to the objective of Europe speaking with one voice.

EFRAG took account in its endorsement assessments of whether IFRS were meeting all technical criteria of the IAS Regulation. Following its governance reform, EFRAG has strengthened its scope of assessment of whether new or proposed financial reporting requirements are conducive to the public good.

Thanks to its extensive due process, EFRAG was in a position to **provide adequate assessment** of whether draft, new or amended international accounting standards responded to the Union's needs while taking into account the diversity of accounting and economic models and views in the EU. This activity proved particularly important in the development phase of new standards by the IASB.

In that context, the Commission welcomed EFRAG's willingness to further develop its capacities with respect to the analysis of the effects of standards including macro-economic effects such as any detrimental effects on financial stability or economic development in the EU.

(3) PIOB: the report studied the **diversification of funding sources**. It noted that the diversification of funding sources has progressed significantly. The total portion provided by the International Federation of Accountants (**IFAC**) is 58%; not far away from the ideal benchmark of less than 50% and is also 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 stakeholders, 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 in an independent and efficient manner.