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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the activities of the IFRS Foundation, EFRAG and PIOB in 2018 and the
achievements of the Union programme.**

1. PURPOSE AND SCOPE OF THE REPORT

Pursuant to Regulation No 258/2014¹ of the European Parliament and of the Council establishing a Union programme to support specific activities in the field of financial reporting and auditing as amended by Regulation 2017/827², the Commission must prepare an annual report on the activities of the beneficiaries of the programme.

The objective of this Union programme is to improve the conditions for the efficient functioning of the internal market by supporting the transparent and independent development of international high-quality financial reporting and auditing standards.

This report covers the activities in 2018 of the International Financial Reporting Standards Foundation (IFRSF), the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB). Certain events that took place in 2019 are also mentioned where deemed useful for the purpose of this report.

As a follow-up of the Stolojan³ report and as required in Recital (9) of the Regulation amending Regulation No 258/2014, it also provides a Commission's assessment of the governance of these three bodies, in particular in terms of the prevention of conflict of interest, transparency, diversity of experts, diversity of funding, public accountability and public access to documents.

Finally, pursuant to Article 9 (8) of Regulation No 258/2014, an assessment of the achievements of the funding programme covering the period 2014-2019 is set out in the annex to this report.

1.1. STRUCTURE OF THE REPORT

The Report is structured as follows:

- **Section 2: International Financial Reporting Standards Foundation** - provides an overview of the foundation's activities and an assessment of its governance in 2018;
- **Section 3: European Financial Reporting Advisory Group** - provides an overview of EFRAG's activities and an assessment of its governance in 2018;
- **Section 4: Public Interest Oversight Board** - provides an overview of the PIOB's activities and an assessment of its governance in 2018;
- **Section 5: Conclusions** - presents a summary of the conclusions as regards the

¹ OJ, L 105, 8.4.2014, p.1.

² OJ, L 129, 19.5.2017, p.24.

³ A8-0172/2016 Report on International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB)

relevance of the funding programme;

- **Annex: Interim appraisal of the programme** – contains a Commission assessment of the progress of the funding programme towards its objectives over the period 2014-2019.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS FOUNDATION

2.1. OVERVIEW OF IFRS ACTIVITIES

2.1.1. STANDARD SETTING

An overview of the International Accounting Standards Board (IASB) standard-setting activities, including the work of the IFRS Interpretations Committee (IFRIC), and ongoing endorsement procedures is outlined in *Appendix 1* of this report.

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.

2.1.2. RESEARCH PROJECTS

Following a consultation carried out in 2015, the 2017-2021 work plan of the IASB aims at improving and supporting existing standards, promoting better communication and supporting implementation. In 2018, with regards to its "*Better Communication*" project, the IASB continued its deliberations about potential improvements to the structure and content of the primary financial statements with a focus on the statement of financial performance. As part of its review of the disclosure requirements in IFRS, it released an amendment to improve relevance by applying the materiality principle and undertook two new initiatives including a standard level-review of the disclosure requirement of two existing standards.

The IASB completed the post-implementation review of IFRS 13 *Fair Value Measurement* with the conclusion that the standard had improved financial reporting without raising major inconsistencies in implementation or unexpected costs. However, consistent with the comment letter from EFRAG, the IASB decided to include IFRS 13 within the scope of the above mentioned standard-level review of disclosure requirement.

In 2018, the Board launched a new project to consider the implications of the reform of interest rate benchmarks on hedge accounting. The IASB published an exposure draft in May 2019 to address the consequences on the accounting treatment of existing hedging relationships. As a second step the project will consider the implications of the replacement of interest rate benchmarks. The IASB also undertook a new research project on extractive activities to consider a possible upgrade of the existing standard IFRS 6.

Furthermore, the IASB carried out a public consultation about its proposed improvements to IAS 32 *Financial Instruments* to clarify the distinction between financial liabilities and equities (*Financial Instruments with characteristics of equity*). Finally, as part of its follow-up of the post-implementation review of IFRS 3 *Business Combination*, the Board decided to explore possible simplifications to the accounting for goodwill and targeted improvements to the impairment test.

Finally, the IFRS Foundation carried out an update of the IFRS taxonomy in order to reflect the implications of new standards and amendments⁴.

2.1.3. THE REVISED CONCEPTUAL FRAMEWORK

The IASB issued the revised Conceptual Framework for Financial Reporting in March 2018. The main changes were outlined in the Commission's 2017 Annual Report on the activities of the IFRS Foundation. The Conceptual Framework provides non binding guidance to the IAS Board in developing IFRS Standards and helps preparers and auditors in interpreting existing standards. It has not been adopted by the European Union because IAS 1 *Presentation of Financial Statements* already states that the application of International Accounting Standards and Interpretations [...], with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. Accordingly, the European Commission assessed in 2003 that endorsing the Conceptual Framework was unnecessary.

2.2. GENERAL PRINCIPLES AGAINST WHICH NEW STANDARDS HAVE BEEN DEVELOPED

2.2.1. GENERAL PRINCIPLES

The due process requirements of the IASB are outlined in the Due Process Handbook. Its application in practice is overseen by a dedicated committee of Trustees known as the Due Process Oversight Committee (DPOC). In 2018, the Due process requirements remained unchanged. However, in November 2017, the Due Process Oversight Committee undertook a review of the Due Process Handbook with an expected finalization by 2020. The scope of the

⁴ The financing provided by the European Union also supports the timely update of the IFRS taxonomy which in turn serves as an input to the European Single Electronic Format.

review includes reflecting developments to the Effect Analysis process. An Exposure Draft (ED) was published in April 2019 to consult about the proposed changes. One amendment included in the Exposure Draft suggests allowing the IASB to publish explanatory materials in order to address implementation questions arising from an issued standard but before the application date. The objective is to support consistent implementation before the effective application date.

2.2.2. DUE PROCESS, EFFECT ANALYSIS AND SPECIFIC CONSIDERATIONS TO BUSINESS MODELS, CONSEQUENCES ON ECONOMIC TRANSACTIONS, COMPLEXITY, SHORT-TERMISM AND VOLATILITY

There was no major standard issued in 2018 requiring the publication of a separate effect analysis report. However, the above mentioned 2019 Due Process Handbook Exposure Draft (ED) suggests amending the Foundation's Due Process Handbook to emphasize that the IASB's effects analyses should focus on the improvements to financial reporting taking into account the implementation costs while also considering how increased transparency may affect financial stability. The Exposure Draft also proposes to embed the effects' analysis throughout the standard setting process. As regards the broader economic impacts of new financial reporting requirements, the proposed amendments highlight that quantitative assessments are generally impracticable but that the Board may assess specific economic effects where relevant. This draft amendment does not fully meet the expectation expressed by the European Commission as a member of the Monitoring Board as it may not sufficiently bridge the gap between the limited scope of the IASB's impact assessment and the endorsement criteria of the European Public Good set out in the International Accounting Standards (IAS) Regulation.

2.3. GOVERNANCE, INTEGRITY AND ACCOUNTABILITY

2.3.1. OVERVIEW

The IFRS Foundation is a not-for-profit corporation under the General Corporation Law of the state of Delaware (United States) and operates in the United Kingdom as an overseas company. The choice of a United States legal entity was driven by tax considerations at a time when a substantial portion of the funding and support came from the United States' stakeholders. Under this legal status, the Foundation has the ability to locate to any jurisdiction in the world, whilst still enjoying the benefits of not-for-profit status in the United States, and the US tax treaties with multiple jurisdictions.

The IFRS Foundation is governed by a Board of 22 Trustees collectively responsible for general oversight and appointments to the IASB. The Trustees met three times in 2018. The Trustees designation is subject to an apportionment by geographical origin and to prior

approval by the Monitoring Board, which is designed to provide a link with Public Authorities. The European Commission is member of the Monitoring Board. The Monitoring Board met twice in 2018. The IASB has 14 members appointed by the trustees subject to geographical balance requirements. IASB members are appointed for a five-year term renewable once. The IASB is responsible for the standard setting. It held 11 board meetings during 2018. The Trustees also appoint the 14 members of the IFRS Interpretation Committee (IFRIC) dedicated to interpreting the application of IFRS Standards and providing guidance on financial reporting issues. Additionally, the IFRS Advisory Council provides a forum for participation by organizations and individuals. Its members are appointed by the trustees and shall be consulted by the Board on decisions pertaining to major projects.

2.3.2. TRANSPARENCY RULES

The meetings of the Board and Interpretation Committee are open to the public, the agendas are published and meetings can be viewed by webcast.

With regards to transparency registers, starting from December 2019 the IFRS Foundation will publish quarterly a stakeholder engagement register. The register will cover all engagements of IASB Board Members with external parties of more than 30 minutes including physical, web-based and phone meetings.

2.3.3. REPRESENTATION OF STAKEHOLDERS

Following the 2015 "Trustees' Review of Structure and Effectiveness", the geographical distribution of the Trustees should be representative of the world's capital markets and subject to geographical balance requirement to maintain equal representation between Asia-Oceania, Europe and America.

The IFRS Foundation constitution requires the appointment of 6 trustees from each of the three regions plus one Trustee from Africa and three trustees from any area subject to maintaining an overall geographical balance. Similarly the criteria for appointment as Board member of the IASB require four members from each region, one member from Africa and one member from any area.

As at 31 December 2018, the IFRS Advisory Council comprised 46 organizations with 48 individual members. The European Commission participates as an observer.

In October 2018, Mr Erkki Liikanen was appointed as Chair of the IFRS Foundation.

2.3.4. ACCOUNTABILITY TOWARDS THE EUROPEAN PARLIAMENT

As part of the 2017/827 Regulation⁵ a full account of the development of IFRS should be provided to the European Parliament. The annual exchange of views between the Committee on Economic and Monetary Affairs (ECON) of the European Parliament and Mr Hoogervorst, Chairman of the IASB and Mr Prada, Chairman of the IFRS Foundation's trustees, took place on 19-20 March 2018. The Committee on Economic and Monetary Affairs (ECON) also held an annual exchange of views on 26 February 2019, in which Mr Hoogervorst and Mr Liikanen reported on the ongoing amendments to IFRS 17 *Insurance Contracts* and the involvement of the IFRS Foundation in sustainability reporting and tax transparency.

The IFRS Foundation consulted the Monitoring Board on the Country by Country Reporting (CBCR) on taxes and concluded that there was not a broad-enough worldwide political support for introducing additional mandatory disclosure requirements on tax transparency. However, the IASB is willing to consider disclosures about tax strategies as part of the ongoing project to revise and update the non-binding practice statement on Management Commentary, which provides the context within which to interpret financial statements.

In that regard, in April 2016 the Commission adopted a more ambitious legislative proposal⁶ on the disclosure of income tax information by large multinational companies, also referred to as the Country-by-Country Reporting (CBCR) of tax information. The proposal aimed at ensuring that large multinational companies with revenues above €750 million) publish their corporate tax payments with a breakdown per country. The European Parliament approved its first position on 27 March 2019. However, the European Council has not adopted a position yet.

Similarly, as part of the exchanges of views, Mr Hoogervorst reported that sustainability policy objectives had a broader focus than financial reporting and would be better addressed through financial incentives or taxation rather than by public disclosures. However, he highlighted that the impact of sustainability issues on the future returns of companies would also be considered as part of the non-binding Management Commentary Practice Statement.

The Commission will explore whether alternative standard setting action should be considered. Especially, as part of its Action Plan on Financing Sustainable Growth, the Commission committed itself to assess the robustness of the sustainability reporting requirements embedded in the Non Financial Information Directive⁷ within the context of its Fitness Check of the EU legislation on public corporate reporting. Depending on the findings, new initiatives may be considered by the Commission to enhance corporate transparency on

⁵ Recital 7

⁶ Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches 2016/0107/COD

⁷ Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

sustainability issues and long term value creation. In addition, in 2019 the Commission supplemented the non-binding guidelines on non-financial reporting⁸ with the guidelines on reporting climate-related information⁹ so as to integrate the recommendations from the Financial Stability Board's Task-Force on Climate-related Financial Disclosures.

2.3.5. PREVENTION OF CONFLICT OF INTERESTS

The Trustees of the IFRS Foundation are appointed for a 3 years term renewable once and must commit to act in the public interest. Following a request from the Monitoring Board, a revised conflict of interest policy was adopted in 2018. It introduces the principle that a Trustee and a Monitoring Board Member cannot be employed by the same organization. However, it also empowers the Chair of the Trustees to derogate from this principle in exceptional circumstances.

Only three members of the IASB may be part-time members. Full-time Board members are required by the IFRS Foundation constitution to sever all employment relationships and ties that might affect their independence. Neither secondment from an employer nor rights to reintegrate with the former employer are allowed.

2.3.6. BREAKDOWN OF FUNDING

In 2018, the IFRS Foundation received a EUR 4,7 M grant from the European Union which makes up 18.5% of the total funding received.

Reported contributions were down by 10.6% in 2018 (9.7% after taking into account the impact of exchange rate fluctuations). The most significant evolutions were driven by the international audit networks (-32%), China (+25%) and the United States¹⁰ (-13%). A breakdown of funding by main geographical areas is outlined in *Appendix 2*. It especially highlights that despite an equal representation of the EU and the US at the Board of Trustees (6 Trustees each) and IASB (4 board members each), the area "Americas" only contributes up to 6% of the Foundation's funding whereas Europe and Asia-Oceania made respectively 35.7% and 32.7% of total contributions. The relative share of the EU budget and Member States went up compared to 2017 (from 32.4% to 35.7%). The decrease in the reported contributions from international audit networks was partially offset by a commercial arrangement resulting in increased licensing revenues.

⁸ C/2017/4234

⁹ C/2019/4490

¹⁰ Since 2015 the Securities and Exchanges Commission does not contribute anymore to the funding of the IFRS Foundation. The funding from the United States only stems from voluntary contributions from private organizations.

The IFRS Foundation reported a net surplus of GBP 2,9 M. The total retained surplus as at 31 December 2018 amounted to GBP 34,4 Million.

3. EUROPEAN FINANCIAL REPORTING ADVISORY GROUP

3.1. EFRAG ACTIVITIES OVERVIEW

3.1.1. ENDORSEMENT ACTIVITIES

The primary role of EFRAG is to advise the European Commission as to whether new or revised IFRS standards meet the endorsement criteria set by the IAS Regulation on the application of international accounting standards. Those criteria should include the maintenance of the requirement of a ‘true and fair view,’ and of the European public good. Field tests, impact assessments and outreach activities form a significant part of EFRAG's endorsement work in judging if a standard is favourable to the European public good.

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. This study contributes to EFRAG's impact analysis. 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.

EFRAG's original timetable called for delivery of advice to the Commission by the end of 2018 but the project has since taken a different course. EFRAG's case study and outreach activities identified several concerns and the EFRAG Board decided to write to the IASB to highlight some aspects of IFRS 17 that, in EFRAG's view, merited further consideration. Since then the IASB tentatively decided to amend the Standard and issued an Exposure Draft in June 2019 in order to address some of the concern identified by EFRAG. EFRAG adopted its draft comment letter in July 2019 and launched a public consultation to gather the views from European constituents. The draft comment letter especially highlights that the transition requirements of IFRS 17 and the level of aggregation applied for the measurement of insurance contracts still raise significant operational challenges. Both concerns were identified in the 2018 Motion for Resolution from the European Parliament on IFRS 17.

In the course of 2018, EFRAG participated in the IASB consultation process, and issued comment letters after public consultation, on all IASB proposals (exposure drafts and discussion papers). In June 2019, EFRAG issued its final comment letter on the Interest Rate Benchmark Reform which highlighted the urgency of addressing its consequences on hedge accounting relationships in order to allow timely endorsement by the European Union. Other areas of focus included the IASB's projects on *Rate-regulated Activities*, and *Primary Financial Statements*.

3.1.2. OTHER REQUESTS FOR TECHNICAL ADVICE

Following up on a resolution from the European Parliament on IFRS 9, and responding to the Commission's requests to consider the potential effects of IFRS 9 on long-term investment in equity instruments (that were also highlighted in the Commission's Action Plan *Financing Sustainable Growth*), EFRAG published a Discussion Paper *Equity Instruments – Impairment and Recycling* for public consultation. EFRAG also undertook an academic literature review on IFRS 9 and long-term investment. In November 2018, EFRAG delivered its advice about the accounting treatment of equity instruments under IFRS 9 with the conclusion that it had not gathered enough evidence of a detrimental effect on (long term) equity investment decisions to recommend an amendment to the standard in the short term. However, EFRAG also started working on the Commission's second request to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments.

Also at the request of the Commission and in line with the timetable envisaged in the March 2018 Action Plan on Financing Sustainable Growth, EFRAG established the European Corporate Reporting Lab@EFRAG (European Lab). The European Lab is designed to stimulate innovation in corporate reporting through sharing good practices. The European Lab Steering Group had its first meeting in November 2018 and confirmed the first project on climate-related reporting. Following a call for candidates in December, the first project task force on climate-related reporting was established and started its work in February 2019. The decision to add a project to the European Lab agenda is made by the European Lab Steering Group, taking into consideration input from stakeholders in a public consultation published in July with deadline on 30 September 2019.

3.1.3. RESEARCH ACTIVITIES

In 2018, EFRAG conducted a public consultation on its research agenda to ensure that EFRAG undertakes research projects which are most relevant for Europe. The public consultation provided insight into the priorities among European constituents for this essential part of EFRAG's activities. Resulting from this consultation EFRAG started three new research projects at the end of 2018 on *Better Information on Intangible Assets; Crypto Assets; and Variable and Contingent Payments*. As part of its research work EFRAG also

published a Discussion Paper *Non-exchange Transfers: A role for Societal Benefit?* and advanced its work *on pension plans* with the support of its Pensions Plan Advisory Group. Through its Academic Panel and Academic Network EFRAG enhanced its cooperation with academics.

As regard EFRAG's influence in the debate on International Financial Reporting Standards, it is worth mentioning that ahead of the IASB Discussion Paper *Financial Instruments with Characteristics of Equity* (FICE), the EFRAG Secretariat conducted as a pilot an early stage analysis following up its call that impact analyses should be carried out throughout the standard setting process rather than only at the end. EFRAG conducted extensive outreache with National Standard Setters and user-oriented outreache as part of the consultation on the Draft Comment Letter to assess the wider effects and potential unintended consequences of changes to rules on FICE reporting, in order to reduce the risk of problems emerging in the endorsement phase if the IASB were to proceed to a standard. EFRAG Secretariat published a working paper on the early-stage analysis at the end of February 2019.

3.2. GOVERNANCE, TRANSPARENCY AND PUBLIC ACCOUNTABILITY

3.2.1. GOVERNANCE OF EFRAG FOLLOWING RECOMMENDATION OF THE MAYSTADT REPORT

The governance reform of EFRAG which was implemented on 31 October 2014, has enhanced the legitimacy and representativeness of the organisation and resulted in a more cohesive process for the participation of the EU in the IASB standard setting process.

The governance reform was completed in July 2016 with the official appointment by the EFRAG General Assembly of Jean-Paul Gauzès, former Member of the European Parliament, as EFRAG Board President following the nomination of the Commission and as endorsed by the European Parliament and the Council. Mr Gauzès' mandate has been renewed for a further three-year term, starting on 1 July 2019.

The European Supervisory Authorities and the European Central Bank have opted to be official observers with speaking rights in the EFRAG Board. Their input has been carefully considered in arriving at EFRAG positions and they have made an important contribution to EFRAG's impact analysis notably in the area of financial stability.

It is worthwhile highlighting that the EFRAG Board reached all its conclusions in 2018 on a consensus basis without having resort to voting. In 2017 the first rotation of the EFRAG Board took place and a new Board was appointed. In the spirit of the Maystadt report¹¹ an

¹¹ Should IFRS Standards be more "European"? Report by Philippe Maystadt – October 2013

observer seat was created for European organisations representing private investors (“end users”).

The EFRAG Board carries out a performance and effectiveness review of its own members under the oversight of the EFRAG General Assembly on an annual basis. The 2018 review, which covered a mixture of strategic, governance and operational issues, demonstrated that on balance the governance structure worked well, which resulted in increased credibility for the organisation. Some recommendations were adopted to further improve further the effectiveness of EFRAG's activities in the future.

In 2017, EFRAG commissioned an audit of the perceptions of external stakeholders of EFRAG's visibility and effectiveness carried out by an independent agency FleishmanHillard. Their final report published in March 2018 confirmed the positive influence of EFRAG's work on stakeholders, the progress brought on the visibility and credibility of EFRAG by the communication team put in place under the leadership of the EFRAG Board President and identified visibility as one of the areas for continuous improvement.

As regards potential situation of conflicts of interest, there are no issues to mention. EFRAG's Internal Rules set out requirements on conflicts of interest and the EFRAG Board has a Conflict of Interest Policy for Board members that is published on the EFRAG website. The objective of the policy is to ensure the credibility of EFRAG as an organisation working in the European public interest. The policy is intended to avoid situations where conflicts or perceptions of conflict may arise, that would: discourage free discussion; result in decisions or actions that are not in the best interest of the European public at large or of EFRAG; or give the perception that EFRAG has acted improperly. EFRAG Board members and EFRAG staff sign yearly declarations.

3.2.2. TRANSPARENCY RULES

Since its establishment, EFRAG has put in place a transparent public due process that has further developed over time. This due process allows all European constituents to put forward their views for consideration by EFRAG and ensures that the diversity of accounting and economic models and views in Europe are taken into account in determining EFRAG's positions. This is essential to ensuring that new IFRS respond to Europe's needs.

EFRAG's legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership. As part of its due process EFRAG publishes draft positions for public consultation, undertakes field tests and other forms of effect analyses, organises outreach events (some of which are especially aimed at users of financial statements), undertakes special surveys, and publishes the results in feedback statements and publishes final positions. EFRAG contributes to evidence-based standard setting by undertaking quantitative studies that inform the discussion

on EFRAG's comment letters and endorsement advice and which are gradually becoming a more important part of EFRAG's research work.

Meetings of the EFRAG Board, EFRAG Technical Expert Group (EFRAG TEG) and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) are held in public and available by webcast since March 2018. The agenda and summaries of the meetings are published on EFRAG's website. Furthermore, the supporting agenda papers for the meetings of the EFRAG Board, EFRAG TEG and EFRAG CFSS are publicly available. Since March 2018 these public meetings can be accessed by webcast allowing stakeholders to watch the discussions not only real time but also after the meetings have been held. The discussions of EFRAG TEG are supported by input received from EFRAG CFSS (the forum of national accounting standard setters) and the specialised EFRAG Working Groups and Advisory Panels.

The EFRAG Board receives a regular report of all meetings between EFRAG personnel and other parties (other than routine administrative meetings). These reports in aggregated form are included in the final grant reports that EFRAG submits to the Commission.

EFRAG publishes an annual review providing full transparency on its governance and financial structure and the main activities in the year concerned. The Annual Review 2018 was published on 25 April 2019.

Overall, the EFRAG Governance is marked by a good transparency of information flow among the main stakeholders. EFRAG has also shown its commitment to engage with the Commission in order to achieve even higher standards of transparency than it was applying in the past. As evidence of their commitment to the task, on 9 July 2019 the EFRAG Board approved a Policy on the EFRAG Public Transparency Register which consists of the publication on its website of all meetings and conferences of the President of the Board, the TEG Chairman and the CEO of EFRAG. The Transparency Register started on 1 September and the first version will be put on their website later in the autumn 2019. EFRAG gave an undertaking to the Commission that it will maintain a public register on its website that is regularly updated and covers the calendar year.

3.2.3. BROAD REPRESENTATION AND PUBLIC ACCOUNTABILITY OF EFRAG'S GOVERNANCE STRUCTURE

Overall the approach to the governance structure of EFRAG in promoting broad representation of interests and public accountability has been positive.

The EFRAG Board receives a regular report of all meetings between EFRAG personnel and other parties (other than routine administrative meetings). These reports in aggregated form are included in the final grant reports that EFRAG submits to the Commission. EFRAG is ready to engage with the Commission to achieve even higher standards of transparency than it

is currently applying to give further insight in meetings of the EFRAG leadership with external stakeholders in the context of EFRAG's public interest mission.

EFRAG strives for a proper geographical, professional background and gender balances in its Board, Technical Expert Group (EFRAG TEG) and its Working Groups and Advisory Panels and the European Lab Steering Group and its project task forces. The requirements are included in the EFRAG Internal Rules for a maximum number of members of the same nationality in the EFRAG Board and EFRAG TEG and these requirements have also been applied for the establishment for the first European Lab Steering Group. In addition, there are requirements for proper balance in terms of professional background and gender.

The members of the EFRAG Board are nominated by the EFRAG Member Organisations according to a system put in place following the Maystadt recommendations. For EFRAG TEG and its Working Groups and Advisory Panels and of the European Lab Steering Group and its project task forces calls for candidates are issued and widely disseminated.

The number of applications differs widely but there is in particular a shortage in female candidates and candidates from Central and Eastern Europe. However, EFRAG has been able to attract for the European Lab Steering Group and its project task force a higher number of female candidates and candidates from Central and Eastern Europe (see situation in details per 31 December 2018 in *Appendix 4*).

However, although the overall results of these actions were very positive, some reservation remains regarding the ability to capture the full breadth of stakeholders' views in Europe. EFRAG should remain pro-active in seeking feedback from stakeholders less closely involved in EFRAG's work but affected by it, or from groups of stakeholders outside EFRAG's immediate sphere.

3.2.4. EARLY STAGE INVOLVEMENT OF THE EUROPEAN PARLIAMENT AND THE COUNCIL

EFRAG exchanges views with the European Parliament's ECON IFRS Permanent Team to allow Members of the European Parliament to give input to EFRAG's activities and to update them on EFRAG's main activities in all stages of the process. One meeting took place in March 2018 to exchange views on EFRAG's activities and notably on IFRS 17. The European Parliament issued a Resolution of 3 October 2018 on IFRS 17. An exchange of views that took place with the EFRAG Board President and the EFRAG Technical Expert Group (EFRAG TEG) Chairman with ECON in its public meeting on 17 May 2018.

EFRAG is always invited by the Commission to attend the Accounting Regulatory Committee (ARC) meetings and at the request of the Commission gives presentations at each of these meetings of work in progress and its opinions on particular topics. This allows the ARC to exchange views with EFRAG and to give early input. The ARC discusses the endorsement

advice request letters before they are submitted to EFRAG to ensure that all European interests are addressed.

Receiving input from the Parliament and ARC at an early stage allows EFRAG to include the issues in its draft comment letter or draft endorsement advice for public consultation.

3.2.5. DIVERSIFICATION AND BALANCE OF EFRAG'S FINANCING STRUCTURE

EFRAG is a publicly and privately funded organisation working in the European public interest. EFRAG has the legal form of an AISBL (Belgian international non-profit organisation).

EFRAG's Member Organisations comprise eight European Stakeholder Organisations, nine National Organisations, plus the European Commission.

The breakdown of the cash contributions by member organisations is reported in *Appendix 3*.

In addition to cash funding, EFRAG receives contributions in kind provided by the members of EFRAG TEG, the EFRAG Board, the Working Groups and Advisory Panels as well as in form of free secondments.

In 2019, EFRAG is seeking to broaden its membership base and to widen its geographical representation. In particular, it will be reviewing its finance structure aiming at a long-term sustainable finance structure following a request from Accountancy Europe to reduce its membership contribution as from 2019 onwards and the possible financial implications if Financial Reporting Council, the regulator in the UK and Ireland for auditors, accountants and actuaries was to withdraw due to Brexit.

1. PUBLIC INTEREST OVERSIGHT BOARD

4.1. ACTIVITIES OVERVIEW

The global architecture of standard setting in the field of audit, assurance, ethics and education consists of a three-tier structure made up of standard setting boards (SSB) supported by the International Federation of Accountants (IFAC), the independent oversight (PIOB), and accountability to a monitoring body of public authorities (Monitoring Group).

The PIOB is an independent external body, consisting of 10 members including its Chairman (the Commission has nominated 2 EU members of the 10) which oversees the standard setting on auditing, ethics and education for accountants. The relevant standards are the International Standards on Auditing (ISA), the Ethics standards for accountants, and the International

Education Standards (IESs). The standard setting structure is a result of the 2003 IFAC Reforms¹², which were developed as a response to high-profile corporate collapses and failures in financial reporting and auditing in a number of countries. A key reform was the establishment of the PIOB, aimed at increasing the confidence of investors and others by overseeing that the activities of the standard setting Boards related to auditing are properly responsive to the public interest.

The overall task of the PIOB is to guarantee that due process, oversight and transparency are respected and that the public interest is safeguarded all around the process comprising the proposal, development and adoption of international standard for auditors in the framework of the International Federation of Accountants. This remains critically important, as also demonstrated by recent audit scandals (eg. Carillion's failure in the UK).

The PIOB also approves the nominations of the members of the standard setting boards, it agrees with their strategies and work plans, it monitors the development of the standards and verifies that all elements mentioned in the public consultations are duly taken into account. Where needed, the PIOB recommends steps to ensure that the standards effectively respond to the public interest.

In 2018, the PIOB¹³ has 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 has also actively participated in the Monitoring Group's discussions on the reform of the current governance and oversight model of international audit-related standards and contributed to the development of a "Public Interest Framework" that would aim at providing a better mechanism for assessing how the public interest is captured throughout the standard setting process. The foreseen reform has been subject of an extensive public consultation¹⁴ by the Monitoring Group and the feedback¹⁵ shows widespread support among stakeholders for reform in order to increase accountability and transparency in audit-related standard setting. There is also support from all stakeholder groups for a public interest framework that is embedded throughout the standard setting process.

¹² IFAC is the private body representing accountants and auditors worldwide.

¹³ 14th PIOB Public Report approved in 2018:

http://www.ipiob.org/media/files/attach/2018PIOB_Report.pdf

¹⁴ <https://www.iosco.org/>

¹⁵ https://www.iosco.org/about/monitoring_group/pdf/2018-05-31-Monitoring-Group-Summary-of-Feedback.pdf

The main achievements during the year were the approval of “ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures”, the release of the Restructured and Revised Code of Ethics, and the completion of its last piece: Inducements. All the standards approved by the PIOB in 2018 are shown in the table below.

PIOB BOARD MEETING	SSB	STANDARD
March	IESBA	“International Code of Ethics for Professional Accountants (including International Independence Standards)” – (The “Restructured and Revised Code”)
March	IESBA	“Revisions pertaining to Safeguards in the Code”
June	IESBA	“Revisions to the Code pertaining to the Offering and Accepting of Inducements”
September	IAASB	“International Standards on Auditing - ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures”
September	IAESB	“International Education Standard - IES 7 (Revised) – Continuing Professional Development”

4.2. GOVERNANCE AND ACCOUNTABILITY

The members of the PIOB are appointed by the Monitoring Group which is ultimately responsible for the overall governance arrangements in the field of international standards on auditing, assurance, ethics and education.

The Monitoring Group, of which the European Commission is a member, monitors how the PIOB carries out its public interest role with particular regard to the PIOB's oversight of the standard setting process.

As regards potential situation of conflicts of interest, PIOB members and staff need to abide by the PIOB Code of Conduct. The first principle of the PIOB Code of Conduct states that Board members and staff must not become involved in any matter in relation to which their judgement may be affected by a conflict of interest. Every year, each Board member signs a declaration of absence of conflicts of interest. No conflicts of interests have been reported by any of the PIOB’s Board members in 2018.

The Code also requires Board members and staff to conduct themselves in a manner that befits their status as members of an international organization that is focused on protecting the Public Interest by behaving in a manner consistent with integrity, impartiality and discretion.

4.3. DEVELOPMENTS IN THE DIVERSIFICATION OF FUNDING IN 2018

The funding of the PIOB is designed as to preserve its independence in fact and appearance. To achieve the public interest objective, proper diversification of stable funding sources would help not only to preserve its continuity but also to guarantee the PIOB's independence. The importance of funding diversification was already recognised in the IFAC (International Federation of Accountants) reform of 2003 which was at the origin of the current international standard setting system, including the PIOB.

Since its creation in 2005 until 2010 when the Community funding programme established by Decision 716/2009/EC became operative, the PIOB was financed exclusively by IFAC (apart from an in-kind contribution by Spain (i.e. the rental of the Madrid office, which was valued in 2018 at EUR 128,154).

The funds made available by IFAC in a given year constitute a maximum guaranteed contribution which is made available to the PIOB without any further interference from IFAC. The non-IFAC contributions substitute and thus reduce the IFAC contribution for that specific year. Ideally the IFAC funding portion of the total PIOB annual expenses should be less than half of the total, but it is been very challenging to find other public sponsors.

The EU is the second biggest donor to the PIOB. In year 2017, PIOB's revenue (monetary and in-kind contributions) amounted to EUR 1,784,154. IFAC provided EUR 1,059,807 or 59.40%, whereas the EU contribution was EUR 325,000 or 18.21%

In year 2018, PIOB's revenue (monetary and in-kind contributions) amounted to EUR 1,825,620 and the EU contribution was EUR 331,000 or 18.13%. IFAC contributed EUR 1,135,302 or 62.18%.

The breakdown of the monetary contributions of the organisations is reported in *Appendix 5*.

Article 9.5 of the Regulation stipulates that if funding by IFAC in a given year reaches more than two-thirds of the total annual PIOB funding, the Commission must propose to limit its annual contribution for that year to a maximum of EUR 300,000. In year 2018 (as in 2014-2016), this has not been the case. Therefore, as the critical threshold stipulated in the Regulation (66.66%) has not been reached by the IFAC funding, the Commission does not need to review its 2018 contribution to the PIOB.

5. CONCLUSIONS

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.

As regards EFRAG, the Commission has in particular appreciated the comprehensive effects analysis initiated by EFRAG's in order to support its future endorsement advice on IFRS 17 *Insurance Contracts* and its key role played to influence the discussion on *Financial Instruments with Characteristics of Equity* within the IASB. 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.

As for the IFRS Foundation, the International Accounting Standard Board undertook actions to address the concerns arising from the pre-implementation phase of IFRS 17 through a deferral of the implementation date and targeted amendments to the standard. With regards to sustainability and tax transparency disclosures, the Foundation is leaning toward a non binding approach as part of its project on Management Commentaries to the financial statements. Finally, the 2018 breakdown of funding of the Foundation highlights that the gap between the financial contributions and the representation of jurisdictions within the board of Trustees and the IASB board has further widened from an already unbalanced situation with an especially low share of funding from the “Americas” region which additionally decreased in 2018 by 10%.

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.

Appendix 1 – Summary of IFRS activities in 2018

Standard	IASB Issue date	Application date	Publication date Official Journal
Amendments to IFRS 2 - Clarifications of Classification and Measurement of Share-based Payments	20/06/2016	01/01/2018	27/02/2018
Annual Improvements to IFRS Standards 2014-2016	08/12/2016	01/01/2017	08/02/2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	08/12/2016	01/01/2018	03/04/2018
Amendments to IAS 40: Transfers of Investment Property	08/12/2016	01/01/2018	15/03/2018
IFRS17 – Insurance contracts	18/05/2017	01/01/2021	
IFRIC 23 - Uncertainty over Income Tax Treatments	07/06/2017	01/01/2018	24/10/2018
Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation	12/10/2017	01/01/2019	26/03/2018
Amendment to IAS 28 – Long Term Interest in Associates and Joint Ventures	12/10/2017	01/01/2019	11/02/2019
Annual improvements 2015-2017	12/12/2017	01/01/2019	15/03/2019
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	07/02/2018	01/01/2019	14/03/2019
Amendments to references to the Conceptual Framework in IFRS Standards	29/03/2018		
Amendments to IFRS 3 – Definition of a business	22/10/2018		
Amendments to IAS 1 and IAS 8 – Definition of material	31/10/2018		

Projects reported in grant applications	2017	2018	2019	Comments
Better communication project				
Primary Financial Statements	Work Plan	Work Plan	Work Plan	Targeted improvement of the structure and content of the primary financial statement.
Disclosure Initiative – Principles of disclosures	Work Plan	Discussion paper – 30/03/2017	Project summary published on 03/2019	Research project designed to improve disclosure requirements.
Disclosure Initiative - Definition of materiality (Amendment to IAS 1 and 8)		Exposure Draft – 14/09/2017	Issued on 31/12/2018	Project completed.
Disclosure Initiative – Targeted Standards-level Review of Disclosures			Work Plan	Project designed to test the disclosure requirements of IFRS 13 Fair Value Measurement and IAS 19 Employee Benefits against the new guidance principles defined by the IASB.
Disclosure initiative – Accounting Policies			Work Plan	Project designed to improve the discloses pertaining to accounting policies by applying the materiality principle.
Research projects				
Business combination under Common	Work Plan	Work Plan	Work Plan	Aims at reducing the diversity in accounting for business combinations under common control.

Control					
Post-implementation review of IFRS13		Work Plan	Work Plan	Projected summary published 12/2018	The review aimed at assessing the impact of IFRS13 "Fair Value Measurement" on financial reporting. It started in 2017 with a request for information.
Discount rate	Work Plan	Work Plan	Work Plan	Project summary published 02/2019	Research plan on the use of discount rate throughout IFRS Standards. The project was closed in March 2017. A research summary is expected in 2018.
Dynamic Risk Management	Work Plan	Work Plan	Work Plan	Work Plan	Macro Hedging research plan that aims at devising an accounting model to report the effect of hedging and dynamic risk management. Discussion paper expected in 2019.
Financial Instruments with Characteristics of equity	Work Plan	Work Plan	Work Plan	Discussion paper 06/2018	Clarification for the presentation of financial instruments with both liability and equity features. Aims at clarifying the requirements of IAS32 Financial instruments - presentation.
Goodwill and impairment	Work Plan	Work Plan	Work Plan	Work Plan	Research project to ensure the timely recognition of goodwill impairment. Aims at improving the requirements of IAS36.
Share-based payment	Work Plan	Completed	Completed	Projected summary 10/2018	Project completed.
Rate regulated activities	Work Plan	Work Plan	Work Plan	Work Plan	The project aims at accounting for the effect of rate regulations when companies pricing policies are regulated.
Conceptual framework	Exposure Draft – 28/05/2015	Ongoing	Ongoing	Issued in March 2018	Project completed.

Extractive activities			Work Plan	Research project to consider an upgrade of IFRS 6 – Exploration for and Evaluation of Mineral Resources
Maintenance projects – Narrow scope amendments				
Accounting policies and Accounting Estimates (Amendments to IAS 8)		Exposure Draft - 12/09/2017	Work plan	Clarifications on the distinction between accounting policies and estimates.
Accounting policies changes (Amendment to IAS 8)		Work plan	Exposure Draft 26/03/2018	Designed to lower the impracticability threshold regarding retrospective application of voluntary changes in accounting policies.
Availability of a refund (Amendments to IFRIC14)		Work plan	Work Plan	Clarifications when third parties have rights to make particular decisions about a company's defined benefit plan
Classification of liabilities (Amendment to IAS 1)		Exposure Draft – 10/02/2015	Work Plan	Clarification of the classification of debts with renewal options. An amendment is expected in 2019.
Definition of a business (Amendment to IFRS 3)		Work plan	Issued on 22/10/2018	Clarification between the definition of "business" and "group of asset"
Fees in the 10 percent test for Derecognition (Amendment to IFRS 9)		Work Plan	Work plan	Clarifications of fees and costs to be considered when assessing the de-recognition of a financial liability
Improvements to		Exposure	Project	Project terminated following the feedback from the Exposure Draft

IFRS 8 - Operational segments		Draft – 29/03/2017	summary 02/2019	consultation.
IAS16 - Proceeds before Intended Use		Exposure Draft – 20/06/2017	Work plan	Amendment to prohibit deducting sales proceeds from the cost of an item of property
Taxation in Fair Value Measurements (Amendments to IAS 41)			Work plan	Amendment designed to narrow down the scope of an existing exemption in IAS 12 not to recognize deferred taxes upon the initial recognition of an asset or liability.
IBOR Reform and the Effects on Financial Reporting			Work Plan	Project designed to address the consequences of the IBOR reform on financial reporting.
Onerous Contracts – Cost of fulfilling a contract (Amendment to IAS 37)			Exposure draft 13/12/2018	Project designed to clarify the definition of “unavoidable costs” in determining whether a contract is onerous
Pension benefits that depend on Asset Returns			Work Plan	Research project to consider the possibility to amend IAS 19 Employee benefits with regards to pension benefits that depend on asset returns.
Subsidiary as a First-time Adopter (Amendments to IFRS 1)			Work Plan	Clarification of IFRS 1 as regards the calculation of the cumulative translation adjustment upon the first adoption of IFRS by a subsidiary.

Appendix 2 – Breakdown of the 2018 funding of the IFRS Foundation

Breakdown of funding of the IFRS Foundation						
Financial contributors	Contribution 2018	Contribution 2017	Contribution 2016	Number of trustees	Evolution at constant exchange rate	
					2018/2017	2017/2016
International Auditing Firms	24.0%	34.7%	31.3%		-31.8%	-0.3%
European Commission	18.5%	16.5%	15.6%		2.0%	2.0%
EU Member States	17.3%	15.9%	15.4%	7	-4.0%	1.0%
Asia/ Oceania	32.7%	25.6%	29.0%	8	7.4%	-2.4%
Americas	6.1%	5.8%	6.6%	6	-10.8%	-17.0%
Africa	0.6%	0.5%	1.2%	1	0.0%	-53.3%
Other	0.8%	0.9%	0.9%	0	-15.7%	-2.4%
Total				22	-9.7%	-2.1%

Source: IFRS Foundation

Appendix 3 – Breakdown of the 2018 funding of EFRAG

CONTRIBUTIONS			
000 EUR			
	2018	2017	2016
European Stakeholder Organisations			
Accountancy Europe	300	300	300
BUSINESSEUROPE	125	125	125
INSURANCE EUROPE	75	75	75
European Banking Federation (EBF)	75	75	75
European Savings and Retail Banking Group (ESBG)	75	75	75
European Association of Co-operative Banks (EACB)	75	75	75
European Federation of Accountants and Auditors for SMEs (EFAA)	25	25	25
European Federation of Financial Analysts Societies (EFFAS)	15	15	15
Total	765	765	765
National Organisations			
France	350	350	350
Germany	350	350	350
UK	350	350	350
Italy	290	290	290
Sweden	100	100	100
Denmark	50	50	50
Netherlands	50	50	50
Spain	50	50	0
Luxembourg	10	15	15
Total	1600	1605	1555
European Commission ¹⁶	2885	2593	2432
TOTAL CONTRIBUTIONS	5250	4963	4752

Source: EFRAG

¹⁶ Grant contributions as at 31st July 2019 (provisional for 2018 grant contribution).

Appendix 4 : Gender balance information in EFRAG per 31 December 2018

Group	Percentage male	Percentage female	Percentage Central and Eastern Europe	Number of nationalities
EFRAG Board	76%	24%	0%	
EFRAG TEG	87% (from 1 April 2019 81%)	13% (from 1 April 2019 19%)	6% (from 1 April 2019 0%)	10 (from 1 April 2019 8)
EFRAG TEG working groups and Advisory Panels	79%	21%	2%	Between 6 and 14
European Lab Steering Group	59%	41%	12%	13
European Lab Project Task Force	52%	48%	13%	13

Source: EFRAG

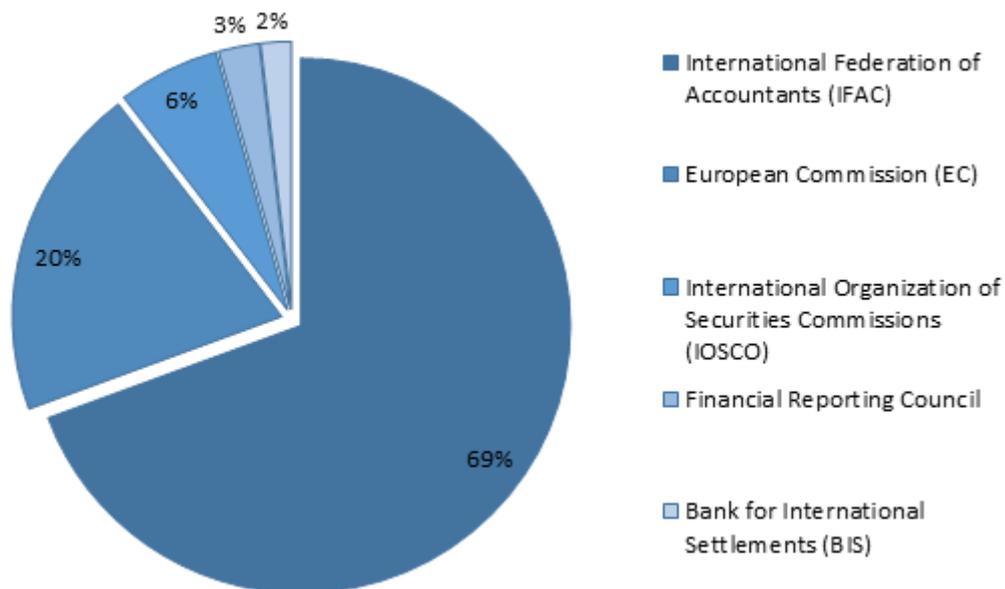
Appendix 5

PIOB Budget Diversification

In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a consequence, in the following years the PIOB achieved a diversified funding base that includes sources other than IFAC. In 2018, the PIOB received contributions that amounted to EUR 1,636,302 from the following contributors:

- International Federation of Accountants: EUR 1,135,302
- European Commission: EUR 331,000
- International Organization of Securities Commissions (IOSCO): EUR 100,000
- Financial Reporting Council: EUR 40,000
- Bank for International Settlements: EUR 30,000

2018 contributions %



Annex

Interim appraisal of the programme

1. EXECUTIVE SUMMARY

This annex represents an interim appraisal of the funding programme to support specific activities in the field of financial reporting and auditing. It assesses the progress of the programme towards its objectives over the period 2014-2019.

It appraises the overall pertinence and coherence of the Programme, the effectiveness of its execution and the overall and individual effectiveness of the beneficiaries' work programme in terms of achieving the objective referred to in Article 2 of Regulation 258/2014 to improve the conditions for an efficient functioning of the internal market by supporting the transparent and independent development of international financial reporting and auditing standards.

The assessment finds that the funding programme contributed to the intended objective during the period under review and remains both relevant in light of the changes in the European framework for corporate reporting and consistent with other political priorities pursued by the European Union.

However, the interim appraisal also identifies new challenges that have emerged as part of the European Action Plan on Financing Sustainable Growth, which will require stricter scrutiny of sustainability impacts as part of the endorsement activities of EFRAG. This to compensate the fact that the IFRS Foundation limits its considerations on IFRS standard setting to reporting financial performance without a mandatory assessment of the broader impact of IFRS on the economy, or sustainability.

The interim appraisal observes that this new policy objective has already widened the scope of the endorsement and research activities of EFRAG which recently undertook two major ad hoc projects upon the request of the Commission in order to assess the consequences of IFRS standards on long term equity investments and identify possible improvements in order to foster long-termism in investment behaviour. As regards the PIOB, the Commission services evoke the need to arrive at a more diversified fund base.

In conclusion, the Commission Services found that the current EU co-financing has, so far, met the expectations and should be continued in the next multiannual financial framework of 2021-2027. It should especially secure appropriate funding to enable EFRAG to carry out its new additional mission on sustainability.

2. INTRODUCTION

2.1. PURPOSE OF THE INTERIM ASSESSMENT

Article 9, paragraph 8 of Regulation 258/2014 requires the Commission to submit to the European Parliament and to the Council a report on the achievements of the Union Program to support specific activities in the field of financial reporting and auditing for the period 2014-2020. The report shall appraise at least the *overall pertinence* and *coherence* of the programme, the *effectiveness* of its execution and the overall and *individual effectiveness* of the beneficiaries' work programmes in supporting the transparent and independent development of international financial reporting and auditing standards.

2.2. THE EUROPEAN UNION PROGRAMME TO SUPPORT SPECIFIC ACTIVITIES IN THE FIELD OF AUDITING AND FINANCIAL REPORTING

The programme is co-financing the activities of three organisations: the International Financial Reporting Standards Foundation (IFRS Foundation), the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB). It contributes to the achievement of the policy objectives of the Union in relation to financial reporting and auditing. The IFRS Foundation develops international financial reporting standards (IFRSs) via its International Accounting Standards Board (IASB), while EFRAG provides the European Commission with endorsement advice on new or modified standards and monitors the standard setting activities undertaken by the IASB to ensure that European interests are safeguarded. The PIOB conducts oversight of three Standard Setting Boards supported by the International Federation of Accountants (IFAC) in the areas of audit and assurance, education, and ethics.

In the field of financial reporting, the programme complements the IAS Regulation, which requires companies with securities listed on an EU regulated market to prepare their consolidated financial statements according to International Financial Reporting Standards.

The programme has a financial envelope EUR 57 007 000 for the period 2014-2020, broken down as follows:

- IFRS Foundation: EUR 31 632 000
- EFRAG: EUR 23 134 000
- PIOB: EUR 2 241 000

Funding is provided to the three beneficiaries by means of operating grants which are implemented through direct management with annual work programmes.

2.3. OBJECTIVES OF THE PROGRAMME

In the field of financial reporting, the main operational objectives outlined in the recitals of Regulation 258/2014 establishing the programme include:

- Ensuring comparability and transparency of company accounts throughout the Union;
- Fostering the convergence of accounting standards used internationally with the ultimate objective of achieving a single set of accounting standards;
- Ensuring that the interests of the Union are adequately taken into account in the international standard-setting process. Those interests should include the notion of prudence, the maintenance of the requirement of a true and fair view and take into account the impact of standards on financial stability and the economy.
- Increasing the financial independence of the beneficiaries from the private sector and ad hoc sources, thereby raising their capacity and credibility.
- Overseeing the process leading to the adoption of International Auditing Standards and other public interest activities of the International Federation of Accountants.
- Fostering transparency and the involvement of stakeholders in the standard setting and endorsement process¹⁷.

2.4. IMPLEMENTATION OF THE UNION PROGRAMME

The Commission is responsible for the content of the work programmes of the European Union Programme to support specific activities in the field of auditing and financial reporting.

However, according to the constitution of the IFRS Foundation, the International Accounting Standard Board has full discretion in developing and pursuing its technical agenda subject to consulting the Trustees and the Advisory Council of the Foundation and carrying out a public consultation every five years. This implies that the European Commission can only follow the work programme determined by the IASB.

Each year, the Commission monitors the implementation of the Union programme as well as the use of the grants awarded, through:

- (i) Preparing annual reports on the activities of the beneficiaries IFRS Foundation, EFRAG and the PIOB and
- (ii) Taking annual financing decisions, which provides an assessment of the work programmes of the beneficiaries based on the detailed rules set by Article 110 of Regulation (EU, Euratom) 2018/1046 ('the Financial Regulation'),

¹⁷ Recital 15 of regulation 258/2014

3. SCOPE OF THE INTERIM APPRAISAL

The interim appraisal addresses the following questions in accordance with Article 9.8 of Regulation 258/2014:

- **Effectiveness:** how successful the overall programme and the work programme of each individual beneficiary have been in achieving or progressing towards their objectives?
- **Pertinence:** are the objectives of the programme still relevant, whether in terms of completeness (new needs), or accuracy (changes in, or disappearance of needs)?
- **Coherence:** to what extent is the programme consistent with other EU policies, or are there inconsistencies between the activities undertaken by the beneficiaries?

The assessment has been based on the following data sources:

- annual reports as well as supporting documents that the beneficiaries provide to the European Commission on a yearly basis;
- data and input collected by the Commission in the various Supervisory Board meetings, in which it participates as an observer, to discuss and clarify funding issues;
- financial statements and the auditor's reports of the beneficiaries;
- visits arranged to the three beneficiaries' premises to verify the financial systems and controls.
- forthcoming fitness check on the EU framework for public reporting by companies in 2019
- evaluation of Regulation 1606/2002 ('IAS Regulation') in 2015¹⁸
- ex-ante evaluation of the Union Programme in 2012¹⁹.

Approach

This appraisal follows the requirements of Article 9.8 of Regulation 258/2014. It covers the period 2014 until 2019, but not the remaining period (i.e. until end 2020).

The report adopts a retrospective approach. It does not consider possible policy alternatives. That was done as part of the impact assessment supporting the Commission Proposal for a Single Market Programme 2021-2027²⁰.

¹⁸ COM (2015) 301 final

¹⁹ COM (2012) 782 final

²⁰ SWD (2018) 320 final appendix 8

4. RESULTS OF THE APPRAISAL

4.1. EFFECTIVENESS OF THE OVERALL PROGRAMME

Whereas detailed assessments of progress are provided in the Commission annual reports, this section aims at providing insights about whether the activities of the IFRS Foundation, EFRAG and the PIOB continued to contribute to meeting the objectives of the programme during the period evaluated.

Key findings

The funding programme has enabled the three beneficiaries to develop standards which enhance the transparency and comparability of financial information about financial instruments, revenue recognition, and lease contracts. The ongoing “Better Communication” project of the IFRS Foundation is an example to further improve comparability by strengthening consistency in the definition of key performance indicators and in the presentation of financial statements.

The programme contributed to the global acceptance of IFRS as a reference set of high quality accounting standards.

EFRAG has provided the European Commission with qualitative endorsement advice on new or modified standards and monitors the standard setting activities undertaken by the IASB to safeguard European interests. In that respect the Union programme has contributed to strengthening the capacity of EFRAG to carry out EU wide impact assessments of the broader economic consequences of new IFRS standards.

With regard to the financial independence of the beneficiaries, their funding diversification has increased their credibility and technical capacity. However, the objective to secure national financing regimes proportionate to a country’s gross domestic product to finance the IFRS Foundation has not been achieved. The implementation of the Maystadt reform has broadened the constituency of EFRAG and contributed to better coordination between European stakeholders in the field of financial reporting.

The beneficiaries IFRSF and EFRAG have implemented robust due process rules and are on track to set up transparency registers.

As regards the PIOB, the EU grant has helped to attract other public sponsors and to ensure a minimum level of independency from IFAC and the auditing profession.

4.2. INDIVIDUAL EFFECTIVENESS OF THE BENEFICIARIES

IFRS Foundation

4.2.1. KEY ACHIEVEMENTS OF THE IFRS FOUNDATION

Following a public consultation, the 2015-2020 Work Programme established by the International Accounting Standard Board aims at improving and supporting the implementation of existing standards and enhancing the way the information is disclosed in the financial statements. Over the period 2014-2018, the IFRS Foundation issued four major standards including: IFRS 15 - *Revenue from Contracts with Customers*, IFRS 9 - *Financial Instruments*, IFRS 16 - *Leases* and IFRS 17 - *Insurance Contracts*. Furthermore, in December 2018, on the basis of the taxonomy maintained by the IFRS Foundation, the European Commission adopted the Regulatory Technical Standard on the specification of a European single electronic reporting format (ESEF) which from 2020 onward requires issuers of securities listed on an EU regulated market to prepare their IFRS Financial Statements in iXBRL format.

4.2.2. HOW EFFECTIVE THE IFRS FOUNDATION HAS BEEN IN ACHIEVING OR PROGRESSING TOWARDS THE INTENDED OBJECTIVES SO FAR?

Key findings

Ensuring comparability and transparency of company accounts throughout the Union

The 2015 report from the Commission to the European Parliament and the Council on the evaluation of Regulation n°1606/2002 (the “IAS Regulation”), concluded that the introduction of IFRS within the European Union had increased the transparency of financial statements through improved quality and disclosures and led to greater comparability between financial statements within and across industries.

Over the period 2014-2018, the IFRS Foundation issued major standards and pursued research projects designed to enhance the comparability and transparency of IFRS financial statements.

IFRS 15 Revenue from Contracts with customers was issued in May 2014 and amended in 2015 in order to provide additional clarifications and ease its operational implementation. The initial standard was developed jointly with the US Financial Accounting Standard Board with a view to streamlining one revenue recognition model applicable to all contracts with customers and clarifying the requirements of the previous IAS 8 *Revenue* and IAS 11 *Construction contracts* standards by introducing additional implementation guidance. The standard has been applicable in Europe since 1 January 2018 and is expected to strengthen comparability between IFRS and US GAAP while enhancing consistent implementation by companies through the implementation guidance.

IFRS 9 *Financial Instruments* is designed to improve the accounting treatment of lending instruments and to ensure timely recognition of expected credit losses by implementing a forward-looking impairment model. It also aims at better aligning the hedge accounting requirements with companies' risk management practices while also improving disclosures. This is expected to reduce non GAAP information and to enhance transparency about the use of financial instruments for the purpose of risk mitigation. The standard is applicable for annual period beginning after 1 January 2018.

IFRS 16 *Lease Contracts* significantly expands the scope of lease contracts for which separate recognition of lease assets and liabilities is required in the financial statements of the lessee. The standard was devised with a view to strengthening the comparability of financial leverage across companies and the transparency on cash flows arising from lease contracts. Mandatory application in Europe started on 1 January 2019.

IFRS 17 *Insurance Contracts* aims at providing a harmonized accounting treatment for insurance contracts thus significantly improving the comparability of financial statements across insurance and reinsurance companies. The standard also requires the use of current estimates and the timely recognition of expected losses with a view to enhancing transparency about insurance and financial risks embedded in insurance contracts. It also aims at streamlining a revenue recognition model similar to IFRS 15 so as to improve cross industries comparability.

Finally as part of the *Better Communication* project, the IFRS Foundation is considering possible improvements to the presentation of IFRS Financial Statements in order to improve the comparability of performance indicators. A public consultation outlining the IASB's proposals is expected in 2019.

The Commission services therefore assess that the IFRS Foundation standard setting activities have contributed to enhancing the transparency and comparability of financial statements thereby enhancing the efficient functioning of the EU capital market.

Fostering the convergence of accounting standards used internationally with the ultimate objective of achieving a single set of accounting standards

From 2014 to 2018, the international use and acceptance of IFRS has kept progressing with thirty additional jurisdictions, mainly from Africa, requiring the use of IFRSs. The 2018 survey carried out by the IFRS Foundation on the use of IFRS Standards around the world highlights that out of 166 jurisdictions surveyed 87% require the use of IFRS at least for publicly accountable companies. However, some major capital markets (Japan, United States) do not require IFRS but only allow it for national or foreign issuers whereas other major jurisdictions such as China and India have only implemented convergence programme of national accounting standards towards IFRS that may not ensure full consistency with the standards as issued by the IASB. Furthermore, although the joint standard-setting program between the IASB and FASB has achieved substantial convergence on revenue recognition

and lease contracts, it has been discontinued for financial instruments and insurance contracts.

As a consequence, despite some limitations, the Union programme has contributed to the international acceptance of IFRS as a worldwide reference model for financial reporting.

Ensuring that the interests of the Union are adequately taken into account in the international standard-setting process. Those interests should include the notion of prudence, the maintenance of the requirement of a true and fair view and take into account the impact of standards on financial stability and the economy.

According to the constitution of the IFRS Foundation, the International Accounting Standard Board has full discretion in developing and pursuing its technical agenda subject to consulting the Trustees and the Advisory Council of the Foundation and carrying out a public consultation every five years. The European Union is represented in the IFRS Foundation only as a member of the Monitoring Board and an observer of the Standards Advisory Council which implies that it has no direct influence in the standard setting choices.

As a consequence, the views of European stakeholders have to be reported according to the procedures set in the IFRS Foundation Due Process Handbook (DPH), which especially requires the International Accounting Standard Board to gain insights on the likely effects of its standard setting proposals and to publish an effect analysis for each exposure draft or final standard. However, the requirements of the Due Process Handbook focus on the improvements to financial reporting and on the assessment of the likely compliance costs for both users and preparers, which leaves aside broader impacts of IFRS on financial stability, the economy, or sustainability.

In 2013, the IFRS Foundation set up an advisory body (the Effects Analysis Consultative Group) to help the IASB strengthen its methodology for effects analysis. In that regards, some progress was achieved in the “Effects Analysis” supporting the issuance of IFRS 16 *Leases*, which considered specifically economic concerns about the impact of the standard on the cost of borrowing for companies, debt covenants (capitalizing on the findings from a study carried out by EFRAG), the regulatory capital requirements of banks and access to finance for smaller companies. In 2019, the IFRS Foundation launched a public consultation as part of the review of its Due Process Handbook which suggests clarifying that the Effects Analysis should be explicitly embedded through out the Standard setting process of the IASB and consider the likely benefits of new IFRS standards on long-term financial stability. However, it does not require the Board to assess the possible broader economic or other consequences of a change in financial reporting.

With regard to the principle of true and fair view, in March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting which provides non-binding guidance to the Board in developing IFRS Standards. Though not endorsed by the European Union, the Conceptual Framework defines the qualitative characteristics of useful financial information and therefore provides a conceptual background conducive to the principle of true and fair

view. The revised framework clarifies that the information provided should help users in assessing management's stewardship of an entity's economic resources and specifies that the exercise of prudence (defined as the exercise of caution when making judgments under conditions of uncertainty) supports the faithfulness of financial reporting.

Increase the financial independence of the beneficiaries from the private sector and ad hoc sources, thereby raising their capacity and credibility.

Evolution of the IFRS Foundation resources					
Amounts in million GBP	2018	2017	2016	2015	2014
Funding contribution received	22,0	25,1	24,1	21,3	22,6
Revenues from publications	8,6	6,6	6,1	5,8	5,5
Net income	2,9	8,7	3,2	2,7	3,7
Contributions from international accounting firms	5,4	8,7	7,7	7,0	6,4
Average headcounts	142	134	137	139	136

Breakdown of funding of the IFRS Foundation					
Financial contributors	2018	2017	2016	2015	2014
International accounting Firms	24.0%	34.7%	31.3%	33.0%	28.5%
European Commission	18.5%	16.5%	15.6%	15.4%	13.6%
EU Member States (excluding UK)	13.6%	12.4%	11.9%	12.6%	12.7%
United Kingdom	3.6%	3.5%	3.5%	4.1%	3.8%
Total European Union	35.8%	32.4%	31.0%	32.2%	30.2%
Asia/ Oceania	32.7%	25.6%	29.0%	25.2%	24.5%
Americas	6.1%	5.8%	6.6%	7.9%	15.0%
Africa	0.6%	0.5%	1.2%	0.9%	0.8%
Other	0.8%	0.9%	0.9%	0.8%	1.0%

The funding of the IFRS Foundation is primarily achieved through voluntary contributions from jurisdictions (normally determined as a percentage of the gross domestic product) and international accounting firms. This mechanism generates volatility in the Foundation's revenues. Thus the stability of reported total contributions between 2014 and 2018 obscures a significant decrease of the contributions from the United States (from 15% in 2014 to 6.1% of total funding in 2018) partially offset by the increased financial support from the European Union (from 13.5 to 18.5%) and China (from 8 to 11%). Over the period 2014-2018, the Foundation constantly reported positive earnings thus strengthening its financial position by a GBP 21 Million accumulated reserve. It also significantly increased its self-generated revenues from publication and licensing activities. However, it still relies on the contributions from international accounting networks to achieve a breakeven financial position.

Foster transparency and the involvement of stakeholders in the standard setting and endorsement process

The 2015 Commission Staff Working Document supporting the report on the evaluation of Regulation n°1606/2002 on the application of International Accounting Standards found that the IFRS Foundation operates under well-developed and transparent procedures with regards to its standard setting activities²¹. An overview of the procedures is outlined in the yearly report from the Commission on the activities of the IFRS Foundation. A significant overhaul of the Foundation's Due Process Handbook was adopted in February 2013.

Over the period 2014-2018, the due process requirements remained substantially unchanged. However the IASB completed its second and third post-implementation reviews of IFRS Standards with IFRS 3 *Business Combinations* and IFRS 13 *Fair Value measurement*. The reviews highlighted some implementation challenges arising from IFRS 3 especially as regards the complexity of goodwill accounting as well as some concerns about the disclosure requirements of IFRS 13. Those findings are currently addressed through targeted research projects included in the work plan of the Foundation. In 2017 the IFRS Foundation Trustees commissioned an external study about the perception of the foundation by stakeholders. The results highlighted strong appraisal for its independence and transparency²².

With regards to transparency registers, starting from December 2019 the IFRS Foundation will quarterly publish a stakeholder engagement register. The register will cover all engagements of IASB Board Members with external parties of more than 30 minutes.

EFRAG

4.2.3. KEY ACHIEVEMENTS OF EFRAG

From 2014 to 2018, EFRAG implemented its internal reform in line with the recommendation from the Maystadt report of October 2013, which was completed in July 2016 with the appointment of Jean-Paul Gauzes as EFRAG Board President. EFRAG also continued to carry out endorsement assessments on whether IFRS meet the 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 are conducive to the public good. In particular, it is worth mentioning the following key achievements:

- EFRAG's work on the endorsement advice on IFRS 17 *Insurance Contracts* underpinned by in-depth impact analysis consisting of an extensive case study with 11 insurers; a simplified case study with 49 insurers; and a user outreach;
- endorsement advice on IFRS 16 *Leases* in 2017;
- EFRAG's impact analysis (as a pilot) of the IASB Discussion Paper Financial Instruments with Characteristics of Equity (FICE);

²¹ SWD (2015) 120 final page 58

²² <https://www.ifrs.org/-/media/feature/groups/trustees/ifrs-reputation-research-report-jul-2017.pdf?la=en>

- a Research Project on the consequences of IFRS 9 on *long term investments*, and
- the establishment of a European Lab in September 2018 to consider in its activities and its implication in the developments in the corporate reporting, digitalisation and sustainable finance areas.

In 2019, to date, EFRAG's work programme was largely driven by the IASB's standard setting agenda. The endorsement activity of EFRAG remains important, especially in light of the IASB's decision to consider amendments to IFRS 17 which requires EFRAG to issue a comment letter on the amendments while considering the implications on its draft endorsement advice of the standard. Furthermore it maintains its active contribution to the Action Plan on Sustainable Growth by carrying on its research activities on the accounting treatment of equity instruments with a view to identifying possible alternative accounting treatments to the fair value measurement of portfolios of equity and equity type instruments. Finally, EFRAG closely follows up the IASB's research activities pertaining to goodwill and impairment, the presentation of financial statements and the disclosure requirements.

The European Corporate Lab set up in 2018 will stimulate innovation in the field of corporate reporting in light of the European Commission's action plan on Financing Sustainable Growth. Following a call for candidates in December 2018, the first project task force was established and operational in February 2019.

4.2.4. HOW EFFECTIVE EFRAG HAS BEEN IN ACHIEVING OR PROGRESSING TOWARDS THEIR OBJECTIVES SO FAR?

Even if difficult to fully translate into measurable indicators, the progress of EFRAG is real in delivering on its mandate of providing respected advice to the European Commission and representing the European view on financial reporting in the international arena.

Key findings

Ensuring the interests of the Union

Looking at the quality and influence of the outputs produced so far by EFRAG, there are indications of the high quality of the activities performed. In the past five years, EFRAG has delivered full public good assessments and impact analyses on major standards. EFRAG's research work has been essential to the part of Europe's contribution to the development of international accounting standards by taking into account the stakeholders' priorities. Over the last ten years, EFRAG has published more than 700 documents to improve the IFRS. Stakeholders have confirmed EFRAG's value and effectiveness.

EU influence on IASB standard setting

The quality of EFRAG's due process underpinned by its research agenda based on evidence, its commitment to consultation and its responsiveness on all IASB projects from the outset

has certainly increased its influence in the debate on International Financial Reporting over the period assessed. Moving beyond inputs to the IASB's agenda, EFRAG has conducted more own-initiative work providing an opportunity to reflect on the future direction of standard-setting and financial reporting. EFRAG was able to ensure that specific European circumstances were properly considered before key decisions were taken by the IASB. EFRAG's work projects on dynamic risk management²³ and accounting for goodwill²⁴ are good illustrations of EFRAG's influence on the IASB (even though they have not yet led to concrete standard setting activities by the IASB).

Independence of EFRAG

The financing structure of EFRAG is based on a private-public funding model with a majority of the contribution coming from the EC. Over a period of 5 years, only the European Commission's funding slightly changes. It is at maximum 60% of the eligible expenses but the actual costs declared by EFRAG are different each year and thus the total funding changes. The contributions from national organisations make up around one third of the total funding of EFRAG. Out of this amount, 82% stems from four Member States but they have not led to dominant influence over EFRAG. On balance, the new governance structure and the diversification of its funding resulting from the Maystadt reform worked well and has resulted in increased credibility and standing without impairing the independence of the organisation.

Foster transparency and enhance governance of EFRAG

This is an area of continuous improvement. The overall results of actions taken by EFRAG with regard to transparency and governance were very positive.

Key findings

- ✓ The EFRAG Board reached all its conclusions on a consensus basis without having resort to majority voting.
- ✓ The transparency of the public due process that has further developed.
- ✓ A more diversified composition of the User panel as well as the EFRAG Board and EFRAG TEG, both in terms of geographical and professional background ensures that many different perspectives are properly taken into account by EFRAG.
- ✓ Performance and effectiveness review of its own members under the oversight of the EFRAG General Assembly on an annual basis demonstrated that on balance the governance structure worked well.
- ✓ There were no observed issues as regards conflicts of interest.
- ✓ All meetings of the EFRAG Board, EFRAG Technical Expert Group (EFRAG TEG) and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) are held in public and webcasted since March 2018.

²³ Dynamic Risk Management – How do banks manage interest rate risks? January 2017

²⁴ Goodwill impairment test : Can it be improved? Feedback statement of March 2018

- ✓ Agenda, summaries of the meetings and supporting agenda papers for important meetings are published on EFRAG's website.
- ✓ EFRAG publishes draft positions for public consultations, undertakes field tests and other forms of effect analyses, organises outreach events.
- However, two reservations remain:
 - regarding the ability to capture the full breadth of stakeholders' views in Europe (e.g. small users);
 - mandatory transparency register on meetings with external stakeholders is not yet in place but is well underway.

The PIOB

4.2.5. KEY ACHIEVEMENTS OF THE PIOB

During the entire period, the PIOB has closely liaised with the standard setting boards under its oversight, 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.

4.2.6. HOW EFFECTIVE HAS THE PIOB BEEN IN ACHIEVING OR PROGRESSING TOWARDS ITS OBJECTIVES SO FAR?

The EU grant to the PIOB has been indispensable to ensure a minimum level of independence vis-à-vis IFAC and the audit profession in general.

4.3. ARE THE OBJECTIVES OF THE PROGRAMME STILL RELEVANT, WHETHER IN TERMS OF COMPLETENESS (NEW NEEDS), OR ACCURACY (CHANGES IN, OR DISAPPEARANCE OF NEEDS)?

Key findings

The objectives of the programme remain largely valid even though achieving a single set of international accounting standards does not seem achievable anymore in the short and middle term. However, the Commission Services assess that securing the international acceptance of IFRS Standards remains beneficial for entities that wish to raise capital in foreign jurisdictions or that have significant cross-border activities. In addition, the need to improve the allocational efficiency of capital markets toward financing sustainable growth highlights that the long-term financing of EFRAG should be secured in order to allow it to carry out sustainability assessments of IFRS standards and foster best practices in the area of corporate reporting and extra-financial information.

Ensuring comparability and transparency of company accounts throughout the Union;

The relevance of the funding programme primarily stems from the IAS Regulation adopted in 2002 as part of the EU Financial Reporting Strategy. The 2000 Communication from the Commission to the Council and the European Parliament²⁵ highlighted that the existing Accounting Directives did not meet the needs of companies that wish to raise capital on pan-European or international securities markets because of the diversity of accounting approaches as a result of the optionalities embedded in the Accounting Directives as well as of different levels of enforcement throughout the EU.

In that regard, the 2015 evaluation of the Regulation 1606/2002 ('IAS Regulation'), highlighted that IFRS have made EU capital markets more efficient by making companies' financial statements more transparent and easier to compare. Furthermore, since 2013 the Accounting Directives have not been amended whereas under the IAS Regulation the EU adopted the new IFRS standards IFRS 15 *Revenue from contracts with customers*, IFRS 9 *Financial instruments* and IFRS 16 *Leases*. As a consequence, the relevance of IFRS standard as a single set of accounting standard for entities listed on a regulated market has further increased as compared to the Accounting Directives. The Commission services therefore assess that the objectives of the European funding program remain valid.

Fostering the convergence of accounting standards used internationally with the ultimate objective of achieving a single set of accounting standards

Considering the limitations outlined in the previous section about effectiveness and especially the discontinuation of the joint standard setting programme between the International Accounting Standard Board and the US Financial Accounting Standard Board, the objectives of achieving a single set of international accounting standards does not seem achievable in the foreseeable future. However, in 2016, the United States Securities and Exchange Commission allowed around 525 foreign issuers (of which around 125 EU issuers²⁶) to file annual financial statements prepared in accordance with IFRS, which contributes to the international acceptance of IFRS in other jurisdictions. Furthermore, the objective of fostering the convergence of accounting standards remains relevant for jurisdictions that have chosen to substantially converge their national accounting standards with IFRS such as the People's Republic of China.

Accordingly, the Commission Services acknowledge that further progress in the use of IFRS is unlikely in the short term. Securing the international acceptance of IFRS though remains beneficial for EU companies that wish to raise capital in foreign jurisdictions or with significant foreign operations in jurisdictions that require or authorize the use of IFRS.

Ensuring that the interests of the Union are adequately taken into account in the international standard-setting process.

²⁵ COM (2000) 359 final

²⁶ <https://www.sec.gov/divisions/corpfin/international/foreigngeographic2015.pdf>

This policy objective directly stems from the choice to delegate the responsibility for setting financial reporting requirements to an independent non-governmental organization without direct accountability toward the European Union. The IFRS Foundation's governance relies on a strict apportionment of the membership of the Board of Trustees and the International Accounting Standard Board based on geographical criteria. In 2015, the Foundation carried out a public consultation about the geographical distribution of its governance. Some stakeholders including the European Commission argued that membership should reflect the commitment to adopt IFRS and the relative share in the funding contribution to the Foundation. However, the Foundation reaffirmed that membership should be representative of the world's capital markets and subject to geographical balance requirements to maintain equivalent representation between Asia-Oceania, Europe and America.

As a consequence, considering the lack of progress towards establishing a governance structure reflecting the actual use of IFRS by jurisdictions and their contributions to the funding of the Foundation, the Commission Services assess that the policy objective to secure a more appropriate oversight of the activities of the Foundation remains essential both before adoption and throughout the standard setting process. This especially implies that the EFRAG's mandate, to influence upstream the debate on International Financial Reporting Standards remains a cornerstone of the programme with a view to contributing to evidence-based standard-setting through quantitative impact assessments.

Increase the financial independence of the beneficiaries from the private sector and ad hoc sources, thereby raising their capacity and credibility.

Over the period covered by the assessment, the IFRS Foundation constantly reported profits and accumulated reserves sufficient to cover fifteen months of operating expenses²⁷. It also increased its recurring self-generated revenues from licensing agreements. However, the Trustees of the IFRS Foundation were unsuccessful in implementing a stable contribution scheme based on the gross domestic product of jurisdictions. As a consequence, the majority of the Foundation's funding continues to rely on voluntary annual funding. Furthermore, over the period the US Securities Exchange Commission discontinued its financial support to the Foundation, thus increasing the relative share of funding from international accounting networks, which made up almost one third of the Foundation's total funding from 2015 to 2017 and 24% in 2018²⁸.

With regard to EFRAG, the diversification of its funding and its governance structure resulting from the Maystadt reform have increased the credibility of EFRAG as an organisation working in the European public interest. So far they had a positive impact on the way EFRAG influences IFRS. Today, its funding structure is mainly based on the EU and national organisations' contributions representing 85% of its financial resources. However, with Brexit and the potential withdrawal of the UK regulator (FRC), the financial independence of EFRAG will become more relevant to secure its capacity to carry out its mandate.

²⁷ According to its 2018 financial statements.

²⁸ This reduction in 2018 stems to a significant extent from a new licensing arrangement which leads to recognizing licensing revenues instead of a voluntary financial contribution

As regards the PIOB, there is a diversification of funding sources, with a substantial contribution from IFAC but below the two-thirds threshold, as stipulated in the Regulation.

As a consequence, overall the Commission services assess that securing the financial independence of the beneficiaries remain a relevant objective.

Oversee the process leading to the adoption of International Standards on Auditing and other public interest activities of the International Federation of Accountants.

The PIOB is responsible for monitoring the due process of the international standard setting process in the areas of audit and assurance, education, and ethics.

The ISAs are - directly or indirectly - used in all EU Member States. A well-functioning PIOB is needed to oversee the standard setting boards in order to ensure that new or amended standards are developed in the public interest i.e. responsive to stakeholder needs, accountable and transparent as well as aligning the priorities of the audit profession with those of all stakeholders (including investors and other users of financial statements).

Foster transparency and the involvement of stakeholders in the standard setting and endorsement process.

The Commission Services assess that securing fair and transparent consultation of interested parties remains a cornerstone of the standard-setting and endorsement processes to ensure that the views from all European stakeholders are adequately taken into account at all stage of the beneficiaries' due process.

Have new needs arisen?

The Commission Services identified two main new needs relevant to the Union Programme: the increasing demand for electronic access to financial information and the need to improve the allocational efficiency of capital markets toward financing sustainable growth.

The demand for electronic access to financial information

In 2013 the Transparency Directive was amended to require by 1 January 2020 the preparation of annual financial reports in a single electronic reporting format with a view to facilitating cross-border investment and allowing investors to easily access regulated information. The Regulatory Technical Standard on the European Single Electronic Format was adopted on 29 May 2019 by the European Commission and establishes that the taxonomy to be used to mark-up IFRS consolidated financial statements shall be an extension of the IFRS taxonomy maintained by the IFRS Foundation.

The IFRS Taxonomy reflects the presentation and disclosure requirements of IFRS and is updated annually by the Foundation. Following a public consultation run in 2015, the Trustees issued an annex to the Due Process Handbook of the Foundation in June 2016 in order to

reflect the necessary maintenance of the IFRS taxonomy. It especially provides that updates of the taxonomy are carried out upon adoption of a new standard or amendment after a public consultation launched at the latest after the publication of the final standard.

Improving the allocational efficiency of capital markets toward financing sustainable growth

Over the period considered by the assessment, the agreement on the UN Sustainable Development Goals (2015) and the Paris Agreement on climate change (2016) have put the transition to a sustainable economy high on the political agenda, and have contributed to a growing focus on the sustainability of businesses and investments. This has in turn put emphasis on improving corporate transparency on sustainability issue and raised new concerns about the impact of IFRS Standards. Especially, the 2018 report of the High Level Expert Group on financing a sustainable European economy highlighted that IFRS standards might not be conducive to long-term investment.

As a consequence, as part of its 2018 Action Plan on Financing Sustainable Growth, the European Commission asked EFRAG to consider possible improvements to the accounting treatment of long-term investments in equity instruments and committed itself, to request an assessment of the impact of new or revised IFRS standards on sustainable investments, where appropriate. This initiative aims at preventing IFRS accounting treatments contributing to disincentives to the allocation of long term funding needed for the transition to a sustainable economy.

In 2019 the IASB Chair highlighted that the IFRS Foundation was not equipped to enter the field of sustainability reporting and should focus on the financial information needs of investors. However he acknowledged that sustainability issues might have an impact on financial reporting and suggested that, when financially material, sustainability considerations might be addressed through an overhaul of the Management Commentary Practice Statement. The practice statement provides non-binding guidance about the background information within which to interpret financial statements. This especially includes insights into the company's strategy and the progress made towards its implementation.

As a consequence, the decision from the IASB not to consider sustainability impacts in developing IFRS Standards implies that the scope of the endorsement activities carried out by EFRAG will widen in order to ensure that this dimension of the European Public Good is adequately safeguarded. In that regard, EFRAG already issued in 2018 two pieces of technical advice on possible improvements to the requirements of IFRS 9 *Financial Instruments* for long term investments in equity instruments and will keep working on possible alternative accounting treatments to the fair value measurement of equity and equity like instruments in the future.

In addition, as the activities of EFRAG in relation to non-financial information reporting will represent a logical extension of its mandate in the future, they should have adequate funding. Therefore, it will be worthwhile that the future Single Market Programme (SMP), which

depends on the negotiations of the next MFF, encompasses flexible funding arrangements ensuring that these activities be also covered.

4.4. TO WHAT EXTENT THE PROGRAMME WAS CONSISTENT WITH OTHER EU POLICIES OR ARE THERE INCONSISTENCIES BETWEEN THE ACTIVITIES UNDERTAKEN BY THE BENEFICIARIES (COHERENCE)?

Key findings

The activities of the beneficiaries are consistent and fully in line with the EU objective to strengthen the Capital Markets Union.

Consistency between the activities undertaken by the beneficiaries

In the field of financial reporting, the EU Funding programme is designed to secure the promotion of a single set of international financial reporting standards and to safeguard the interests of European citizens and EU public policy objectives. The consistency between these two potentially contradictory objectives therefore relies on the ability of EFRAG to engage with the IASB as early as possible in the standard setting process in order to address the concerns from European stakeholders. In that regard, the report assesses that EFRAG has been successful in its mandate to timely influence the IASB ahead of the endorsement of a new standard. However, it also highlights that the mandate of EFRAG may become increasingly challenging in the future because the IASB does not explicitly consider sustainability issues in developing IFRS Standards and is not required to assess systematically the consequences of introducing a new accounting standard beyond the improvement to financial reporting and the likely costs of implementation.

Based on our analysis, adequate consideration should be given to the difference in focus between the broader 'public good' notion of the Union set out in the IAS Regulation and the narrower IASB focus of qualitative improvement of financial, especially against the broader objective of EU transition towards a more sustainable economy. This may warrant some additional flexibility in the endorsement procedure of IFRS Standards issued by the IASB by allowing in well-defined circumstances to amend specific provisions of a new standard or interpretation that would contradict the EU broader policy objectives.

Consistency with other public policy objectives

In the area of financial reporting, the Union programme is designed to complement the IAS Regulation and to ensure that new accounting standards issued by the IFRS Foundation meet the endorsement criteria before adoption by the European Union. As a consequence, it also indirectly contributes to the broader objectives of safeguarding the efficient and cost-effective functioning of the Union capital markets and reinforcing the freedom of movement of capital in the internal market. Furthermore, the analysis in the section on relevance highlights that the programme remains fully consistent with the architecture of the EU's frameworks for public

reporting by companies which is based on a fundamental differentiation between the requirements applicable to listed and non-listed entities. Actually achieving and maintaining a harmonized financial reporting framework for capital market oriented companies remains essential for the realisation of the integrated market for financial services in the context of the Capital Market Union.

The existence of an independent audit oversight body has given investors (and the public at large) comfort that auditing standards are of high quality and developed in the public interest. The EU grant is warranted by the wide use of the IAASB's international standards of audit in EU Member States. However, despite some initial progress and improved diversity in funding of the PIOB, it is concerning that the number of other public sponsors has remained limited and more recently even slightly decreased. It therefore remains a challenge to secure a diversified funding model for the PIOB that can rely on funding not only from auditors, but also from users/investors, regulators and international organisations, in order to be sustainable in the medium-long term future. At the same time, without the continued help of the EU and other public sponsors, the PIOB would return to the situation before 2010, when it was financially completely dependent on IFAC. This would be a serious step back, undermine the credibility of the entire governance and oversight system and risks reduce public confidence in the IAASB's auditing standards.