Council of the
European Union

Brussels, 5 February 2021
(OR. en)

5944/21

DRS 3
ECOFIN 101
EF 42

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	4 February 2021
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2020) 807 final
Subject:	REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the activities of the IFRS Foundation, EFRAG and PIOB in 2019

Delegations will find attached document COM(2020) 807 final.

Encl.: COM(2020) 807 final

EUROPEAN
COMMISSION

Brussels, 14.12.2020
COM(2020) 807 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the activities of the IFRS Foundation, EFRAG and PIOB in 2019

EN EN

1. PURPOSE AND SCOPE OF THE REPORT

Pursuant to Regulation No 258/2014[1] of the European Parliament and of the Council, amended by Regulation 2017/827[2], the European Union co-finances three organisations active in the field of financial reporting and auditing: the International Financial Reporting Standards Foundation (IFRS Foundation), the European Financial Reporting Advisory Group (EFRAG), and the Public Interest Oversight Board (PIOB). The co-financing programme takes the form of operating grants.

The purpose of this report required by Article 9 (3) of the Regulation is to report on the latest developments linked to the activities of these three bodies in 2019[3]. However, certain events that took place in 2020 are also described where deemed useful for the purpose of this report (e.g. new challenges that have emerged as part of the European Action Plan on Financing Sustainable Growth (2018) or in the context of the COVID-19 global pandemic).

As a follow-up of the Stolojan[4] report and as mentioned in Recital (9) of the Regulation amending Regulation No 258/2014, this report also provides a Commission's assessment of the governance of these three bodies, in particular on the prevention of conflict of interest, transparency, diversity of experts, diversity of funding, public accountability and public access to documents.

1.1. STRUCTURE OF THE REPORT

The Report is structured as follows:

- **Section 2: International Financial Reporting Standards Foundation -** provides an overview of the IFRS Foundation's activities and its governance in 2019;
- **Section 3: European Financial Reporting Advisory Group** - provides an overview of EFRAG's activities and its governance in 2019;
- **Section 4: Public Interest Oversight Board -** provides an overview of the PIOB's activities and its governance in 2019;
- **Section 5: Conclusions** as regards the relevance of the funding programme.

[1] OJ, L 105, 8.4.2014, p.1.
[2] OJ, L 129, 19.5.2017, p.24.
[3] Last appraisal of the Programme was included as Annex 3 to the annual 2019 Report related to the activities of the IFRS Foundation, EFRAG and PIOB in 2018, 29.10.2019, COM/2019/549 final.
[4] 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).

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS FOUNDATION

2.1. OVERVIEW OF IFRS ACTIVITIES

2.1.1. STANDARD SETTING

In September 2019, the International Accounting Standards Board (IASB) completed the Phase 1 of the project "*IBOR Reform and its Effects on Financial Reporting*" by publishing amendments to International Financial Reporting Standards (IFRS) 9 *Financial Instruments* and its predecssor International Accounting Standards (IAS) 39 *Financial Instruments: Recognition and Measurement*. The main objective was to address the consequences on the accounting treatment of existing hedging relationships prior to the actual replacement of the benchmark rates. Subsequently, the IASB issued the Phase 2 of the project in August 2020. The objective of IBOR Phase 2 is to prevent that IFRS would trigger unwarranted accounting consequences upon the actual replacement of the benchmark interest rates for hedge accounting in particular.

In 2019, the IASB prepared amendments to IFRS 17 *Insurance Contracts,* which were adopted in June 2020. These amendments aim to reduce the costs of implementation and to make it easier for companies to explain the results of applying IFRS 17 to investors and others. In this context, the IASB decided to postpone the effective date of IFRS 17 from 1 January 2021 to 1 January 2023 and to extend the optional deferral of IFRS 9 *Financial Instruments* granted to the insurance industry.

Since March 2020, the COVID-19 global pandemic has led to a public health emergency and a corresponding lockdown of many parts of the global economy. As a result, the IASB and its staff commenced to support stakeholders by responding to COVID-19-related questions about applying IFRS standards, by providing specific accounting relief, and by adjusting the Board's work plan including postpone less critical consultations. One example is the amendment to IFRS 16 *Leases* to facilitate the accounting by entities for COVID-19-related lease concessions such as rental holidays and temporary rent reductions.

A complete overview of the 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.

Finally, the IFRS Foundation updated the IFRS taxonomy in order to reflect the implications of new standards and amendments[5].

[5] 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.

2.1.2. Research projects

The 2017-2021 work plan of the IASB aims at improving and supporting existing standards, promoting better communication and supporting implementation. In 2019, with regards to its *"Better Communication*" project, the IASB completed technical discussions and published the exposure draft *General Presentation and Disclosures* in December – proposing improvements to the structure and content of the Primary Financial Statements with a focus on the statement of financial performance.

The IASB also continued the research project on extractive activities to consider a possible replacement of IFRS 6 *Exploration for and Evaluation of Minerals Resources*.

As part of its follow-up of the post-implementation review of IFRS 3 *Business Combination*, the Board explored possible simplifications to the accounting for goodwill and targeted improvements to the impairment test and issued a discussion paper in Q1 2020.

The IASB started in 2019 the post-implementation review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures of Interests in Other Entities.*

2.1.3. Comprehensive Review of the IFRS for SMEs Standard

In 2019, the IASB commenced the second Comprehensive Review of the *IFRS for SMEs* Standard with a view to align the *IFRS for SMEs* Standard with the full IFRS standards without causing undue cost and effort for SMEs. In January 2020, the IASB published a request for information.

2.2. General principles against which new Standards have been developed

2.2.1. General principles

The due process principles on the IASB and IFRIC standard setting are laid down in the *Due Process Handbook*. Its application is overseen by a dedicated committee of Trustees known as the Due Process Oversight Committee (DPOC). In 2019, the DPOC continued its review of the *Due Process Handbook* with the aim to increase the effectiveness of standards. The revised Handbook was published in August 2020. One new principle is that the IASB should in the future publish explanatory material in order to address implementation questions arising from an issued standard before its application date.

Tthe revised *Due Process Handbook* states 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. It also embeds the effects’ analysis throughout the standard setting process. As regards the broader economic impacts of new financial reporting requirements, the amendments highlight that quantitative assessments are generally impracticable but that the IASB may assess specific economic effects where relevant. The revised version 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 IAS Regulation.

2.3. Governance, integrity and accountability

2.3.1. Overview

The IFRS Foundation is a non-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 IFRS Foundation is governed by a Board of 22 Trustees collectively responsible for general oversight and appointments to the IASB. In 2019, the Trustees met three times. 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 2019. The IASB consists of 14 members appointed by the Trustees subject to geographical balance requirements as well. IASB members are nominated for a five-year term, renewable once. The IASB is responsible for the standard setting. It held 13 board meetings during 2019. The Trustees also appoint the 14 members of the 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 also appointed by the Trustees and shall be consulted by the Board on decisions pertaining to major projects.

2.3.2. Transparency rules

In principle, all meetings of the IASB and IFRIC are open to the public. The meeting agendas are published in advance and the meetings themselves can be viewed by webcast.

With regard to transparency registers, the IFRS Foundation introduced a stakeholder engagement register for IASB Board members in August 2019. It is published quarterly on its website[6] and lists meetings with stakeholders. The first report was published in December 2019.

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

[6] Please see the following link: https://www.ifrs.org/groups/international-accounting-standards-board/pages/board-member-external-engagement .

to geographical balance requirement to maintain equal representation between America, Asia-Oceania and Europe.

The IFRS Foundation constitution requires the appointment of six 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. Similary, 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.

There were three new appointments of Trustees of the IFRS Foundation on 01 January 2019 (Mrs Sarah J. Al Suhaimi [Other]; Mr Dr Suresh Kana [Africa] and Mr Kazyyuki Masu [Asia-Oceania]) and one reappointment (Mr Guillermo Babatz [Americas]).

As at 31 December 2019, the IFRS Advisory Council comprised 51 organizations with 50 individual members. The European Commission participates as an observer. In addition, the European Central Bank (ECB) and European Securities and Markets Authority (ESMA) are also members of the IFRS Advisory Council.

2.3.4. ACCOUNTABILITY TOWARDS THE EUROPEAN PARLIAMENT

A full account of the development of IFRS has to be submitted to the European Parliament as part of the 2017/827 Regulation[7]. The annual exchange of views between the Committee on Economic and Monetary Affairs (ECON) of the European Parliament and Mr Hoogervorst, Chair of the IASB and Mr Liikanen, Chair of the IFRS Foundation's Trustees, took place on on 26 February 2019 and on 18 February 2020.

2.3.5. PREVENTION OF CONFLICT OF INTERESTS

The Trustees of the IFRS Foundation are appointed for a three 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 one member of the IASB is a part-time member. 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

The IFRS Foundation received a EUR 4,7 million grant from the European Union in 2019, representing 20,7% of the total funding received. According to the breakdown of the IFRS

[7] Recital 7

Foundation, the EU was the largest contributor, ahead of the international accounting firms with 19,8% in 2019.

The downward trend in contribution of the IFRS Foundation in recent years has continued in 2019. The reported contributions were down by 10,8% in 2019 (10,6% after taking into account the impact of exchange rate fluctuations). The most significant decreases in contribution were observed in South Africa (-95%), Spain (-71%), Hong Kong (-67%), Brasil (-48%), the United States[8] (-34%), the international audit networks (-30%), Switzerland (-19%) and Germany (-9%). A breakdown of funding by main geographical areas is outlined in *Appendix 2*. It clearly shows that despite an equal representation of the EU and the US at the Board of Trustees (six Trustees each) and the IASB (four board members each), the area "Americas" only contributes up to 5,1% of the Foundation's funding, whereas the EU and Asia-Oceania made respectively 38,5% and 33,5% of total contributions. The relative share of the EU budget and Member States went up compared to 2018 (from 35,8% to 38,5%). The decrease in the reported contributions from international audit networks was partially offset by a commercial arrangement resulting in increased licensing revenues.

The IFRS Foundation reported a net surplus of GBP 3,8 million. The total retained surplus as at 31 December 2019 amounted to GBP 38,1 million.

3. European Financial Reporting Advisory Group

3.1. EFRAG activities overview

EFRAG's work can be divided in three main categories:

- The primary role of EFRAG remains to advise the European Commission as to whether new or revised IFRS standards meet the endorsement critera set by the IAS Regulation on the application of International Accounting Standards. These criteria include meeting the requirements of a 'true and fair view', and of the European public good. Field tests, studies, impact assessments and outreach activities form a significant part of EFRAG's endorsement work.

- The second important activity of EFRAG is the IFRS-related work consisting of research work and activities contributing to the IASB's standard setting work to ensure that European views on the development of financial reporting are clearly articulated in the IASB's standard setting process.

- In 2019, as part of the Commission's Action Plan on Financing Sustainable Growth (2018), the scope of EFRAG work was widened with the establishment of a European Corporate Reporting Lab ("the Lab"), which became operational in February 2019, when

[8] 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 Lab's Project Task Force on climate-related reporting started its work.

3.1.1. ENDORSEMENT ACTIVITIES

In 2019, EFRAG's work programme remained largely driven by the IASB's standard setting decision to amend IFRS 17 *Insurance Contracts*. EFRAG commented on the proposed amendments to IFRS 17 in September 2019. The IASB issued the revised amendments to IFRS 17 in June 2020. In order to to be able to issue a draft endorsement advice soon after publication of the amended standard, EFRAG has continued to work on its draft endorsement advice.

In the second half of 2019, the preparatory work by EFRAG for the endorsement advice intensified further with continuous dialogues and outreaches with European insurance experts from different stakeholder groups represented in the EFRAG Insurance Accounting Working Group (EFRAG IAWG). In addition, selected topics have been addressed through specific surveys with broader groups. EFRAG's Technical Expert Group (EFRAG TEG) and the EFRAG Board have been involved in each step.

EFRAG has also commissioned an update of its 2018 economic study in areas such as industry trends, any potential impact on competition for capital and customers, and any potential impact on offerings of insurance products and services by insurers.

EFRAG contributed to the accelerated endorsement process of IBOR reform Phase 1 to ensure that the amendments to IAS 39 and IFRS 9 on financial instruments were in place in time for companies' 2019 financial statements avoiding potential accounting disruptions resulting from the IBOR reform.

The EFRAG Secretariat conducted in 2018 as a pilot an early stage analysis on the IASB Discussion Paper *Financial Instruments with Characteristics of Equity (FICE),* following up EFRAG's call that impact analyses should be carried out throughout the standard setting process rather than only at the end. The EFRAG Secretariat published a working paper on the early-stage analysis at the end of February 2019. EFRAG also ran an early-stage analysis in preparation of the Draft Comment Letter for the IASB Exposure Draft *General Presentations and Disclosures* (formerly "Primary Financial Statements") that was issued in December 2019. The results of the early-stage analysis gave insight in how European stakeholders thought the new IASB proposals would impact their financial reporting in practice.

In the course of 2019, EFRAG participated in the IASB consultation process, and issued comment letters after public consultation, on all IASB proposals (exposure drafts and discussion papers). Other areas of focus included the IASB's projects on *Rate-regulated Activities*, *Primary Financial Statements*, *Management Commentary, Business Combinations under Common Control (BCUCC)* and *Goodwill and Impairment.*

3.1.2. Research activities

EFRAG's research work remained essential part of its activities in 2019 for influencing the IASB and fostering international debate by providing thought leadership on issues that are important for Europe.

Based on a public consultation in 2018 on priorities among European constituents, EFRAG worked on *Better Information on Intangibles; Crypto Assets; and Variable and Contingent Consideration* in 2019. In January 2020, EFRAG published an academic literature review on intangibles. EFRAG also published a Discussion Paper Accounting for pension plans with an asset-return promise. Through its Academic Panel and Academic Network, EFRAG enhanced its cooperation with academics.

Finally, responding to the Commission's second request on long-term equity instruments to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity instruments, EFRAG launched a public consultation over summer 2019 to gather constituents' views. EFRAG published its technical advice on *alternative accounting treatments to measurement at fair value through profit or loss for equity and equity-type instruments held in a long-term investment model*, together with the Feedback Statement of EFRAG's public consultation in January 2020.

3.1.3. The European Lab and non-financial reporting domain

The European Lab is designed to stimulate innovation in corporate reporting through sharing good practices, which also complements and contributes to EFRAG work on financial reporting. The European Lab consists of a European Lab Steering Group, chaired by the EFRAG Board President and as Vice-Chair the Commission's head of the corporate reporting, audit and credit rating agencies unit, and project task forces.

The European Lab Steering Group is directly accountable to the EFRAG General Assembly. The European Lab Steering Group is responsible for the agenda of the European Lab, appointing the members of the project task forces, monitoring project implementation, promoting the European Lab and mobilising networks.

Following a public call for candidates in December 2018, the first project task force on climate-related reporting was established, making the European Lab fully operational in February 2019.

Following a stakeholder outreach with nearly 50 participants, the project task force published early February 2020 its interactive practical and action-oriented report. The report highlights good reporting practices as well as potential ways of improving the current reporting practices with two supplements on general climate disclosures and scenario analysis reporting. The report was published in time to be used by companies and financial institutions for their 2019 corporate reporting.

The European Lab Steering Group carried out a public consultation in Q3 2019 on the future agenda of the European Lab. Based on the results the Steering Group decided on a second project of the European Lab that would address reporting of non-financial risks and opportunities and linkage to the business model. This project became operational in Q2 2020.

The European Commission supports this new project and issued a request for technical advice mandating EFRAG in June 2020 to begin preparatory work for possible European non-financial reporting standards. This preparatory work would provide a basis for the development of European non-financial reporting standards, if the co-legislators decide that such standards are necessary as an outcome of the review of the Non-Financial Reporting Directive. It will be carried out by a Project Task Force (PTF) established by the European Lab in September 2020 following the call for candidates. For the role of Chair of the PTF, the European Lab Steering Group has appointed Patrick de Cambourg, currently President of the "Autorité des Normes Comptables".

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, increased the legitimacy and representativeness of the organisation and resulted in a more cohesive process for the participation of the EU in the 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[9] and as endorsed by the European Parliament and the Council. His mandate was renewed for a further three years ending 30 June 2022.

The European Supervisory Authorities and the ECB have opted to be official observers with speaking rights in the EFRAG Board instead of becoming full members. They have made an important contribution to EFRAG's impact analysis notably in the area of financial stability.

The EFRAG Board reached all its conclusions in 2019 on a full consensus basis without having resort to majority voting. In 2017, in the spirit of the Maystadt report[10], an 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 2019 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 the effectiveness of

9 See Commission Decision of 22.05.2019, C(2019) 3760 final

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

EFRAG's activities in the future. The implementation of EFRAG's communication strategy, and having a communication team in place under the leadership of the EFRAG Board President, has brought further progress on the visibility and credibility of EFRAG.

There were no issues with potential conflicts of interest. 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 confirm yearly their independence in form of signed declarations.

3.2.2. TRANSPARENCY RULES

Evidence collected during 2019 shows that the EFRAG due process remains broadly in line with stakeholders needs. It is marked by a transparent flow of information among all parties involved. EFRAG continues to show its commitment to engage with the Commission in order to achieve even higher standards of transparency than it was applying in the past. This is essential to ensuring that new IFRS Standards respond to Europe's needs.

The transparent public due process developed over time by EFRAG 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.

Moreover, 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) and undertakes special surveys, 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 TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) are held in public and the agendas and summaries of the meetings are published on EFRAG's website. Also, 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 have been webcasted 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 and the specialised EFRAG Working Groups and Advisory Panels.

The input received from the EFRAG User Panel is essential for the work of EFRAG. The diversified composition of these groups as well as the EFRAG Board and EFRAG TEG, both in terms of geographical and professional background ensures, in addition to the transparent public due process, that all different perspectives are properly taken into account by EFRAG.

The EFRAG Board receives a regular report of all meetings between EFRAG staff 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 every year an annual review providing transparency on its governance, financial structure and the main activities in the year concerned. The Annual Review 2019 was published on 19 May 2020[11].

Finally, on 9 July 2019 the EFRAG Board approved a Public Transparency Register with all meetings and conferences of the President of the Board, the TEG Chairman and the CEO of EFRAG.

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

In 2019, EFRAG Member Organisations' feedback on the approach to the governance structure of EFRAG in promoting broad representation of interests and public accountability was in general positive. EFRAG remains vigilent to guarantee neutrality and objectivity in the decision-making process.

EFRAG strives for a proper geographical, professional background and gender balances in its Board, Technical Expert Group and its Working Groups and Advisory Panels and the European Lab Steering Group and its project task forces. EFRAG's Internal Rules include requirements on a maximum number of members of the same nationality in the EFRAG Board and EFRAG TEG. These requirements have also been applied to the 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, public calls for candidates are issued.

The number of applications differs widely. There is in particular a shortage in female candidates and candidates from Central and Eastern Europe but the situation is improving. On the latter, EFRAG has appointed an EFRAG TEG member from the Czech Republic in the

[11] Please see the following the link:
https://efrag.org/About/AnnualReports

2020 EFRAG TEG rotation process effect from 1 April 2020. The management team consists entirely of female professionals. EFRAG has also 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 2019 in *Appendix 4*).

Although the overall results of these actions were positive, a few issues identified in earlier years remain of concern and need further improvement like the under-representation of users, preparers and investors. EFRAG should remain pro-active in seeking feedback from stakeholders less closely involved in EFRAG's work and protect itself against any bias towards industry and other interests.

3.2.4. Early stage involvement of the European Parliament and the Council

EFRAG is sufficiently well know among the inner circle of stakeholders that have a direct interest in IFRS. But, its visibility seemed to decrease in 2019 amongst the policymakers like the European Parliament.

EFRAG would welcome the re-establishment of the ECON-IFRS Permanent Team in the European Parliament to exchange views and to alert significant issues. In 2019 contrary to the previous year, no exchange of views took place with the ECON Committee in a public meeting. EFRAG took into account the European Parliament's resolution of 3 October 2018 on IFRS 17 in its work on the endorsement advice of IFRS 17.

EFRAG generally attends the Accounting Regulatory Committee (ARC) meetings and gives presentations at the request of the Commission of work in progress and 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 relevant issues are addressed.

Receiving input from the Parliament and ARC at an early stage allows EFRAG to cover the issues in its public consultations on draft comment letters or draft endorsement advice.

3.3. 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). In 2019, the funding for EFRAG came from eight European Stakeholder Organisations and 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 unpaid members of EFRAG TEG, the EFRAG Board, the Working Groups and Advisory Panels as well as in form of free secondments to EFRAG's secretariat.

EFRAG's financial structure did not raise any particular concern in 2019. The total expenses and human resourses were below budget and the staff remained stable. However, it appears important that EFRAG will secure its longer-term funding structure and find additional sources of funding, not only following the reduction of contribution of the Accountancy profession in 2020 and the financial implication of the Brexit, but also considering possible negative impacts from the coronavirus on contributions from some organisations.

Aware of the problem, EFRAG is already seeking to broaden its membership base. Its President Jean-Paul Gauzès launched a task force to reflect about EFRAG's long-term funding structure in 2019. EFRAG's membership base should ideally cover all EU Member States. Support from all EU institutions and the Member States to encourage national organisations in countries to join would be of great support.

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 Reforms[12], 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 along the process comprising the proposal, development and adoption of international standard for auditors.

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.

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

In 2019, the PIOB, as explained in its 15th Public Report published in May 2020,[13] 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.

Pursuant to the advice of the PIOB, the IAASB included in its strategy for the next four years information-gathering activities regarding both going concern and the auditor's role in detecting fraud.

The IAASB adopted International Standard on Auditing (ISA) 315 (Revised). IAS 315 established more robust requirements and detailed guidance on identifying and assessing risk and emphasizing professional skepticism and data analytics, which the PIOB had identified as key public interest issues.

The PIOB also provided comments on the new proposed quality management standards currently under development by the IAASB to ensure higher-quality audits and reinforce the importance of professional skepticism.

The International Code of Ethics for Professional Accountants issued by the IESBA is an essential tool combining fundamental principles and rules that steer professional accountants and their firms toward a business model that identifies and avoids potential ethical conflicts and threats to independence. The current practice of simultaneous provision of audit and consulting services is under extensive discussion. The PIOB has therefore encouraged the IESBA to widen the scope of a project on allowed and prohibited non-assurance services. In 2019, the IESBA issued a public consultation on an updated standard that would further limit offering non-assurance services to audited companies, together with another project for a new standard that would require auditors to address threats to auditors' independence created by fee-related matters (the Fees project).

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 Monitoring Group published its recommendations to "Strengthen the International Audit and Ethics Standard-Setting System" on 14 July 2020. [14]

---

[13] https://ipiob.org/wp-content/uploads/2020/11/PIOB-Fifteenth-Public-Report-2019-1.pdf

[14] https://www.iosco.org/about/monitoring_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf

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 situations 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 2019.

4.3. Developments in the diversification of funding in 2019

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 and 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).

The funds made available by IFAC in a given year constitute a maximum guaranteed contribution. 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. For many years now the EU is the second biggest donor to the PIOB. In year 2019, PIOB’s revenue (monetray and in-kind contributions) amounted to EUR 1,858,346 and the EU contribution was EUR 338,000 or 18.18%. IFAC contributed EUR 1,201,028 or 64,62%.

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. So far, this has not happened. 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 2019 contribution to the PIOB.

5. CONCLUSIONS AND ISSUES FOR FUTURE CONSIDERATION

The present assessment of the funding programme carried out by the European Commission in 2019 confirms the relevance and the added value of the EU funding programme. It also confirms that the programme strengthens the legitimacy of the three beneficiaries (IFRS Foundation, EFRAG and PIOB) to serve the European public interest by developing and promoting European views in the field of financial reporting and auditing and ensuring these views are properly considered in the IASB and IFAC standard-setting processes.

As regards the IFRS Foundation, the IASB undertook measures to address the concerns arising from the pre-implementation phase of IFRS 17. It postponed the effective date by two years to 1 January 2023 and introduced targeted amendments to IFRS 17. However, the extent to which all European concerns have been considered can only be assessed once EFRAG submits its endorsement advise on the amendments to IFRS 17 to the European Commission.

Furthermore, the 2019 breakdown of funding of the IFRS Foundation shows that the gap between the financial contributions and the corresponding representation of jurisdictions within the board of Trustees and the IASB Board has further widened, starting from an already unbalanced situation. The “Americas” have a particularly low proportion of the total funding (5%) but have the same number of seats as the EU providing 38% of the total funding (Commisison and Member States) and a higher number of seats than Asia-Oceania providing 33% of the total funding.

As for 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 technically advise the Commission on alternative accounting treatments for long-term equity instruments, recommending the Commission to request the IASB to perform “expeditious” review of the non-recycling treatment of equity instruments in IFRS 9.

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. The reform initiated by the Monitoring Group seeks to enhance the PIOB’s oversight role and to enlarge its funding base.

Appendix 1 **– Summary of IFRS activities in 2019**

Standard	**IASB Issue date**	**Application date**	**Publication date Official Journal**
IFRS 17 – Insurance Contracts	18/05/2017	01/01/2023	
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	01/01/2020	06/12/2019
Amendments to IFRS 3 – Definition of a business	22/10/2018	01/01/2020	22/04/2020
Amendments to IAS 1 and IAS 8 – Definition of material	31/10/2018	01/01/2020	10/12/2019
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (Phase 1)	26/09/2019	01/01/2020	16/01/2020
Amendments to IAS 1 – Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)	23/01/2020	01/01/2023	
Amendment to IFRS 16 – Leasing	28/05/2020	01/06/2020	
Amendments to IFRS 17, IFRS 9 and IFRS 4 – Deferral option	25/06/2020	01/01/2023	
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (Phase 2)	27/08/2020	01/01/2021	

Projects reported in grant applications	2018	2019	2020	Comments
Better communication project				
Primary Financial Statements	Work Plan	Exposure Draft 17/12/2019	Work Plan	Targeted improvement of the structure and content of the Primary Financial Statement. Exposure Draft Feedback expected in Q4 2020.
Disclosure Initiative – Principles of disclosures	Discussion paper 30/03/2017	Project summary published on 03/2019		Project completed.
Disclosure Initiative – Targeted Standards-level Review of Disclosures	Work Plan	Work Plan	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. Exposure Draft postponed to H1 2021.
Disclosure initiative – Accounting Policies	Work Plan	Exposure Draft 01/08/2019	Work Plan	Project designed to improve the disclosures pertainining to accounting policies by applying the materiality principle. Exposure Draft Feedback expected in Q4 2020
Management Commentary	Work Plan	Work Plan	Exposure Draft expected in Q1 2021	Project to revise and update the Practise Statement 1 *Management Commentary* as a complementary and supportive instrument to the financial statements.
Research projects				
Business combination under Common Control	Work Plan	Work Plan	Discussion Paper expected in Q4/2020	Aims at reducing the diversity in accounting for business combinations under common control.
Discount rate	Work Plan	Project		Project completed.

		summary published 02/2019		
Dynamic Risk Management	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. Core Model Outreach expected in Q4 2020 before developing a second Discussion Paper.
Financial Instruments with Characteristics of equity	Work Plan	Discussion paper 06/2018	Ongoing	Clarification for the presentation of financial instruments with both liability and equity features. Aims at clarifying the requirements of IAS 32 *Financial Instruments:Presentation*. Decision on Project Direction expected in Q4 2020.
Goodwill and impairment	Work Plan	Work Plan	Discussion Paper 19/03/2020	Research project to ensure the timely recognition of goodwill impairment. Aims at improving the requirements of IAS 36.
Rate regulated activities	Work Plan	Work Plan	Exposure Draft expected in Q4 2020	The project aims at accounting for the effect of rate regulations when companies pricing policies are regulated.
Extractive activities		Work Plan	Work Plan	Research project to consider an upgrade of IFRS 6 *Exploration for and Evaluation of Mineral Ressources*. Review research in H1 2021.
Pension Benefits that Depend on Asset Return		Work Plan	Work Plan	Research project to develop proposals to make a narrow-scope amendment to IAS 19 *Employee Benefits* for pension benefits that depend on asset returns. Review research in Q4 2020.

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12		Work Plan	Work Plan	The review aimed at assessing the impact of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures of Interests in Other Entities.* Request for Information expected in Q4 2020.
Maintenance projects – Narrow scope amendments				
Accounting policies and Accounting Estimates (Amendments to IAS 8)	Work plan	Work plan	An amendment expected in Q4 2020	Clarifications on the distinction between accounting policies and estimates.
Accounting policies changes (Amendment to IAS 8)	Work plan	Exposure Draft 26/03/2018	Work Plan	Designed to lower the impracticability threshold regarding retrospective application of voluntary changes in accounting policies. Decision on Project Direction expected in Q4 2020.
Availability of a refund (Amendments to IFRIC14)	Work plan	Work plan	Work Plan	Clarifications when third parties have rights to make particular decisions about a company's defined benefit plan
Fees in the 10 percent test for Derecognition (Amendment to IFRS 9)	Work Plan	Work Plan	Amendment issued on 14/05/2020	Project completed.
Lease Incentives (Amendment to Illustrative Example 13 accompanying	Work Plan	Exposure Draft 05/2019	Amendment issued on 14/05/2020	Project completed.

IFRS 16)				
Improvements to IFRS 8 - Operational segments	Exposure Draft 29/03/2017	Project summary 02/2019		Project terminated following the feedback from the Exposure Draft consultation.
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	Exposure Draft 20/06/2017	Work plan	Amendments issued on 14/05/2020	Project completed.
Taxation in Fair Value Measurements (Amendments to IAS 41)		Work plan	Amendments issued on 14/05/2020	Project completed.
IBOR Reform and the Effects on Financial Reporting		Phase 1 issued on 26/09/2019	Phase 2 issued on 27/08/2020	Project completed.
Onerous Contracts – Cost of fulfilling a contract (Amendment to IAS 37)		Exposure Draft 13/12/2018	Amendment issued on 14/05/2020	Project completed.
Subsidiary as a First-time Adopter (Amendments to IFRS 1)		Work Plan	Amendments issued on 14/05/2020	Project completed.
2019 Comprehensive Review of the IFRS		Work plan	Work plan	Second comprehensive review of the IFRS for SMEs Standard.

for SMEs Standard				
Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)		Exposure Draft 17/07/2010	Work Plan	Change in the requirements relating to the accounting for deferred tax when an entity accounts for transactions such as leases or decommissioning obligations by recognizing both an asset and a liability. Decision on Project Direction expected in November 2020.
Lack of Exchangeability (Amendments to IAS 21)		Work plan	Work plan	Amendents to address the spot exchange rate an entity uses when exchangeability between two currencies is lacking. Exposure Draft expected, but not date yet set.
Provisions—Targeted Improvements		Work plan	Work plan	Proposals for three targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Aligning the definition of a liability and requirements for identifying liabilities with the *Conceptual Framework* for Financial Reporting; and clarifying two aspects of the measurement requirements. Decision on Project Direction expected, but no date yet set.

Appendix 2 – **Breakdown of the 2019 funding of the IFRS Foundation**

Breakdown of funding of the IFRS Foundation						
Financial contributors	**Contribution 2019**	**Contribution 2018**	**Contribution 2017**	**Number of trustees**	**Evolution at constant exchange rate**	
					2019/2018	**2018/2017**
International Auditing Firms	19.8%	24.0%	34.7%		-29.7%	-31.8%
European Commission	20.7%	18.5%	16.5%		0.5%	2.0%
EU Member States	17.8%	17.2%	15.9%	6	-6.5%	-4.0%
Asia/ Oceania	33.5%	30.8%	23.9%	6	-0.8%	7.9%
Americas	5.1%	6.1%	5.8%	6	-21.4%	-10.8%
Africa	0.0%	0.6%	0.5%	1	-94.8%	0.0%
Other	3.0%	2.7%	2.6%	3	-2.5%	-5.4%
Total				**22**	**-10.6%**	**-9.7%**

Source: IFRS Foundation

Appendix 3 – Breakdown of the 2019 funding of EFRAG

CONTRIBUTIONS	000 EUR	
	2019	**2018**
European Stakeholder Oganisations		
Accountancy Europe	240	300
BUSINESSEUROPE	125	125
INSURANCE EUROPE	75	75
EBF	75	75
ESBG	75	75
EACB	75	75
EFAA	25	25
EFFAS	15	15
Total	*705*	*765*
National Organisations		
France	350	350
Germany	350	350
UK	350	350
Italy[15]	290	290
Sweden	100	100
Denmark	50	50
Netherlands	50	50
Spain	50	50
Luxembourg	10	10
Total	**1600**	**1600**

Source: EFRAG

Appendix 4 : Gender balance information in EFRAG per 31 December 2019

Group	Percentage male		Percentage female	Percentage Central and Eastern Europe	Number of nationalities
EFRAG Board	76%		24%	0%	9
EFRAG TEG	81%		19%	0% (from 1 April 2020 6%)	8 (from 1 April 2020: 9)
EFRAG TEG working groups and Advisory Panels	81%		19%	2%	Between 5 and 14
European Lab Steering Group	59%		41%	12%	13
European Lab Project Task Force	52%		48%	13%	13
EFRAG Secretariat					
Management	0%		100%	0%	3
Technical staff	50%		50%	14%	10
Support staff	0%		100%	0%	3

Source: EFRAG

[15] For part of 2018 OIC seconded a staff member to EFRAG, with an annual equivalent of 60K euro