

HEADING 1A: Competitiveness for growth and jobs

Specific activities in the field of financial reporting and auditing

Lead DG: FISMA

I. Overview

What the programme is about?

The programme involves co-financing of activities of three organisations, namely 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 with the aim of ensuring their public interest responsiveness.

EU added value of the programme

The strategic objectives of the programme include ensuring the credibility and the independence of the beneficiaries to promote the international use and the acceptance of financial reporting and auditing standards while also preserving the European Union's influence in the standard-setting process. This is particularly important for International Financial Reporting Standards, because they are incorporated into the European Union law and provide for the accounting framework applicable to the consolidated financial statements of companies issuing securities listed on the EU regulated market. The voluntary EU co-financing of the IFRS Foundation ensures a robust and transparent due process whereas the funding of EFRAG guarantees that the interests of European stakeholders are properly addressed in the international standard-setting process.

In addition to increasing the beneficiaries' independence and ability to carry out their public interests missions, the programme aims at establishing a level playing field for all stakeholders within the Internal Market. The European Union funding strives to ensure a fair contribution from all Member States across the Union and guarantees that the interests of all Member States are represented.

Implementation mode

Direktorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is the lead DG for the programme. The programme is implemented through direct management with annual work programmes in the form of operating grants.

II. Programme Implementation Update

Implementation status (2017-2019)

The mission of the IASB is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles laid down in the conceptual framework. Financial statements prepared using IFRS provide a robust and comparable view of the financial performance and position of a company that is useful for investors, lenders and other creditors' decision-making and for fostering trust in the global financial system. In addition, the IASB is increasingly focusing on improving and supporting the implementation of existing standards.

Over the period 2017-2019, the progress made by IFRS Foundation was in line with its work programme. Four major standards were issued by the IASB: IFRS 9 –*Financial Instruments*, IFRS 15 –*Revenue from Contracts with Customers*, IFRS 16 –*Leases* and IFRS 17 –*Insurance Contracts*. At the same time, the IASB published its updated *Conceptual Framework for Financial Reporting (Conceptual Framework)* to describe the objective of and concepts for general purpose financial reporting. In 2018, the focus of the IASB agenda evolved from major standard-setting projects towards research projects, maintenance-type activity and initiatives aimed at improving the communication through financial statements. In 2019, the IASB also revised its new standard IFRS 17 –*Insurance Contracts at the request of major stakeholders including the EU*, as well as on the project to enhance the presentation of *Primary Financial Statements*.

During the same period, EFRAG fulfilled its work programme in a satisfactory manner, in line with the recommendations from the Maystadt Report of October 2013. EFRAG provided substantial comment letters to all new draft standards issued by the IASB at an early stage of the IFRS Foundation's due process. To support decision-making on endorsement, EFRAG issued timely advice on

whether the final IFRS standards issued by the IASB complied with the technical criteria of the IAS Regulation, including the true and fair view principle and the conduciveness to the EU public good.

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 the Lab's Task Force on climate-related reporting started its work. The Lab report on climate-related reporting was published on 6 February 2020. EFRAG also completed its work on the consequences of IFRS 9 on long-term investment and delivered its final advice to the Commission about the accounting treatment of equity instruments in January 2020.

The PIOB continued to carry out its oversight function of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Boards for Accountants (IESBA), whereas the International Accounting Education Standards Board (IAESB) ceased to exist in 2019 with the completion of its work plan.

Key achievements

For 2019, the IFRS Foundation's main achievements include: (i) the publication by the IASB of a summary report on its Post-Implementation Review (PIR) of IFRS 13 – *Fair Value Measurement*; (ii) the IASB's start of the comprehensive review of the *IFRS for SMEs* Standard, and (iii) the publication of the IFRS Taxonomy 2019. Other work priorities included the proposed amendments to the new IFRS 17 – *Insurance Contracts* to provide meaningful support to entities implementing the standard, as well as amendments to various IFRSs to address undesirable consequences of the reform on interest rate benchmarks such as interbank offered rate (IBOR).

EFRAG consequently carried out important preliminary technical analyses on IFRS 17 and on the interest rate benchmark reform (Phase 1) and on their effects on financial reporting in 2019.

In response to the Commission's requests following the Action Plan on Financing Sustainable Growth (2018), EFRAG Lab appointed its first Project Task Force on climate-related reporting, which delivered its report in February 2020 (¹). EFRAG also completed its research work on the consequences of the IFRS 9 on long-term investment and provided a final report to the Commission in January 2020.

In term of progress, the international application and acceptance of IFRS in individual countries has increased. The analysis of 166 jurisdictions shows that IFRS Standards are required for all or most domestic publicly accountable entities (listed companies and financial institutions) in 144 jurisdictions. Most of the remaining jurisdictions permit the use of IFRS. In addition, 86 of the 166 jurisdictions either require or permit the *IFRS for SMEs* Standard. The European Union's commitment to IFRS has provided an impetus to the international acceptance of IFRS, which ultimately fosters the ability of European companies to trade, raise capital and expand internationally while benefiting from administrative savings.

During 2019, the PIOB actively supported the Monitoring Group – of which the European Commission is a member – which is developing a comprehensive reform package in the field of standard setting in audit and ethics for accountants. In order to increase transparency, the PIOB is now consistently publishing its recommendations and has launched a new website on 13 December 2019.

Evaluation/studies conducted

The latest fully-fledged evaluation of Regulation N°1606/2002 on the application of IFRS dates back to June 2015. This evaluation (²) reported that the use of IFRS had improved the transparency and comparability of financial reporting and thus enhanced the effective functioning of the EU capital markets and the single market. Another conclusion was that the adoption of IFRS had significantly increased the credibility and acceptance of IFRS worldwide and furthered the move toward a single set of globally accepted high-quality standards. But this evaluation also highlighted that the convergence programme, initiated in 2002 between the International Accounting Standard Board (IASB) and the US Financial Accounting Standard Board (FASB), had led only to partial convergence on financial instruments and leases. The IASB and the FASB have since given up their convergence project on *inter alia* the project to revise the reporting rules for insurance contracts.

In addition to the aforementioned evaluation, in October 2019, the European Commission published a report on the assessment of the achievement of the funding Programme in accordance with Regulation (EU) No 258/2014. This report confirmed the overall pertinence and coherence of the Programme, the effectiveness of its execution, and the overall and individual effectiveness of the beneficiaries' work programmes. It concluded 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. For efficiency reasons, the appraisal of this Programme was included as Annex 3 to the annual 2019 Report related to the activities of the IFRS Foundation, EFRAG and PIOB in 2019 (³).

Forthcoming implementation

(¹) Available at <http://www.efrag.org/Lab1>

(²) COM(2015) 301 final – <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584716393734&uri=CELEX:52015DC0301>

(³) COM(2019) 549 final – <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1572432361115&uri=COM:2019:549:FIN>

EFRAG's work programme remains largely driven by the IASB's standard setting agenda. For 2020, the main endorsement work of EFRAG will relate to the revised IFRS 17 *Insurance Contracts* and to the consequences of the interest rate benchmark reform on financial reporting (Phase 2). The revised IFRS 17 as well as amendments to IFRSs related to the interest rate benchmark reform are expected mid-2020. In 2020, EFRAG is therefore expected to provide the final endorsement advice and a comprehensive impact analysis to the European Commission on the revised IFRS 17, as well as on IFRSs amendments to several IFRSs related to the interest rate benchmark reform. Outreach with the financial industry sector will be part of the EFRAG due process.

The Commission's priorities spelt out in the Action Plan on Financing Sustainable Growth (2018) have also increasingly shaped EFRAG work. The report of a first Task Force established by EFRAG's Corporate Reporting Lab on climate-related reporting was published on 6 February 2020. A second project regarding reporting of non-financial risks and opportunities, and linkage to the business model, will start in 2020.

The core task of the PIOB will remain unaltered, i.e. the oversight of the IAASB and IESBA so that audit-related standards are responsive to the public interest.

Outlook for the 2021-2027 period

The Commission has proposed that over the course of the new Multiannual Financial Framework (MFF) 2021-2027, the Union funding provided to the IFRS Foundation, EFRAG and PIOB be included in the Single Market Programme [COM(2018) 441 final of 7.6.2018]. The aims are to support the development of high-quality international standards that underpin the implementation of Union legislation in the field of financial reporting and audit, thereby contributing to the transparency and liquidity of EU capital markets. During that period, in the light of the new Commission's priorities set out in the European Green Deal and in particular the review of the Non-Financial Reporting Directive, EFRAG will significantly increase its activities in the area of non-financial reporting including in supporting the development of non-financial reporting standards.

In line with the Commission's proposal for the new SMP and the LFS attached thereto, the 2021 commitment appropriations for the grants to the IFRS Foundation, EFRAG and PIOB will be of a similar value as in 2020.

III. Programme key facts and performance framework

1. Financial programming

Legal Basis	Period of application	Reference Amount (EUR million)
Regulation (EU) No 2017/827 of the European Parliament and of the Council of 17 May 2017 amending Regulation (EU) No 258/2014 establishing a Union Programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 (OJ L129, 19.5.2017, p. 24-26). Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC (OJ L 105, 8.4.2014, p. 1-8).	2014 – 2020	57,0

	Financial Programming (EUR million)							
	2014	2015	2016	2017	2018	2019	2020	Total Programme
Operational appropriations	6,8	8,0	8,1	8,2	8,2	7,9	8,8	56,0
Total	6,8	8,0	8,1	8,2	8,2	7,9	8,8	56,0

2. Implementation rates

	2019				2020			
	CA	Impl. Rate	PA	Impl. Rate	CA	Impl. Rate	PA	Impl. Rate
Voted appropriations	7,925	100,00 %	6,752	100,00 %	8,788	87,93 %	8,740	42,69 %
Authorised appropriations (*)	7,963	100,00 %	6,752	100,00 %	8,788	87,93 %	8,740	42,69 %

(*) Authorised appropriations include voted appropriations, appropriations originating from assigned revenues (internal and external) as well as carried-over and reconstituted appropriations; the execution rate is calculated on 15 April 2020

3. Performance information

Programme performance

The assessment of the funding programme carried by the European Commission in 2019 confirms the relevance and the added value of the EU funding programme. The funding programme also 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.

The funding programme contributes to having highly reliable corporate reporting by companies. This in turn facilitates the optimal allocation of savings and the reduction of the cost of capital for companies in the EU and elsewhere.

In terms of achievements, 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 also 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 but 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.

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. However, the Commission services evoke the need to arrive at a more diversified fund base.

The Commission's assessment also identifies new challenges for the future 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.

Specific objectives

Specific Objective 1: to improve the conditions for the efficient functioning of the internal market by supporting the transparent and independent development of international financial reporting and auditing standards

Indicator 1: number of countries using International Financial Reporting Standards (IFRS)							
Baseline	2014	2015	2016	2017	2018	2019	2020
2013	Milestones foreseen						2020
128	130		130	140	150	155	159
	Actual results						Maintain positive trend
	130	130	133	140	159	159	

Indicator 2: percentage of standards endorsed in the EU compared to the number of standards issued by the IASB							
Baseline	2014	2015	2016	2017	2018	2019	2020
	Milestones foreseen						2020
89 %	96 %		96 %	96 %	96 %	96 %	96 %
	Actual results						100 %
	96 %	95 %	96 %	97 %	96 %	96 %	

Comment: The 2019 result will be available end of April 2020 when the final report on the implementation of the action by the beneficiary is due.

Expenditure related outputs

Outputs	Budget line	Budget 2020	
		Number	EUR million

Support to IFRS Foundation	12 02 03		4.9
Support to the European Financial Reporting Advisory Group (EFRAG)	12 02 03		3.6
Support to the Public Interest Oversight Board (PIOB)	12 02 03		0.3
Total			8.8

4. Programme contribution to the Sustainable Development Goals

SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

The funding programme contributes to improving the conditions for the efficient functioning of the Single Market by supporting the transparent and independent development of international financial reporting (including in relation to the interaction between and interdependencies of financial reporting and broader corporate reporting requirements) and auditing standards. This in turn facilitates the optimal allocation of funds by investors and the reduction of the cost of capital for EU companies. EFRAG endorsement advices to the Commission assess whether IFRSs are conducive of the European public good. EFRAG's work programme has also been increasingly shaped by the most recent Commission's Action Plan on *Financing Sustainable Growth* (2018). Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, the Commission requested, as part of the 2018 Action Plan, that EFRAG explored potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. On 30 January 2020 EFRAG issued its advice to the Commission. EFRAG recommended the Commission to follow-up with the IASB to consider the re-introduction of re-cycling through the Profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI) ⁽⁴⁾. On 13 March 2020, EVP Dombrovskis requested the IASB to consider the issue ⁽⁵⁾. This is an example that the funding programme is in line with SDG 8, as it directly helps to promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all.

5. Programme related additional information

The Commission Services believe that the current EU co-financing has met the expectations and should be continued in the next Multiannual Financial Framework of 2021-2027. For that reason, the funding programme is set out in the Annex accompanying the (draft) Regulation for the Single Market Programme (SMP). Negotiations with the co-legislators regarding the future Multiannual Financial Framework are still ongoing.

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<https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/Project%20Documents/1806281004094308/Technical%20advice%20letter%20Equity%202030%20January%202020.pdf>

⁽⁵⁾ https://ec.europa.eu/transparency/regcomitology/index.cfm?do=search.documentdetail&Dos_ID=18970&ds_id=66506&version=1&page=1