



Brussels, 19.10.2018
COM(2018) 705 final

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

on the activities of the IFRS Foundation, EFRAG and IOB in 2017

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 shall 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.

Accordingly, this report covers the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB) in 2017. However, certain events that took place in 2018 are also mentioned where it was deemed useful for the purpose of this report.

2. IFRS FOUNDATION

2.1. Overview of IFRS activities

1.1.1. Standard setting

An 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.

1.1.2. 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 2017, with regards to its "Better Communication" project, the IASB released a discussion paper; an exposure draft and a practice statement that are intended to strengthen the relevance of disclosures by focusing on materiality. The "Discount rate" and "Share-based payments" research projects were completed without leading to significant amendments of existing standards. Consistent with the requirement of its Due Process Handbook, the IASB also launched the Post-implementation review of IFRS 13 *Fair value measurement*, which has been applicable from 1 January 2013 onwards, in order to consider and follow-up on implementation issues.

¹ OJ, L 105, 8.4.2014, p.1.

² OJ, L 129, 19.5.2017, p.24.

In addition, five exposure drafts pertaining to narrow-scope amendments were issued. The financing provided by the European Union also covers the project dedicated to the timely update of the IFRS taxonomy that serves as an input to the European Single Electronic Format.

1.1.3. The revised Conceptual Framework

The IASB issued the revised Conceptual Framework for Financial Reporting in March 2018. It does currently not fall under the scope of the endorsement procedure which relates only to IFRS standards and interpretations. The revised conceptual framework complements the existing standards and are designed to help understanding and interpreting IFRS standards. The revised framework clarifies that the information provided should help users in assessing management's stewardship of an entity's economic resources. It also 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 but should not lead to misstatements resulting from an asymmetrical treatment between assets and liabilities.

The revised framework does not refer to the concept of “reliability”, it states that a trade-off may need to be found between “relevance” and “faithfulness of representation”. Consistently, the definition of an asset and a liability is amended on the *likelihood* of the future expected economic benefits. This may broaden the scope of economic transactions included in the financial statements subject to the trade-of between relevance and uncertainty.

2.2. General principles against which new Standards have been developed

1.1.4. 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). The main principles include:

- transparency: technical meetings are open to the public, records of meetings and technical documentation considered by the IASB are broadcasted on the Foundation's website (<https://www.ifrs.org/>) ;
- full and fair consultation: as a minimum, the mandatory steps for any proposal include one public meeting and a public consultation. The board also has to consider on a "comply or explain basis" additional consultations such as publishing discussion papers, setting up advisory groups, organizing public hearings or performing fieldwork. Comment letters received by the IASB are made public.
- accountability: the Board has to carry out an effect analysis of its new requirements including both the benefits to financial reporting in terms of comparability, relevance and usefulness and the costs induced for both preparers and users. New

standards are supported by a Basis for Conclusions explaining the rationale of the decisions and the responses to the comments received during public consultations.

In November 2017, the Due Process Oversight Committee decided to undertake a review of the Due Process Handbook with an expected finalization by 2020. The scope of the review includes reflecting developments to the Effect Analysis process following a consultation of the IFRS Advisory Council.

In 2017, the IFRS Foundation commissioned an external study about its perception by stakeholders. The results highlighted strong appraisal for its independence and transparency but mixed views as regards the balance between responsiveness and quantity of due process.

1.1.5. Due process, effect analysis and specific considerations to business models, consequences on economic transactions, complexity, short-termism and volatility

The main standard issued in 2017 is IFRS 17 Insurance Contracts. It originated from a 2007 Discussion Paper followed by two Exposure Drafts published in 2010 and 2013. The IASB also carried out four rounds of testing. The last external review in 2016 involved twelve participants from the insurance industry and aimed to identify interpretation issues and operational difficulties arising from six specific requirements of the standard.

In February 2017, the Monitoring Board stressed that new standards should be underpinned by solid effects analysis. The IFRS 17 effects analysis was published in May 2017 in conjunction with the final standard. While the European Commission welcomes this publication, it also considers that it would be preferable to integrate the effects analysis systematically into the IASB standard setting process thereby shaping the outcome of the standard as opposed to publishing an “ad-hoc” effects analysis at the end of the standard setting process. The effects analysis stressed that the requirements of applying current assumptions and timely recognizing expected losses would enhance transparency while the options granted by IFRS 17 would enable insurers to report asset and liabilities consistently with their business model. This consistency in applying current measurement to both assets and liabilities was deemed to mitigate concerns about short termism and volatility. The effects analysis indicated that compliance costs would likely be material but with significant variability across jurisdictions reflecting the diversity of pre-existing national practices including whether or not National GAAPs currently foresees the use of Fair Value or current prices. With regard to complexity, a simplified approach was granted for short term contracts in order to provide operational relief. The effects analysis also considered the interplay of IFRS 17 with the Solvency II regulatory framework. It concluded also that the additional requirements of IFRS 17 on performance reporting would likely require insurers to develop additional systems. As regards the impact on the insurance markets, the effects analysis concluded that the improved transparency might provide better information and indirectly contribute to changes in pricing or product design but that no direct impact had been identified.

Overall, the publication is a significant improvement in the due process of the IASB. Yet, the analysis of the effects of the standard on the insurance market still heavily relies on the assumption that accounting standards are neutral and "do not affect the underlying economic reality within the business". Moreover, the effects analysis on the insurance market is qualitative, not quantitative. As a consequence, the actual impact on economic transactions in the EU may not be fully clear.

The European Commission submitted in 2017 a discussion paper to the Monitoring Board with a view to enhancing the IASB's impact assessment methodology in general. Further dialogue on enhancing the impact assessment was included as part of the 2018 Monitoring Board Work Plan.

2.3. Governance, integrity and accountability

1.1.6. Overview

The IFRS Foundation is governed by a Board of 22³ Trustees collectively responsible for general oversight and appointments to the IASB. The Trustees met 3 times in 2017. 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 once in 2017. 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 2017. 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.

1.1.7. Transparency rules

The meetings of the Board and Interpretation Committee are open to the public, the agendas are published and the meetings are webcasted.

When members of the IFRS Foundation meet with stakeholders outside the framework of the Due Process Handbook, no formal record is kept.

1.1.8. Representation of stakeholders

As part of the "Trustees' Review of Structure and Effectiveness" that the IFRS Foundation carries-out every five years, a public consultation. The last was launched in 2015. The

³ As at January 1st 2018

consultation sought feedback on the geographical distribution of the Trustees. Some stakeholders including the European Commission argued that Trustee membership should reflect the commitment to adopt IFRS and the relative share in the funding contribution to the Foundation. However, the Trustees reaffirmed that membership of the Board of Trustees and the IASB 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, the geographical distribution of the Trustees was only slightly amended in December 2016 by merging the North and South Americas categories into a single "Americas" and increasing the number of Trustees without geographical assignment from 2 to 3. Additionally, the number of Board Members was reduced from 16 to 14.

As at 31 December 2017, the IFRS Advisory Council comprised 43 organizations with 49 individual members. The European Commission participates as an observer.

At a meeting held in November 2017, the Board of the Trustees extended Michel Prada's term as Chair of the Trustees for maximal one year, pending the appointment of his successor. Mr Prada's assignment would otherwise have ended on 31 December 2017.

1.1.9. Accountability towards the European Parliament

As part of the 2017/827 Regulation⁴ a full account of the development of IFRS to the European Parliament should be provided. The annual exchange of views between the ECON Committee of the European Parliament and Mr. HOOGERVORST, Chairman of the IASB and Mr. PRADA, Chairman of the IFRS Foundation's trustees, took place on 26 January 2017. The ECON committee also held an annual exchange of views on 19-20 March 2018, in which they discussed the issue of the IASB's involvement in the country by country reporting on taxes. Hans Hoogervorst reported that the IASB will seek the views of the Monitoring Board.

1.1.10. 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 conflict of interest policy is being developed to prevent that a Trustee could come from the same organization as a member of the Monitoring Board.

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.

⁴ Recital 7

1.1.11. Breakdown of funding

In 2017, the IFRS Foundation received a 4.6 M€ grant from the European Union which makes up 16,5% of the total funding received. As part of the Multiannual Financial Framework, this amount may be revised each year.

Though reported contributions from stakeholders were up by 4, 2% in 2017, after taking into account the impact of exchange rate fluctuations, they turn-out to be down by 2%. In particular Saudi Arabia (-100%), Nigeria (-100%), Brazil (-34%) and the United States (- 25%) have decreased their contributions. As a consequence whilst the Americas make up 27% of the Trustees membership they only pay 6% of the total contributions.

The IFRS Foundation reported a net profit of 8.7 M GBP. The total retained surplus as at 31 December 2017 mounted to 31.5 Million GBP. The main contributors to the Foundation are reported in appendix 2.

3. EFRAG

3.1. EFRAG activities overview

1.1.12. Endorsement advice and Impact assessment

EFRAG advises the European Commission on whether new or revised IFRS standards meet the European interest 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 of the European public good. Impact assessment now forms a significant part of EFRAG's endorsement work in judging if a standard is favourable to the European public good.

For the endorsement advice on IFRS 16 Leases in 2017, EFRAG conducted its first fully-fledged impact analysis (economic and behavioural impact) underpinned by a robust macro-economic impact assessment as part of its enlarged public good mandate. This has served as a pilot case to further build EFRAG's impact assessment capability. EFRAG completed also its endorsement advice on Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4). Due to risk of unintended negative consequences for European competitiveness, the Commission proposed a European ‘top-up’ which extends the option to defer IFRS 9 to financial conglomerates that do not meet the IASB's predominance criterion.

In October 2017, the European Commission also requested EFRAG's endorsement advice on IFRS 17 Insurance Contracts, by the end of 2018. In its request the Commission, after consulting the Accounting Regulatory Committee (ARC), identified a number of specific issues including European public good that need to be analysed by EFRAG. In particular, an assessment of the potential effects on financial stability, competitiveness and the

impact on the European insurance market was asked. EFRAG started its endorsement advice work in 2017 but the main part of the work will take place in 2018.

An important element of the impact analysis is a detailed case study on the anticipated impact of IFRS 17 on a sample of European insurance groups. Other elements underpinning the impact analysis include a detailed outreach with users; an investigation of existing trends in the insurance industry and a simplified case study aimed at smaller and medium-sized insurers that are not participating in the detailed case study. EFRAG aims at publishing its draft endorsement advice for public consultation in September 2018.

In the course of 2017, EFRAG participated in the IASB consultation process and issued comment letters after public consultation on all IASB proposals (exposure drafts and discussion papers).

1.1.13. Other requests for technical advice

Following up on a resolution from the European Parliament with the adoption of IFRS 9, the Commission requested in May 2017 EFRAG's technical advice on the requirements of IFRS 9 Financial Instruments on the accounting for equity instruments from a long-term investment perspective.

In phase one, EFRAG was requested to collect quantitative data on the current level of equity instruments held by long-term investors, their accounting classification and the potential effect of the new requirements on their behaviour in order to assess whether the requirements could negatively affect long-term investment.

In phase two, EFRAG was asked to develop an analysis of potential alternatives to the IFRS 9's requirements non-recycling of equity instruments measured at fair value through other comprehensive income. EFRAG launched in July 2017 a public consultation to collect quantitative data and commissioned an academic literature review from a European academic team. EFRAG published a report on the first phase of the project in January 2018.

1.1.14. Research activities

The topics of EFRAG's research work were selected taking into account the results of a public consultation in 2015. The public consultation provided insight into the research priorities among European constituents. EFRAG will issue a new research agenda consultation in the second quarter of 2018. EFRAG is strongly committed to evidence-based research. As part of its research activities in 2017, EFRAG published a Study on "Dynamic Risk Management - How do banks manage interest rate risk?" and a Discussion Paper "Goodwill Impairment Test: Can it be improved?".

EFRAG also has active research projects on: transactions other than exchanges of equal value; accounting for hybrid pension plans; and implications of the current interest rate environment.

3.2. Governance, transparency and public accountability

1.1.15. Governance reform 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 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.

The ESAs and the ECB 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.

The EFRAG Board reached all its conclusions in 2017 on a consensus basis without having to 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 report, 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 2017 review covered a mixture of strategic, governance and operational issues. It demonstrated that on balance the new governance structure worked well and has resulted in increased credibility for the organisation. A number of recommendations were adopted to further improve the effectiveness of EFRAG's activities in the future.

EFRAG publishes an annual review providing full transparency on its governance and financial structure and the main activities in the year concerned. The 2017 annual review⁵ was published on 21 March 2018.

The 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

⁵ <http://www.efrag.org/About/AnnualReports>

situations where conflicts or perceptions of conflicts of interest may arise that could result in decisions or actions that are not in the best interest of the European public at large, or, give the perception that EFRAG has acted improperly. EFRAG Board members and EFRAG staff sign yearly declarations.

Finally, an independent audit on EFRAG's visibility and effectiveness took place during the second half of 2017. The report published in March 2018 provided a current perspective on the organisation's strengths and areas for improvement. Overall, the report confirmed the high quality of EFRAG's work while suggesting visibility as one of the areas for improvement as well as the need to join the wider debate on corporate reporting. The implementation of EFRAG's communication strategy, and a communication team under the leadership of the EFRAG Board President, will bring further progress on the visibility and credibility of EFRAG.

1.1.16. Transparency rules

Since its establishment and following the reform above mentioned, 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 was essential to ensuring that new IFRS Standards respond to Europe's needs.

For example, as part of its due process, EFRAG 1) published draft positions for public consultation, 2) undertook field tests and other forms of effect analyses, 3) organised outreach events (some of which are especially aimed at users of financial statements) and 4) undertook special surveys.

EFRAG also contributed to evidence-based standard setting by undertaking quantitative studies that inform the discussion⁶ on EFRAG's comment letters and endorsement advice. Quantitative studies 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 now held in public and 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 and, from January 2017 for the meetings of EFRAG TEG and EFRAG CFSS are publicly available. Since March 2018, these public meetings are webcasted allowing stakeholders to watch the discussions not only real time but also after the meetings have been held.

⁶ For example on the EFRAG Secretariat Paper on IFRS 16 Quantitative Assessments of Accounting Impacts and the Quantitative Study What do we really know about goodwill and impairment? and EFRAG's report on the findings of the first phase of the Research Project on Equity Instruments: Impairment and Recycling.

The discussions of EFRAG TEG are supported by input received from EFRAG CFSS and the specialised EFRAG Working Groups.

1.1.17. Broad representation and public accountability of EFRAG's governance structure

The input received from the EFRAG User Panel is essential for the work of EFRAG. The 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 all different perspectives are properly taken into account by EFRAG.

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 will explore how it could be more 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.

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

EFRAG has also enhanced its relationship with the European Parliament and notably with the European Parliament's ECON IFRS Permanent Team chaired by MEP Theodor Stolojan. Meetings allow the EP to provide input to EFRAG's activities and being updated on EFRAG's main activities in all stages of the standard setting process.

In March 2017, the IFRS team met with EFRAG to discuss EFRAG's endorsement advice on IFRS 16 Leases and EFRAG's forthcoming endorsement advice process on IFRS 17 Insurance contracts. EFRAG also presented its work on bringing European views to the international debate. EFRAG was also invited to the October 2017 meeting of the IFRS team to provide an update on EFRAG's process to deliver endorsement advice on IFRS 17 *Insurance contracts*; the implementation of the Stolojan Report and the post-endorsement work of IFRS 9 *Financial Instruments*. In these meetings, EFRAG asked the IFRS team how it could help to facilitate the early involvement of the Parliament in the development of EFRAG's endorsement advice on IFRS 17.

In addition, EFRAG was invited by the European Commission to attend the Accounting Regulatory Committee (ARC) meetings composed of representatives of the Member States and gave in each meeting presentations of endorsement work in progress and other topics. This allowed the ARC to directly exchange views with EFRAG and to give early input. The ARC discussed the Commission's draft requests for endorsement advice to ensure that all issues relevant to member States were addressed.

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

1.1.19. 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 and nine National Organisations.

To further enhance its financial structure and broaden its membership base, EFRAG published a call for expressions of interest in March 2017. Instituto de Contabilidad y Auditoria de Cuentas (ICAC) - the Spanish National Standard Setter - joined EFRAG as a National Organisation in October 2017 to deepen EFRAGs' connection with the Spanish financial reporting community. EFRAG will continue to work on the extension of its membership base and is seeking a wider geographical representation.

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 the form of free secondments.

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

4. PIOB

4.1. Activities overview

The PIOB is responsible for overseeing 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 was introduced after the collapse in confidence in capital markets marked by the Enron affair and the demise of Arthur Andersen. Of particular importance are the International Standards on Auditing (ISAs), which are directly or indirectly used by most statutory auditors.

The overall task of the PIOB is to ensure that those standards are developed in the public interest. The Commission has nominated two of the 10 PIOB members.

The PIOB 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 2017, the PIOB 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.

In 2017, the PIOB has also carried out two outreach events. The first took place on 9 February in New Delhi, India, and was hosted by the Institute of Chartered Accountants of India (ICAI) under the title “Global Audit Oversight: Reconciling the Perception Gap”. The second was a discussion on the Impact of Technology on Audit organized in Madrid on 30 June. The PIOB, together with the Monitoring Group, has also invested in the development of a Public Interest Framework that aims at providing a better mechanism for assessing how the public interest is captured throughout the standard setting process.

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.

On 9 November 2017, the Monitoring Group issued a public consultation on "Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest"⁷. The Monitoring Group received 179 responses and published a summary of the feedback on IOSCO's website on 31 May 2018⁸, which 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. On the basis of the feedback received and further outreach activities, the Monitoring Group intends to publish a White Paper on the future governance structure towards the end of 2018. The Public Interest Framework, developed together with the PIOB, will be one of the core elements thereof.

The White Paper will also contain questions about the the composition and role of PIOB under the future governance model. In general, respondents support strong independent oversight and it has been suggested to entrust the PIOB with additional tasks (e.g. approval of strategic plans).

⁷ <https://www.iosco.org/>

⁸ https://www.iosco.org/about/monitoring_group/pdf/2018-05-31-Monitoring-Group-Summary-of-Feedback.pdf

4.3. Developments in the diversification of funding in 2017

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 some in-kind contributions by Spain (the PIOB is based in Madrid)).

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.

The EU contribution in the period 2010-2016 has encouraged other potential donors to make also their own contributions. In year 2016, the PIOB revenues amounted to EUR 1,563,565. IFAC provided EUR 914,758 which represents 58.50% of the total.

In year 2017, the EU contribution was EUR 325,000 which represents 20,37% of the total. IFAC contributed EUR 1.059.807 which represents 66,45% of the total. The breakdown of the cash contributions of other organisations is reported in Appendix 4.

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 shall propose to limit its annual contribution for that year to a maximum of EUR 300,000. In year 2017 (as in 2014-2016), this has not been the case. 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 2017 contribution to the PIOB.

5. CONCLUSION

In 2017 the Union funding programme remains fully relevant in the context of the EU's efforts to establish a Capital Markets Union and to safeguard financial stability. The three beneficiaries (EFRAG, the IFRSF and the PIOB) delivered on their mission to defend the European public interest and play a major role in the functioning of the internal market.

However, although the overall results of these actions were positive in terms of implementation modalities, there does appear to be scope for improvement. The Commission

will engage with the beneficiaries in 2018 in order to ensure (even) higher standards of transparency, in particular with regard to the establishment of mandatory transparency registers on meetings with external stakeholders.

As regard the EFRAG, the Commission has appreciated the comprehensive effects analysis, which supported EFRAG's endorsement advice on the new or revised IFRS Standards. The Commission encourages EFRAG to continue developing its capacities in this area to ensure that endorsed IFRS Standards are fit for Europe.

As for the IFRS Foundation, as member to the Monitoring Board, the Commission has initiated a dialogue with the Trustees and the IASB in order to enhance the effects analysis methodology in particular in terms of scope, timing and method. This will especially include monitoring the Trustee's review of the IFRS Due Process Handbook, with an expected finalization by 2020. In addition, as part of the 2015 "Trustee's review of Structure and Effectiveness of the Foundation", the significance of capital markets was confirmed as the overarching criterion for representation of stakeholders in the Board of Trustees. The Trustees assume responsibility for the funding of the Foundation⁹ which is based on voluntary contributions from jurisdictions, normally computed as a percentage of the total gross domestic product using the most recent International Monetary Fund data. However, the 2017 breakdown of contributions by jurisdictions reflect a widening gap between the representation in the Board of Trustees and the financial contributions from "their" jurisdictions. As a result, the Commission believes it is necessary to review the adequacy and appropriateness of the Trustee's arrangements as foreseen in the Monitoring Board 2018 work plan to monitor closely the efforts undertaken by jurisdictions that currently do not meet their expected contributions.

The PIOB, it is playing a pivotal role in developing a Public Interest Framework that should be embedded throughout the entire standard setting process in the field of audit. The composition and role of the PIOB is likely to evolve in the coming years pursuant to the reform process launched by the Monitoring Group. However, independent oversight will inevitably also be one of the key features of any future model. Moreover, efforts to diversify the funding of the PIOB should continue in the meantime.

⁹ Article 13 (a) of the Constitution of the IFRS Foundation

Appendix 1 – Summary of IFRS activities in 2017

Standard	IASB Issue date	Application date	Publication date Official Journal
IFRS16 - Leases	13/01/2016	01/01/2019	09/11/2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	19/01/2016	01/01/2017	09/11/2017
Amendments to IAS 7 Disclosure Initiative	29/01/2016	01/01/2017	09/11/2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	12/04/2016	01/01/2018	09/11/2017
Amendments to IFRS 2 - Clarifications of Classification and Measurement of Share-based Payments	20/06/2016	01/01/2018	27/02/2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	12/09/2016	01/01/2018	09/11/2017
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	
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	
Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation	12/10/2017	01/01/2019	
Amendment to IAS28 – Long Term Interest in Associates and Joint Ventures	12/10/2017	01/01/2019	
Annual improvements 2015-2017	12/12/2017	01/01/2019	

Projects reported in grant applications	2017	2018	Comments
Better communication project			
Disclosure Initiative – Principles of disclosures	Work plan	Discussion paper – 30/03/2017	Research project designed to improve disclosure requirements.
Disclosure Initiative - Definition of materiality (Amendment to IAS1 and 8)		Exposure Draft – 14/09/2017	Clarification of the definition of materiality
Disclosure Initiative – Materiality Practice Statement	Work plan	Issued – 14/09/2017	Project completed with the release of "Making Materiality Judgements"
Primary Financial Statements	Work Plan	Work Plan	Targeted improvement of the structure and content of primary financial statement
Research projects			
Business combination under Common Control	Work Plan	Work Plan	Aims at reducing the diversity in accounting for business combinations under common control. Such transactions are not addressed by IFRS Standards.
Post-implementation review of IFRS13		Work Plan	The review aims 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	Research plan on the use of discount rate trough-out IFRS Standards. The project was closed in March 2017. A research summary is expected in 2018.
Dynamic Risk Management	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	Clarification for the presentation of financial instruments with both liability and equity features. Aims at clarifying the requirements of IAS32 – Financial instruments. A discussion paper is expected in 2018.
Goodwill and impairment	Work Plan	Work Plan	Research project to ensure the timely recognition of goodwill impairment. Aims at improving the requirements of IAS36. A discussion paper is expected in 2018.
Share-based payment	Work plan	Completed	The research project was completed in May 2016 and led to narrow-scope amendments. A research summary is expected in 2018.
Rate regulated activities	Work Plan	Ongoing	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	The new Conceptual Framework is expected by March 2018
Maintenance projects – Narrow scope amendments			
Accounting policies and Accounting Estimates (Amendments to IAS 8)		Exposure Draft - 12/09/2017	Clarifications on the distinction between accounting policies and estimates.
Accounting policies changes (Amendment to IAS 8)		Work plan	Designed to lower the impracticability threshold regarding retrospective application of voluntary changes in accounting policies.
Availability of a refund (Amendments to IFRIC14)		Work plan	Clarifications when third parties have rights to make particular decisions about a company's defined benefit plan
Classification of liabilities		Exposure Draft –	Clarification of the classification of debts with renewal options. An

(Amendment to IAS 1)		10/02/2015	amendment is expected in 2018.
Definition of a business (Amendment to IFRS 3)		Work plan	Clarification between the definition of "business" and "group of asset"
Fees in the 10 percent test for Derecognition (Amendment to IFRS 9)		Work Plan	Clarifications of fees and costs to be considered when assessing the de-recognition of a financial liability
Improvements to IFRS 8 - Operational segments		Exposure Draft – 29/03/2017	Clarification of the definition of "chief operating decision maker" and improvement of disclosure requirements.
Amendment to IAS19 – Plan Amendment, Curtailment or Settlement		Issued – 08/02/2018	Clarification of accounting requirements when a plan amendment, curtailment or settlement occurs.
IAS16 - Proceeds before Intended Use		Exposure Draft – 20/06/2017	Amendment to prohibit deducting sales proceeds from the cost of an item of property

Appendix 2 – Breakdown of the 2017 funding of the IFRS Foundation

Breakdown of funding of the IFRS Foundation				
Financial contributor	Contribution 2017	Contribution 2016	Number of trustees as at January 1st 2018	Evolution at constant exchange rate
International accounting Firms	34,7%	31,3%		-0,3%
European Commission	16,5%	15,6%		2,0%
EU Member States	15,9%	15,4%	7	1%
Asia/ Oceania	25,6%	29,0%	8	-2,5%
Americas	5,8%	6,6%	6	-17,0%
Africa	0,5%	1,2%	1	-53,3%
Other	0,9%	0,9%	0	-2,4%
Total			22	-2,1%

Source: IFRS Foundation

Appendix 3 – Breakdown of the 2017 funding of EFRAG

CONTRIBUTIONS		000 EUR	
	2017		2016
European Stakeholder Organisations			
Accountancy Europe	300		300
BUSINESSEUROPE	125		125
INSURANCE EUROPE	75		75
European Banking Federation (EBF)	75		75
European Savings and Retail Banking Group (ESBG)	75		75
European Association of Co-operative Banks (EACB)	75		75
European Federation of Accountants and Auditors for SMEs (EFAA)	25		25
European Federation of Financial Analysts Societies (EFFAS)	15		15
<i>Total</i>	<i>765</i>		<i>765</i>
National Organisations			
France	350		350
Germany	350		350
UK	350		350
Italy	290		290
Sweden	100		100
Denmark	50		50
Netherlands	50		50
Spain	50		0
Luxembourg	15		15
<i>Total</i>	<i>1605</i>		<i>1555</i>
European Commission	2,624		2,432
TOTAL CONTRIBUTIONS	4,994		4,752

Source: EFRAG

Appendix 4

PIOB Budget Diversification

In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a consequence, in 2013, 2014, 2015, 2016 and 2017, the PIOB achieved a diversified funding base that includes sources other than IFAC. In 2017, the PIOB received contributions that amounted to 1,594,836 euros from the following contributors:

- **International Federation of Accountants: 1,059,807 euros**
- **European Commission: 325,000 euros**
- **International Organization of Securities Commissions (IOSCO): 100,000 euros**
- **Financial Reporting Council: 40,000 euros**
- **Abu Dhabi Accountability Authority: 35,000 euros**
- **Bank for International Settlements: 35,000 euros**
- **Interest income: 29 euros**

2017 Contributions

- International Federation of Accountants (IFAC)
- European Commission (EC)
- International Organization of Securities Commissions (IOSCO)
- Financial Reporting Council
- Abu Dhabi Accountability Authority (ADAA)
- Bank for International Settlements (BIS)

