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2012/0364 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020

(Text with EEA relevance)

{SWD(2012) 444 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

The single market is one of the European Union's greatest achievements. Integration and a well-functioning internal market are indispensable in making the Europe 2020 strategy successful and to put the EU economy on a sustainable growth path in order to overcome the financial and the subsequent sovereign debt crisis that unfolded since 2008.

As capital markets are global, harmonisation of financial reporting and audit rules at global level is essential for the smooth functioning of the capital markets and also for the realization of an integrated market for financial services in the EU. Instead of introducing its own set of regional financial reporting standards, and thereby harmonising the EU-level legislation but adding to regional fractions at the global level, in 2002 the EU has decided to adopt international accounting standards (IFRS).

With more and more countries moving towards and adopting IFRS, Europe will need more weight in the international standard setting process for its voice to be heard. In order to be heard and listened to, the Union has to speak with one voice. EFRAG¹, the European Commission's technical adviser in accounting matters has gradually taken up the role of providing upstream, technical and credible input to the IASB's standard setting process.

Both the international standard setter and the organisation representing Europe's interests need to be independent, possess the sufficient capacity and expertise to produce quality standards and input to those standards, and have sound financial basis in order to be able to carry out their public interest mission on a long-term basis.

To these ends, in 2009 the European Parliament and the Council established a Community Programme to support specific activities in the field of financial services, financial reporting and auditing². That Programme will end on 31 December 2013. The purpose of this Regulation is to renew that Programme for the next financial framework (2014-2020) and enable direct contributions to the funding of the Programme's beneficiaries from the Union budget in that period.

The original beneficiaries of the Programme were the Committees of Supervisors³, the International Accounting Standards Committee Foundation (IASCF), the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB). The Decision also foresaw the possibility of including a new or replacing an old beneficiary.

In 2010, the European Supervisory Authorities have been set up and took over among others the responsibilities of the previous Committees' of Supervisors. Therefore this Regulation aims at extending the Union co-financing of the remaining beneficiaries, namely the IFRS Foundation (legal successor of the IASCF), EFRAG and the PIOB.

¹ European Financial Reporting and Advisory Group

² Decision No 716/2009/EC of the European Parliament and of the Council of 16 September 2009 establishing a Community programme to support specific activities in the field of financial services, financial reporting and auditing OJ L 253, 25.9.2009, p. 8.

³ CESR, CEBS, CEIOPS

1.1. Financial reporting: the IFRS Foundation

The crisis in the financial markets that unfolded since 2007 has highlighted the importance of transparency and consequently the issue of accounting standards rose high on the political agenda. It became clear that a favourable business environment and a global level playing field should be combined with transparency and comparability that are conducive to a well-functioning global capital market. Leaders around the world realized the key importance of a single set of high-quality, global accounting standards.⁴

The European Union showed leadership when it decided to adopt international accounting standards (IFRS and IFRIC) in the Union law. According to Regulation 1606/2002 (the 'IAS Regulation'), companies listed in the EU have to draw up their consolidated financial reports using international accounting standards adopted in the Union. Member States may require or allow their use for annual accounts and/or non-listed companies.

The financial reports of European companies using IFRS adopted in the Union are accepted without restatement in several capital markets around the globe – including the US, Australia and Japan. With more and more countries adopting or converging to IFRS, progress towards the goal of one single set of globally accepted, international accounting standards is steady.

International accounting standards (IFRS and IFRIC) are developed by the IASB and the IFRS Interpretation Committee. The IFRS Foundation is an umbrella body of those organisations and cares for their smooth functioning and proper financing. The body developing high quality accounting standards has to be independent and needs sufficient capacity to recruit top-quality people. To this end, it needs a solid, neutral, reliable and calculable funding base for the long-term.

In addition to the funding, also the governance of the IFRS Foundation has to support the independent, credible and proper functioning of that organisation. The governance of the Foundation has been improved in the past years most importantly with the creation of the Monitoring Board. That body was set up to allow for accountability and the proper representation of public interest in the organisation. The effectiveness of the Standards Advisory Council has been enhanced and the Due Process Oversight Committee was set up. Further work will be needed to ensure that the IFRS Foundation strengthens its status of high quality standard setter that is representative of the global nature of capital markets.

To that end, by Decision 716/2009, the European Union has shown that it is willing to provide the IFRS Foundation (IASCF) with the necessary financial support in the form of a stable co-financing scheme. The Union, together with certain individual Member States started to contribute to the IFRS Foundation's budget commensurate to its weight on the global capital markets. The EU contribution to the IFRS Foundation's budget in the 2011 fiscal year was €4.229.165,14 (17% of the Foundation's total eligible expenses for that year).

According to the Monitoring Board's final report on the Review of the IFRS Foundation's Governance⁵ published on 9 February 2012, membership in the Monitoring Board will be tied to financial contribution to the IFRS Foundation's budget. It is therefore essential that the EU continues to contribute to the IFRS Foundation's budget according to its global economic

⁴ Repeated calls since the 2009 London declaration; last time in Los Cabos, 2012

⁵ http://www.iosco.org/monitoring_board/pdf/Final%20Report%20on%20the%20Review%20of%20the%20IFRS%20Foundation's%20Governance.pdf

weight if Europe wants to maintain its current position in the international financial reporting arena.

1.2. Financial reporting: the European Financial Reporting Advisory Group (EFRAG)

EFRAG was established in 2001 as a private organisation to provide the European Commission with technical expertise in financial reporting matters. At the beginning, EFRAG provided mainly advices to the Commission on whether an international accounting standard to be adopted in the Union meets the technical endorsement criteria⁶. EFRAG has gradually taken on the role of pro-actively influencing the IASB in its standard setting work. It provides input by issuing comment letters on draft standards and early-stage contribution by publishing discussion papers on current accounting issues. EFRAG comment letters are read and cited all around the world.

Originally, representation and voting rights at EFRAG's governing bodies (such as the General Assembly and the Supervisory Board) were tied to the financial contribution to EFRAG's budget. The body in charge of the core technical work, the TEG (Technical Expert Group), has always been independent.

In 2008, EFRAG's governance was thoroughly reformed in order to mirror its enhanced public policy role – becoming a platform to form the single European accounting voice. The aim was to ensure increased public oversight and accountability.

Two major changes were introduced:

- The setting up of the Planning and Resource Committee (PRC) where the early-stage pro-active work is centred – with the participation of national standard setters; and
- The strengthening the role of the Supervisory Board: its members are no longer representatives of the funding organisations but are appointed in their personal capacity. Members represent diverse stakeholders – preparers (including SMEs), users and financial institutions; or have a public policy background – and all are expected to act in the public interest. Out of the 17 Supervisory Board members, four are so-called public policy members: they have in particular a background in public policy making and are nominated by the Commission.

The TEG has remained responsible for the core of EFRAG's technical work. Any EFRAG position on the international accounting standards has to be discussed and approved by the TEG, which acts as an independent technical expert committee. EFRAG's chairman chairs the TEG meetings and EFRAG has its own secretariat (consisting of accounting professionals). Endorsement advices to the Commission and comment letters to the IASB form the bulk of TEG's work.

The majority of EFRAG's meetings are open to the public and the Commission services may attend as observers all EFRAG meetings.

The targeted governance reform in 2008 allowed EFRAG to expand its pro-active activities in cooperation with the European National Standard Setters. Through further governance reforms to be engaged in the coming months, EFRAG will continue to develop means to

⁶ EFRAG is in fact the body mentioned in recital (10) of the IAS Regulation

ensure that it becomes the leading platform to form a 'single accounting voice of the EU' and to deliver the Union's input to the IASB. For that purpose, EFRAG will undertake a comprehensive review of its governance structure taking due account of the most recent developments in the arena of international financial reporting.

With more and more countries adopting IFRS, the EU needs to take steps to prevent the gradual loss of influence and weight at the IASB. It is therefore of vital importance that the European interests are well-represented at international level. To this end, it is essential that Europe 'speaks with one voice' which is credible and technically sound.

EFRAG needs solid, long-term, diverse funding to be credible and independent and be able to produce top-quality documents by employing top-quality experts. Also, the pan-European view is represented only if along with the big Member States, the Commission co-finances EFRAG on behalf of the smaller MS.

The 2010-2013 financing Programme was set up with a view to establish a reliable funding in the long-term. On the basis of EU financing Decision of 16 September 2009, the EU contribution to EFRAG in the 2011 fiscal year was €2.288.160 (43% of EFRAG's total budget for that year).

The goals of that Programme are long-term objectives; therefore it is difficult to draw conclusions after only two full years of financing. Based on the experiences of the financing so far, the Programme has met its main objectives. Among others, it has allowed EFRAG to expand its activities and engage in the pro-active work, go out to stakeholders and gather their views at outreach events and increase its independence by taking its chairperson on its own payroll. For more details about the experiences so far, please refer to the Commission services' ex ante evaluation annexed to this proposal.

1.3. Auditing: the Public Interest Oversight Board (PIOB)

The Public Interest Oversight Board (PIOB) is a non-for-profit Spanish Foundation set up in Madrid. The key partners of the PIOB are the Monitoring Group (MG), which is the body representing international regulators and institutions⁷, and the International Federation of Accountants (IFAC), which is the private body representing accountants and auditors worldwide⁸. The PIOB consists of ten members including its Chairman. Two of the members are nominated by the European Commission.

The PIOB members are persons nominated by the Monitoring Group for a three-year period according to a Memorandum of Understanding. The PIOB constituency comprises a variety of stakeholders: legislators (e.g. the European Parliament, national legislators), regulators and supervisors of financial markets including auditor's oversight bodies, national standard setters for accounting and auditing, auditors and audit profession in general, preparers of financial statements (companies), users of financial statements (e.g. investors, analysts, researchers, suppliers), academics.

⁷ The members of the MG are: the European Commission, IOSCO (International Organization of Securities Commissions), BCBS (Basel Committee on Banking Supervision), IAIS (International Association of Insurance Supervisors), the FSB (Financial Stability Board), IFIAR (International Forum of Independent Audit Regulators) and the World Bank

⁸ The PIOB oversees IFAC from the public interest point of view. By implication, the following three independent committees of IFAC can also be considered PIOB partners: the IAASB (International Auditing and Assurance Standards Board), the IESBA (International Ethics Standards Board for Accountants) and the IAESB (International Accounting Education Standards Board).

PIOB's role is to guarantee that due process, oversight and transparency are respected in the proposal, development and adoption of international standard for auditors in the framework of the International Federation of Accountants (IFAC). The Foundation is governed by a Board of Trustees in which each member of the PIOB is a trustee.

On the basis of EU financing Decision of 16 September 2009, the EU contribution to the PIOB in 2010 fiscal year was €286.231. Such an amount represented 22% of the PIOB's total eligible expenses (€1.301.050). On the other hand, the EU contribution to the PIOB in 2011 fiscal year was €288.991,78 which also represents 22% of the PIOB eligible expenses for that year (€1.313.599).

The PIOB co-funding experience has been up to now positive. The European Commission has had the opportunity to visit the PIOB premises twice (March 2010 and April 2011) and to verify its financial controls. The European Commission also trained its staff on EU budgetary procedures. From a practical point of view the activities involved in the management of the operating grant for the 2010 and 2011 fiscal years have been a very useful learning experience for both sides. This has paved the way for more efficient management of future funding contributions.

The EU co-financing of the PIOB has become an example for other potential contributors. Currently only IFAC (around 78%) and the EU (around 22%) co-finance the PIOB. The European Commission's efforts are on-going to diversify the funding of the PIOB and to reinforce its independence vis-à-vis the audit profession. Several international institutions are expected to provide funds to the PIOB already for the 2013 fiscal year. Moreover, the Monitoring Group, the PIOB and IFAC have created a Task Force to select and convince a group of donors from all over the world to provide funding to the PIOB on a stable and long-term basis.

For the EU to reduce its financial commitment from the current level (representing 22% of the total budget) would give the wrong message at a time when the PIOB is trying to diversify its funding structure. But this is also extremely critical in view of our current audit market reforms, which are aiming to increase the independence of firms, the standard setters of international auditing standards (ISAs) as well as audit supervisors.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

In its ex-ante evaluation accompanying the Commission proposal for the establishment of the 2010-2013 Programme⁹, the Commission assessed the possible alternatives of funding. The objectives of the programme were to ensure stable, diversified, sound and adequate funding and to enable the bodies concerned to accomplish their mission in an independent and efficient manner. It has been clearly established that Union co-financing is the most efficient and appropriate option of reaching those objectives.

In the ex ante evaluation accompanying the current proposal, the Commission found that the Programme so far met the expectations and objectives set and that financing should be continued. Moreover, the financing Programme was set up with the aim of meeting long-term objectives. Thus, it is appropriate to propose it being continued in the next financial framework of 2014-2020.

⁹ COM(2009) 14 final

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The Treaty on the Functioning of the European Union, and in particular Article 114.

In accordance with the Commission legislative policy adopted in the framework of the Multi-Annual Financial Framework, the present funding programme is proposed as a Regulation.

3.2. Subsidiarity principle

The Union programme provides for the possibility to co-finance activities of certain bodies pursuing an objective forming part of and supporting the Union policy in the field of financial reporting and auditing. The proposal complies with the subsidiarity principle since, in accordance with Article 5 of the Treaty on the European Union, its objectives cannot be sufficiently achieved by the Member States and can, by reason of the scale and the effect of the action, be better achieved at Union level.

3.3. Proportionality principle

The proposal complies with the proportionality principle as set out in Article 5 of the Treaty on the European Union. As assessed in the ex-ante evaluation, this Regulation does not go beyond what is necessary in order to achieve its objectives. Union funding is proposed for a well-defined and limited number of the most important bodies in the field of financial services. Within the current institutional framework, the new funding arrangements will ensure stable, diversified, sound and adequate funding to enable the relevant bodies to carry out their Union-related or Union public interest mission in an independent and efficient manner. Financial support will be granted according to the conditions laid down in Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the European Union and Commission Delegated Regulation (EU, Euratom) No .../.. of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

4. BUDGETARY IMPLICATION

The total amount to be borne by the Union's budget is EUR 58.01 million in current prices for the 2014 – 2020 period. The Programme is a seven year programme aligned with the duration of the financial perspectives 2014 – 2020.

Proposal for a

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(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee¹⁰,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Decision No 716/2009/EC of the European Parliament and of the Council¹¹ established a Community programme to support specific activities in the field of financial services, financial reporting and auditing. On the basis of that Decision, the European Financial Reporting Advisory Group (EFRAG), the International Financial Reporting Standards Foundation (IFRS Foundation; the legal successor of the International Accounting Standards Committee Foundation, IASCF) and the Public Interest Oversight Board (PIOB) benefit from Union co-financing in the form of operating grants until 31 December 2013.
- (2) The crisis in the financial markets which has unfolded since 2008 has put the issue of financial reporting and auditing at the centre of the Union's political agenda. A well-functioning common financial reporting framework is essential for the internal market, for the effective functioning of the capital markets and for the realization of the integrated market for financial services in the EU.
- (3) In a global economy, there is a need for a global accounting language. International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB) are adopted and used in many jurisdictions around the world.

¹⁰ OJ C , , p. .

¹¹ OJ L 253, 25.9.2009, p. 8.

Such international accounting standards need to be developed under a transparent and democratically accountable process. To ensure that the interests of the Union are respected and that global standards are of high quality and compatible with Union law, it is essential that the interests of the Union are adequately taken into account in that international standard-setting process.

- (4) According to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards¹², IFRS should be incorporated into Union law to be applied by companies with securities listed on a regulated market in the Union, provided that the IFRS meet the criteria set out in that regulation. IFRS therefore play a major role in the functioning of the internal market and thus the Union has a direct interest in ensuring that the process through which IFRS are developed and approved delivers standards that are consistent with the requirements of the legal framework of the internal market.
- (5) IFRS are issued by the IASB and related interpretations are issued by the IFRS Interpretations Committee, two bodies within the International Financial Reporting Standards Foundation. It is therefore important to establish appropriate funding arrangements for the IFRS Foundation.
- (6) The European Financial Reporting Advisory Group (EFRAG) was founded in 2001 by European organisations representing issuers, investors and the accountancy profession involved in the financial reporting process. In accordance with Regulation (EC) No 1606/2002, EFRAG provides the Commission with opinions on whether an accounting standard issued by the IASB or an interpretation issued by the IFRS Interpretations Committee, which is to be endorsed, complies with the endorsement criteria set out in that Regulation. EFRAG is also taking up the role of the 'single European accounting voice' in the global arena. In that capacity, EFRAG provides input to the IASB's standard-setting process.
- (7) Taking into account EFRAG's key role in supporting internal market law and policy and in representing European interests in the standard-setting process at international level, it is necessary for the Union to ensure EFRAG's stable financing and thus contribute to its funding.
- (8) In the field of statutory audit, the Public Interest Oversight Board (PIOB) was created in 2005 by the Monitoring Group, an international organisation responsible for monitoring the governance reform of the International Federation of Accountants (IFAC). The role of the PIOB is to oversee the process leading to the adoption of International Standards on Auditing (ISAs) and other public interest activities of the IFAC. It is possible for ISAs to be adopted for their application in the Union provided, in particular, that they have been developed with due process, public oversight and transparency as required under Article 26 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts¹³. The new audit proposals of 30 November 2011 also envisage the introduction of ISAs in the EU.¹⁴

¹² OJ L 243, 11.9.2002, p. 1.

¹³ OJ L 157, 9.6.2006, p. 87.

¹⁴ The amended text of Article 26 as indicated in Article 1 of the Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, COM(2011) 778 final and Article 20 of the Proposal for a Regulation of the

- (9) The introduction of ISAs in the Union and the key role of the PIOB in ensuring that they fulfil the requirements laid down in Directive 2006/43/EC mean that the Union has a direct interest in ensuring that the process through which such standards are developed and approved delivers standards that are consistent with the legal framework of the internal market. The amended text of Article 26(3) as indicated in Article 1 of the proposal for a Directive¹⁵ also explicitly recognises the role of the PIOB. It is therefore important to ensure appropriate funding arrangements for the PIOB.
- (10) Bodies working in the field of accounting and auditing are highly dependent on funding and play major roles in the Union which are decisive for the functioning of the internal market. The proposed beneficiaries of the Programme established by Decision No 716/2009/EC have been co-financed by operating grants from the Union budget, which has allowed them to increase their independence from private-sector and ad-hoc funding, thereby raising their capacity and credibility.
- (11) Experience has shown that Union co-financing ensures that beneficiaries benefit from clear, stable, diversified, sound and adequate funding and it contributes to enabling the beneficiaries to accomplish their public interest mission in an independent and efficient manner. Therefore, sufficient funding should continue to be provided by means of a Union contribution towards the functioning of international accounting and auditing standard-setting, and in particular to the IFRS Foundation, EFRAG and the PIOB.
- (12) In addition to changing their funding patterns, the IFRS Foundation and EFRAG have undergone governance reforms to ensure that through their structure and processes they accomplish their public interest mission in an independent, efficient, transparent and democratically accountable manner. In relation to the IFRS Foundation, the Monitoring Board was created in 2009 to ensure public accountability and oversight, the effectiveness of the Standards Advisory Council has been enhanced, transparency has been improved and the role of impact assessments has been formalised as part of the due process of the IASB.
- (13) For the entire duration of the programme, a financial envelope should be laid down constituting the prime reference, within the meaning of point [17] of the Interinstitutional Agreement of XX/YY/201Z between the European Parliament, the Council and the Commission on cooperation in budgetary matters and on sound financial management, for the budgetary authority during the annual budgetary procedure.
- (14) Regulation (EU, Euratom) No 966/2012 of 25 October 2012 on the financial rules applicable to the general budget of the Union and Commission Delegated Regulation (EU, Euratom) No .../... of 29.10.2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union¹⁶, which safeguard the Union financial interests, have to be applied taking into account the principles of simplicity

European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities, COM(2011) 779 final

¹⁵ Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, COM(2011) 778 final

¹⁶ [...]

and consistency in the choice of budgetary instruments, a limitation on the number of cases where the Commission retains direct responsibility for implementation and management, and the required proportionality between the level of resources and the administrative burden related to their use.

- (15) The co-financing programme to be established by this Regulation is expected to contribute to the objectives of ensuring comparability and transparency of company accounts throughout the EU, to the global harmonization of financial reporting standards by promoting the international acceptance of IFRS and to promoting convergence and high quality international standards for auditing in all Member States. This programme also contributes to the Europe 2020 strategy by reinforcing the single market of financial services and capital, and contributes to the strategy's external dimension as well.
- (16) This Regulation should provide for the possibility of co-financing activities of certain bodies pursuing an objective forming part of and supporting the Union policy in the field of designing standards, endorsing standards or supervising standard-setting processes related to financial reporting and auditing.
- (17) Union funding is proposed for a well-defined and limited number of the most important bodies in the field of financial reporting and auditing. Within the current institutional framework, the funding arrangements should ensure stable, diversified, sound and adequate funding to enable the relevant bodies to carry out their Union-related or public interest mission in an independent and efficient manner.
- (18) Financial support should be granted in accordance with the conditions laid down in Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and Commission Delegated Regulation (EU, Euratom) No .../... of 29.10.2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union. The co-financing programme established by this Regulation replaces the previous co-financing programme of the beneficiaries. Therefore, for the sake of legal certainty, Decision 716/2009/EC should be repealed.
- (19) In order to promote the Union's interests in the fields of financial reporting and auditing and flexibly adapt to eventual governance and institutional changes in those fields, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of selecting new beneficiaries for the Programme. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure a simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and to the Council.
- (20) Since the objectives of this Regulation cannot be sufficiently achieved by the Member States and can therefore, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on the European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

Article 1
Subject matter and scope

1. A Union programme (the ‘Programme’) is hereby established for the period from 1 January 2014 to 31 December 2020 to support the activities of bodies which contribute to the achievement of the policy objectives of the Union in relation to financial reporting and auditing.
2. The Programme covers the activities of developing or providing input to the development of standards, applying, assessing or monitoring standards or overseeing standard-setting processes in support of the implementation of Union policies in the field of financial reporting and auditing.

Article 2
Objectives

1. The objective of the Programme is to improve the conditions for the functioning of the internal market by supporting transparent and independent development of international financial reporting and auditing standards.
2. This objective will be measured in particular through the number of countries using International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA).

Article 3
Beneficiaries of the Programme

1. The following beneficiaries shall benefit under the Programme:
 - (a) beneficiaries in the field of financial reporting:
 - the European Financial Reporting Advisory Group (EFRAG);
 - the International Financial Reporting Standards Foundation (IFRS Foundation);
 - (b) beneficiary in the field of auditing: the Public Interest Oversight Board (PIOB).

2. The Commission shall be empowered to adopt delegated acts in accordance with Article 9 to select new beneficiaries for the Programme and to amend paragraph 1 accordingly.
3. Any new beneficiary shall be a non-profit making legal person pursuing an objective forming part of and supporting the Union policy in the field of financial reporting and auditing and shall be a direct successor of one of the beneficiaries listed in paragraph 1.

Article 4
Award of grants

Financing under the Programme shall be provided in the form of operating grants.

Article 5
Transparency

Any beneficiary of funding awarded under the Programme shall indicate in a prominent place, such as a website, a publication or an annual report, that it has received funding from the budget of the European Union.

Article 6
Financial provisions

The financial envelope for the implementation of this Regulation over the period 2014-2020 shall be EUR 58 010 000 in current prices.

Article 7
Implementation of the Programme

1. The Commission shall implement the programme in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union.
2. In order to implement the programme, the Commission shall adopt annual work programmes. They shall set out the objectives pursued, the expected results, the method of implementation and their total amount. They shall also contain a description of the actions to be financed, an indication of the amount allocated to each action and an indicative implementation timetable. They shall include for grants the priorities, the essential evaluation criteria and the maximum rate of co-financing.

Article 8
Protection of the financial interest of the European Union

1. The Commission shall take appropriate measures ensuring that, when activities financed under this Regulation are implemented, the financial interests of the Union are protected through the application of preventive measures against fraud, corruption and any other illegal activities, through effective checks and, if

irregularities are detected, through the recovery of the amounts wrongly paid and, where appropriate, effective, proportionate and deterrent penalties.

2. The Commission or its representatives and the Court of Auditors shall have the power of audit, on the basis of documents and on the spot, over all grant beneficiaries, contractors and subcontractors who have received Union funds under the Programme.

The European Anti-fraud Office (OLAF) may carry out on-the-spot checks and inspections on economic operators concerned directly or indirectly by such funding in accordance with the procedures laid down in Regulation (Euratom, EC) No 2185/96 with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union in connection with a grant agreement or grant decision or a contract concerning Union funding.

Without prejudice to the first and second subparagraphs, cooperation agreements with third countries and international organisations and grant agreements and grant decisions and contracts resulting from the implementation of this Regulation shall expressly empower the Commission, the Court of Auditors and OLAF to conduct such audits, on-the-spot checks and inspections.

Article 9
Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 3(2) shall be conferred on the Commission for a period of 7 years from the date of entry into force of this Regulation.
3. The delegation of power referred to in Article 3(2) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
5. A delegated act adopted pursuant to Article 3(2) shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 10
Evaluation

1. No later than six months before the end of the Programme, the Commission shall submit to the European Parliament and the Council a report on the achievement of the Programme's objectives. That report shall appraise at least the overall pertinence and coherence of the Programme, the effectiveness of its execution and the overall and individual effectiveness of the beneficiaries' work programme in terms of achievements of the objectives as set out in Article 2.
2. The report shall be forwarded to the European Economic and Social Committee for information.

Article 11
Repeal

Decision 716/2009/EC shall be repealed with effect from 1 January 2014.

Article 12
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Regulation of the European Parliament and of the Council on establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020

1.2. Policy area(s) concerned in the ABM/ABB structure¹⁷

Policy Area: 12 Internal Market

Activity: Financial services and capital markets

1.3. Nature of the proposal/initiative

The proposal/initiative relates to **a new action**

The proposal/initiative relates to **a new action following a pilot project/preparatory action**¹⁸

The proposal/initiative relates to **the extension of an existing action**

The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objectives

1.4.1. *The Commission's multiannual strategic objective(s) targeted by the proposal/initiative*

Promote the global adoption of IFRS

Ensure the EU's weight in influencing the formation of IFRS

Contribute to the independence of audit standard settings' public oversight

1.4.2. *Specific objective(s) and ABM/ABB activity(ies) concerned*

Specific objective: To improve the conditions for the functioning of the internal market by supporting transparent and independent development of international financial reporting and auditing standards.

ABM/ABB activity(ies) concerned:

12.03 Financial services and capital markets

¹⁷ ABM: Activity-Based Management – ABB: Activity-Based Budgeting.
¹⁸ As referred to in Article 49(6)(a) or (b) of the Financial Regulation.

1.4.3. *Expected result(s) and impact*

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

Increase the financial independence of the beneficiaries (IFRS Foundation, EFRAG, IOB)
Equip EFRAG with the necessary resources to carry out its European public interest mission

1.4.4. *Indicators of results and impact*

Specify the indicators for monitoring implementation of the proposal/initiative.

<i>Result indicator</i>	<i>Latest known result</i>	<i>Target</i>
Number of countries using IFRS	In 2012 approximately 120 countries use IFRS.	Increase by 2020
Percentage of standards endorsed in the EU compared to the number of standards issued by the IASB by 2020	On 29 October 2012, 89% of IFRSs was endorsed in the EU (124 standards out of 139).	100% by 2020
Number of EU countries using ISAs	As of end-2012, 20 Member States have fully endorsed the clarified ISAs	Adoption and implementation of high quality ISAs in all Member States not later than 2020

1.5. **Grounds for the proposal/initiative**

1.5.1. *Requirement(s) to be met in the short or long term*

Raising the independence (also the perceived independence) of beneficiaries in the field of financial reporting and audit to enable them to carry out their public interest mission in a satisfactory manner
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1.5.2. *Added value of EU involvement*

The main goal of the programme is to ensure comparability and transparency of company accounts throughout the EU and globally, thereby contributing to the smooth functioning of the capital markets at EU and global level.
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The EU is the largest jurisdiction applying IFRS (Regulation 1606/2002). It is in our interest to make international accounting standards (IFRS) the global accounting language and to ensure the EU representation at the public oversight of the IFRS Foundation (where membership in the oversight body will be tied to contribution to funding).
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Also significant, credible and independent technical upstream European input is essential at the development of those standards. EFRAG is responsible for those activities.

The EU may adopt International Standards on Auditing (ISAs) based on Directive 2006/43. It has therefore a direct interest in ensuring that those standards are of high quality and the due process of their adoption is subject to independent public oversight by the PIOB.

1.5.3. *Lessons learned from similar experiences in the past*

The current financing has been successful so far in meeting the expectations

1.5.4. *Coherence and possible synergy with other relevant instruments*

The European Commission is actively participating in the governance reforms of the beneficiaries

1.6. Duration and financial impact

Proposal/initiative of **limited duration**

– Proposal/initiative in effect from 01/01/2014 to 31/12/2020

– Financial impact from YYYY to YYYY

Proposal/initiative of **unlimited duration**

– Implementation with a start-up period from YYYY to YYYY,

– followed by full-scale operation.

1.7. Management mode(s) envisaged¹⁹

Centralised direct management by the Commission

Centralised indirect management with the delegation of implementation tasks to:

– executive agencies

– bodies set up by the Communities²⁰

– national public-sector bodies/bodies with public-service mission

– persons entrusted with the implementation of specific actions pursuant to Title V of the Treaty on European Union and identified in the relevant basic act within the meaning of Article 49 of the Financial Regulation

Shared management with the Member States

Decentralised management with third countries

¹⁹ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

²⁰ As referred to in Article 185 of the Financial Regulation.

Joint management with international organisations (*to be specified*)

If more than one management mode is indicated, please provide details in the "Comments" section.

Comments

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

In the case of the IFRS Foundation: interim and final reports

In the case of EFRAG: final reports and participation of the Commission services in all committees of EFRAG

In the case of the PIOB: final reports and regular feedback to the Monitoring Group

2.2. Management and control system

2.2.1. Risk(s) identified

There is a risk of not achieving the operational objectives if the quality of the beneficiaries' output is not in accordance with the initial objectives as described in the annual proposals

There is a risk of threat to the EU financial interests/reputation if Commission's services fail to identify ineligible expenditure

2.2.2. Control method(s) envisaged

Risk of not achieving operational objectives:

– Beneficiaries are requested to submit an annual report, in accordance with the individual objectives of each programme and in line with the guidelines of Regulation (EU, Euratom) No 966/2012 of 25 October 2012, on the financial rules applicable to the general budget of the European Union

– The operational units responsible within DG MARKT have regular contacts with the beneficiaries and in particular, participate in all committees of EFRAG

Risk of threat to the EU Financial interests:

– Controls of grant commitments and payments in DG MARKT follow the reinforced financial circuit and comprise desk checks of relevant supporting documents, including interim and final reports, audited accounts and specific documents requested by the DG. These controls are documented in checklists that are systematically filled in by all actors involved in the respective financial transactions (OIA,OVA,OVA2,FIA, FVA, FVA2, AO), including controls carried out by the DG's financial unit on financial and legal matters in order to deliver the "Bon à Payer"

– The DG's financial unit systematically carries out on-the-spot controls on each beneficiary with substantive testing of a sample of transactions with an aim to assess the beneficiary's financial and internal control system and to provide the AO with additional assurance on the sufficient protection of the EU financial interests

The maximum error rate would remain below 2%

The cost of the controls would be around 0.5 FTE or 63.500€per year.

The benefit of the controls would be 100% of the annual granted amount spent adequately and following the sound financial management principle.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures.

Reinforced financial circuits with both an ex-ante operational and financial verification

Regular analysis of the beneficiaries' accounts, annual reports and audit certificates

On-the-spot regular audits to verify budgetary systems and controls

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing expenditure budget lines²¹

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number Description	Diff./non-diff. (22)	from EFTA ²³ countries	from candidate countries ²⁴	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
1	12.0301 Standards in the fields of financial reporting and auditing ²⁵	Diff	NO	NO	NO	NO

- New budget lines requested: N/A.

²¹ Budget line 12.0301 indicated below relates to new nomenclature for MFF 2014-2020. It corresponds to the budget line 12.0401 in MFF 2007-2013.

²² Diff. = Differentiated appropriations / Non-diff. = Non-Differentiated Appropriations

²³ EFTA: European Free Trade Association.

²⁴ Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

²⁵ The budget line is indicative and could be changed following the annual procedure'

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million in current prices (to 3 decimal places)

Heading of multiannual financial framework:	Number:1	Heading Smart and Inclusive Growth
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DG MARKT			2014	2015	2016	2017	2018	2019	2020	2021	TOTAL
• Operational appropriations											
12.0301 IFRS Foundation	Commitments	(1)	4.335	4.422	4.510	4.600	4.692	4.786	4.882	0	32.227
	Payments	(2)	3.251	4.400	4.488	4.578	4.669	4.763	4.858	1.220	31.007
12.0301 EFRAG	Commitments	(1a)	3.162	3.225	3.290	3.356	3.423	3.491	3.561	0	23.508
	Payments	(2a)	2.372	3.209	3.274	3.339	3.406	3.474	3.543	0.891	22.617
12.0301 PIOB	Commitments	(1a)	0.306	0.312	0.318	0.325	0.331	0.338	0.345	0	2.275
	Payments ²⁶	(2a)	0.000	0.306	0.312	0.318	0.325	0.331	0.338	0.345	1.930
Appropriations of an administrative nature financed from the envelope for specific programmes ²⁷											
Number of budget line		(3)	0	0	0	0	0	0	0	0	0
TOTAL appropriations for DG MARKT	Commitments	=1+1 a+3	7.803	7.959	8.118	8.281	8.446	8.615	8.788	0	58.010
	Payments	=2+2 a+3	5.623	7.915	8.074	8.235	8.400	8.568	8.739	2.456	55.554
TOTAL operational appropriations	Commitments	(4)	7.803	7.959	8.118	8.281	8.446	8.615	8.788	0	58.010
	Payments	(5)	5.623	7.915	8.074	8.235	8.400	8.568	8.739	2.456	55.554
TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)		0	0	0	0	0	0	0	0
TOTAL appropriations under HEADING <1> of the multiannual financial framework	Commitments	=4+ 6	7.803	7.959	8.118	8.281	8.446	8.615	8.788	0	58.010
	Payments	=5+ 6	5.623	7.915	8.074	8.235	8.400	8.568	8.739	2.456	55.554

TOTAL appropriations under HEADINGS 1 to 4 of the multiannual financial framework (Reference amount)	Commitments	=4+ 6	7.803	7.959	8.118	8.281	8.446	8.615	8.788	0	58.010
	Payments	=5+ 6	5.623	7.915	8.074	8.235	8.400	8.568	8.739	2.456	55.554

²⁶ The payments to the PIOB will be made without pre-payments and in a single operation the following year

²⁷ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

Heading of multiannual financial framework:	5	" Administrative expenditure "
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EUR million (to 3 decimal places)

		2014	2015	2016	2017	2018	2019	2020	TOTAL
DG: MARKET									
• Human resources		0.548	0.548	0.548	0.548	0.548	0.548	0.548	3.836
• Other administrative expenditure		0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.175
TOTAL DG MARKET	Appropriations	0.573	0.573	0.573	0.573	0.573	0.573	0.573	4.011

TOTAL appropriations under HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.573	0.573	0.573	0.573	0.573	0.573	0.573	4.011
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EUR million (to 3 decimal places)

		2014	2015	2016	2017	2018	2019	2020	TOTAL
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	8.376	8.532	8.691	8.854	9.019	9.188	9.361	62.021
	Payments	6.196	8.488	8.647	8.808	8.973	9.141	9.312	59.565

3.2.2. Estimated impact on operational appropriations

- The proposal/initiative does not require the use of operational appropriations
- The proposal/initiative requires the use of operational appropriations, as explained below: N/A (operating grants)

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

- The proposal/initiative does not require the use of administrative appropriations
- The proposal/initiative requires the use of administrative appropriations, as explained below:

EUR million (to 3 decimal places)

	2014	2015	2016	2017	2018	2019	2020	TOTAL
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HEADING 5 of the multiannual financial framework								
Human resources	0.548	0.548	0.548	0.548	0.548	0.548	0.548	3.836
Other administrative expenditure	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.175
Subtotal HEADING 5 of the multiannual financial framework	0.573	4.011						

Outside HEADING 5²⁸ of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								

TOTAL	0.573	4.011						
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3.2.3.2. Estimated requirements of human resources

- The proposal/initiative does not require the use of human resources
- The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units (or at most to one decimal place)

	2014	2015	2016	2017	2018	2019	2020
• Establishment plan posts (officials and temporary agents)							
XX 01 01 01 (Headquarters and Commission's Representation Offices)	4.125	4.125	4.125	4.125	4.125	4.125	4.125
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							

²⁸

Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

10 01 05 01 (Direct research)														
• External personnel (in Full Time Equivalent unit: FTE)²⁹														
XX 01 02 01 (CA, INT, SNE from the "global envelope")								0.375	0.375	0.375	0.375	0.375	0.375	0.375
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)														
XX 01 04 yy ³⁰		- at Headquarters ³¹												
		- in delegations												
XX 01 05 02 (CA, INT, SNE - Indirect research)														
10 01 05 02 (CA, INT, SNE - Direct research)														
Other budget lines (specify)														
TOTAL								4.5						

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary agents	5 AD and 6 AST officials, prorated on number of files dealt with. Tasks: initiating agents' tasks, verifying agents' tasks, keeping contact with the beneficiary, supervision.
External personnel	1 contract agent, prorated on number of files dealt with. Tasks: recording, support the planning and preparation of missions.

²⁹ CA= Contract Agent; INT= agency staff ("*Intérimaire*"); JED= "*Jeune Expert en Délégation*" (Young Experts in Delegations); LA= Local Agent; SNE= Seconded National Expert;

³⁰ Under the ceiling for external personnel from operational appropriations (former "BA" lines).

³¹ Essentially for Structural Funds, European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

3.2.4. Compatibility with the multiannual financial framework

- Proposal/initiative is compatible with the proposal for the new multiannual financial framework 2014-2020
- Proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

Explain what reprogramming is required, specifying the budget lines concerned and the corresponding amounts.

- Proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework³².

Explain what is required, specifying the headings and budget lines concerned and the corresponding amounts.

3.2.5. Third-party contributions

- The proposal/initiative does not provide for co-financing by third parties
- The proposal/initiative provides for the co-financing estimated below:

Appropriations in EUR million (to 3 decimal places)

	2014	2015	2016	2017	2018	2019	2020	Total
IFRS Foundation with its own funds and with funds received from third parties (Beneficiary average co-finance 87%)	24.873	27.576	30.278	32.977	35.674	38.370	41.064	230.813
EFRAG with its own funds and with funds received from third parties (Beneficiary average co-finance 60%)	4.338	4.675	4.910	5.044	5.277	5.409	5.439	35.093
PIOB with its own funds and with funds received from third parties (Beneficiary average co-finance 78%)	1.084	1.106	1.128	1.151	1.174	1.197	1.221	8.061
TOTAL appropriations co-financed	30.295	33.357	36.316	39.172	42.126	44.976	47.724	273.967

3.3. Estimated impact on revenue

- Proposal/initiative has no financial impact on revenue.
- Proposal/initiative has the following financial impact:
 - on own resources
 - on miscellaneous revenue

³² See points 19 and 24 of the Interinstitutional Agreement.