Opinion of the European Economic and Social Committee on the '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 2014-20'

COM(2012) 782 final — 2012/0364 (COD)

(2013/C 161/12)

Rapporteur: **Mr PEZZINI**

On 24 January 2013 the Council of the European Union, and on 15 January 2013 the European Parliament, decided to consult the European Economic and Social Committee, under Article 114 of the Treaty on the Functioning of the European Union, on the

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

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The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 March 2013.

At its 488th plenary session, held on 20 and 21 March 2013 (meeting of 20 March), the European Economic and Social Committee adopted the following opinion by 82 votes to 1 with 1 abstention.

1. **Conclusions and recommendations**

1.1 This proposal seeks to extend the programme launched by the Commission in 2009 for providing funding to bodies working in the field of financial reporting and auditing, to cover the period 2014-2020. Since the programme was established, the sector has undergone a number of changes. The number of bodies has been reduced to three: the International Financial Reporting Standards (**IFRS**) Foundation, the European Financial Reporting Advisory Group (**EFRAG)** and the Public Interest Oversight Board (**PIOB**).

1.2 The Committee **approves the essence of the programme**, recognising the great value of financial reporting and auditing as one of the pillars of a sound and transparent market. However, **it does not have sufficient information** to gauge the **appropriateness** of the amounts allocated to the functioning of each programme, and is unable to form its own opinion on the adequacy of the "output" of each institution vis-à-vis the needs of users, although the latter seem to take a wholly positive view.

1.3 The financial crisis, with which the market is still grappling, has revealed an increased need for more accurate information and increasingly effective auditing standards; however, such tools will serve no purpose if their "users" are unable to make full use of them. Hence the **need to train high-level experts** in the public and private sectors: a task to which the EU, the Member States and businesses must apply themselves fully, with an adequate commitment of funds.

2. **Introduction**

2.1 On 19 December 2012, the Commission published a proposal for a regulation of the European Parliament and of the Council aimed at **supporting**, over the period from 1 January 2014 to 31 December 2020, **the activities of bodies engaged in standard-setting in the field of financial reporting and auditing**. The previous plan, established in 2009, will expire on 31 December 2013. Some of the bodies covered by the original plan have been subsumed by others; therefore, this proposal concerns only the remaining beneficiaries, namely the IFRS Foundation (the legal successor of the International Accounting Standards Committee Foundation (IASCF)), EFRAG and the PIOB. All the provisions refer to the private sector. The public sector is governed by *Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community* (ESA 95), which laid down the principles underpinning the drawing-up of public budgets.

2.2 Both the proposal and its accompanying report are so peppered with acronyms that it is easy to get lost amidst the web of abbreviations and links between the various bodies mentioned in the text. Although the documents have been drafted with precision in terms of their technical terminology, to make them more readable, there is a need for a **reader's guide to the acronyms and organisational structures** involved, which pose a serious challenge to the understanding of these documents, even by experts.

2.3 Such a guide should provide a highly simplified explanation of the following beneficiary bodies:

2.3.1 The **IFRS Foundation**, which has replaced the IASCF and constitutes the global-level body that, along with the IFRS Interpretations Committee (**IFRIC)**, establishes the accounting standards to be used by companies listed in the EU in drawing up their financial reports. These standards have been incorporated into EU law. Under the authority of the IFRS Foundation are the technical bodies – the International

Accounting Standards Board (**IASB)** and **IFRIC**. Governance is provided for by a set of bodies on whose functions it is difficult to comment: in addition to the Board, we have a **Monitoring Board**, a **Standards Advisory Committee** and a **Due Process Oversight Committee.**

2.3.1.1 The Commission considers the IFRS Foundation to play a key role as the global-level standard-setter, and recommends continuing the support previously given to the IASCF through a stable co-financing scheme. Several Member States are already involved in the plan, with the EU, for its part, funding 17 % of expenditure in 2011.

2.3.2 **EFRAG** is the Commission's technical advisor on financial reporting matters. It is a private organisation, established in 2001, the governance of which was originally determined in proportion to the extent of the financial contribution of the various participants, including the Commission. In 2008, EFRAG's structure was overhauled in order to more closely mirror the **public policy role** that it had by then assumed, as a platform for the voice of Europe on accounting matters. While representation and voting rights are still tied to its governing bodies – the **General Assembly** and the **Supervisory Board** – enhanced governance is now delivered by a Planning and Resource Committee (**PRC**), and especially by a **strengthened 17-member Supervisory Board**, representing the various stakeholders: preparers and users of financial statements and financial institutions, as well as four public policy experts, designated by the Commission.

2.3.2.1 The Commission believes that EFRAG needs robust, long-term funding to maintain its credibility and independence; several large Member States directly contribute to its funding. *The Commission co-finances EFRAG on behalf of the smaller Member States.*

2.3.3 The **PIOB** is a Spanish foundation established in Madrid. Despite its private status, this is a body of substantial authority and weight, which ensures that due process, oversight and transparency are respected in international standards for auditors, laid down by the International Federation of Accountants (**IFAC)**, which is the private body representing accountants and auditors worldwide. Its key partners are the **Monitoring Group** (MG) and **IFAC** itself; the MG represents international regulators and institutions at the highest level [1]. The governance of the PIOB is carried out by 10 members, two of which are nominated by the Commission.

2.3.3.1 The 2009 decision assigned funding to the PIOB that amounted in 2011 to 22 % of its eligible expenses; the Commission works in close contact with this body and has even helped train its staff on EU budgetary matters. Furthermore, it seems that the structure of its network of financiers is to be revised: apart from the Commission, IFAC is the sole contributor, funding the remaining 78 % of the costs. The Commission is seeking to "diversify" its funding, so as to reinforce the PIOB's independence vis-à-vis IFAC: in addition to the funds already promised for 2013 from several international institutions, a special task force is leading a campaign to acquire further funding from donors from all over the world.

2.4 The matters dealt with by these bodies in receipt of substantial funding are highly technical and hard to evaluate, outside of the narrow circle of specialists in this field; the Commission has not carried out any **external consultations** thus far but has merely assessed the appropriateness of the contributions in the light of its own experience and knowledge. The impact evaluation found that the funding programme has met the expectations and objectives set.

3. **Comments and proposals**

3.1 The Committee has already commented [2] on the original programme, expressing its support for the Commission's proposals while putting forward certain reservations and proposals which will be reiterated in this text, where necessary. Now, as then, it can only **endorse the principle** of the need to fund the activities of institutions that carry out extremely delicate tasks of the utmost importance. It is not possible, however, to give an **informed opinion on the scale of the funding**, as establishing this requires a degree of knowledge available only to a narrow circle of specialists.

3.2 The financial crisis was already underway in 2009, the year in which the programme was established, but then it was perhaps too early for a broad analysis that included the less obvious aspects of the causes of what happened, or rather of the contributing factors. The passage of time and the events that have taken place in the meantime allow further reflection now.

3.3 **Financial reporting and accounting techniques are costly**, and become even more so when they derive from the work of specialists who are not readily available on the market and for whom university studies are only a starting point for

[1] The MG comprises the European Commission, the International Organisation of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS) and a number of other similar bodies, at EU and global levels.

[2] OJ C 228, 22.9.2009, p. 75; other important opinions, particularly as regards certain specialist aspects, OJ C 191, 29.6.2012, p. 61.

acquiring the requisite high-value skills in the field. Moreover, these specialists should also be of good moral character, to ensure the confidentiality of the information and the **neutrality** of their analysis; all of this leads to the conclusion that while funding these bodies is certainly useful, **training** specialists, who must be given appropriate remuneration and incentives, is also vital.

3.3.1 When speaking about "specialists" one tends to think of those who are the **originators** of information or standards; but the **users** of such information or standards – those for whom the information is a work tool and the standards a guide in their activities – should also be "specialists". It is thus clear that the availability of **adequately trained human resources** should be a **priority**, not only for those producing the information but also **for those who have to use it**: regulators and supervisors, legislators, companies and research institutes.

3.4 A corollary to the training issue is the aspect of the **quality of the information**: point 3.1 above noted the difficulty of giving a view on the scale of the proposed funding; providing an assessment of the added value of the information in terms of its usefulness to users is even more difficult and uncertain. All that remains is to **endorse the Commission proposal** as regards the **amount** of the contributions, purely on the basis of trust and appreciation of the underlying motivations.

3.5 In its previous opinion ([3]) issued in 2009 upon the launch of the programme, the Committee recommended taking particular care to prevent undue influence or interference in the **securities market** ([4]) governed by **IASCF** and **EFRAG** rules; the issue had been raised by the Commission itself, which had called for an EU contribution to prevent "undue influence from parties with a stake". The new proposal for a regulation makes no reference to this important and delicate aspect; the Committee calls on the Commission to confirm its full confidence in the independence of these bodies. The same goes for the **PIOB** ([5]).

3.6 With regard to EFRAG, it should be noted that the Commission co-funds this body on behalf of the smaller Member States (the larger ones contribute directly). The Commission's contribution would probably not vary that greatly if all Member States were to pay their share, or perhaps a symbolic amount. However, the gesture would signal conscientious **involvement of the entire EU system** in bodies of common importance, irrespective of the size of each Member State.

3.7 The IFRS establish mark-to-market accounting for businesses. During the financial crisis it was noted that the standards could have a pro-cyclical, short-term effect. The Committee suggests that a cost/benefit analysis of the standards could be carried out, for example as part of the programme under discussion.

3.8 As a final point, the Committee would like to stress once again not only the **importance of collecting and collating information**, but above all the **need to know how to properly understand and use that information**: while the high level of professionalism of the data "suppliers" needs to be recognised, much remains to be done with regard to the multifaceted category of users, in terms of training and updating of adequate human resources.

Brussels, 20 March 2013.

The president
of the European Economic and Social Committee
Staffan NILSSON

([3]) See footnote 2.
([4]) See point 3.2.1.
([5]) See point 3.4.