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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the activities of the IFRS Foundation, EFRAG and PIOB in 2023

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1. INTRODUCTION

On 28 April 2021, the European Union adopted the Single Market Programme[1] to support and strengthen the governance of the single market with EUR 4.21 billion over the period of 2021 to 2027. The Single Market Programme Regulation foresees a budgetary envelope of EUR 220.5 million for standardisation processes, of which EUR 61 million is allocated to support the development of high-quality international financial and non-financial reporting and auditing standards and to facilitate their integration into Union law.

Under the Single Market Programme, the Commission provides an annual grant[2] to the International Financial Reporting Standards Foundation (IFRS Foundation) as regards the development of International Financial Reporting Standards (IFRS Accounting Standards), the European Financial Reporting Advisory Group (EFRAG), and the Public Interest Oversight Board (PIOB). These organisations play an important role in ensuring the quality, reliability and availability of financial and sustainability information in corporate reports. This report summarizes their activities in 2023[3], except for the activities of the IFRS Foundation in sustainability reporting, as these are not (co-)financed by the EU grant.

2. IFRS FOUNDATION

2.1. GOVERNANCE

The IFRS Foundation is a non-profit organisation established to develop, promote and facilitate the use of a single set of high-quality, understandable, enforceable and globally recognised accounting and sustainability disclosures standards.

The IFRS Foundation hosts the International Accounting Standards Board (IASB), which is responsible for the development of IFRS Accounting Standards, and the International Sustainability Standards Board (ISSB), which was established in November 2021 for the development of IFRS Sustainability Disclosure Standards.

The Monitoring Board, of which the Commission is a member, reinforces the public interest oversight function of the IFRS Foundation and promotes the continued development of IFRS and ISSB Standards as high-quality sets of global accounting standards and global sustainability disclosure standards.

[1] Regulation (EU) 2021/690 establishing a programme for the internal market, and the competitiveness of enterprises), OJ L 153, 3.5.2021, p. 1–47.

[2] Grants were in past provided under Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC (OJ, L 105, 8.4.2014, p. 1.).

[3] Pursuant to Article 18(3) of Regulation (EU)2021/690, this Commission publishes a report every year.

Under Regulation (EU) No 1606/2002[4] of the European Parliament and of the Council on the application of international accounting standards ('IAS Regulation'), the Commission may endorse new or amended IFRS Accounting Standards considering EFRAG's endorsement advice. Given the economic importance of IFRS Accounting Standards, the Commission provides financial support to the IFRS Foundation for the development of IFRS Accounting Standards.

The IFRS Foundation is governed by a Board of 22 Trustees that is collectively responsible for general oversight and appointments to the IASB and to the ISSB. The Trustees designation is subject to an apportionment by geographical origin and to approval by the Monitoring Board.

The IASB and ISSB each consist of 14 members from varied national and professional backgrounds, including academia, accountancy, sustainability, investment, preparers, market or financial regulation and standard-setting. IASB and ISSB members are nominated for a five-year term, renewable once. Andreas Barckow chairs the IASB and Emmanuel Faber the ISSB.

The Trustees also appoint the 14 members of the IFRS Interpretation Committee, dedicated to interpreting the application of IFRS Accounting Standards and providing guidance on financial reporting issues, and the members of the IFRS Advisory Council.

2.2 ACTIVITIES

2.2.1. STANDARD SETTINGS

In May 2023, the IASB issued certain amendments to IAS 12 *Income Taxes*. The amendments introduce a temporary exception from accounting for deferred taxes arising from the implementation of the OECD's Pillar Two model rules, as well as targeted disclosures for affected companies.

Also in May 2023, the IASB issued amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The amendments introduce disclosure requirements about a company's supplier finance arrangements.

In August 2023, the IASB issued amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, which specify when a currency is exchangeable into another currency and, when it is not, how a company determines the exchange rate to apply, and the disclosures a company shall provide when a currency is not exchangeable.

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

A complete overview of the standard-setting activities, including the work of the IFRS Interpretations Committee, is available on the IFRS Foundation's website.[6]

[4] OJ L 243, 11.9.2002, p. 1.

[5] The financing provided by the European Union also supports the timely update of the IFRS taxonomy, which in turn serves as an input to the European Single Electronic Format.

[6] IFRS Foundation work plan: https://www.ifrs.org/projects/work-plan/; and completed projects: https://www.ifrs.org/projects/completed-projects/.

2.2.2. PROJECTS

In March 2023, the IASB issued an Exposure Draft *Amendments to Classification and Measurement of Financial Instruments*, which address specified classification and measurement requirements, including those that could affect the accounting for ESG-linked financial assets. These amendments are a follow-up to the *Post-implementation Review (PIR) of IFRS 9 Financial Instruments – Classification and Measurement*. The IASB issued the amendments on 30 May 2024.

In May 2023, the IASB issued a request for information on the *PIR of* IFRS 9 *Financial Instruments – Impairment* to seek stakeholders' views on the impairment requirements listed therein and the related disclosures.

In June 2023, the IASB issued a request for information on the *PIR of* IFRS 15 *Revenue from Contracts with Customers* to seek stakeholders' views on the requirements listed therein.

In July 2023, the IASB decided to amend IFRS 9 to better reflect the effect of Power Purchase Agreements (PPA) on the financial statements, as companies are increasingly entering into PPA for the procurement of renewable energy. PPA are also an important part of European companies' commitment to mitigate the effects of climate change and to decarbonise their production processes and products. The IASB issued the PPA Exposure Draft on 8 May 2024.

In September 2023, the IASB issued an Exposure Draft *Annual Improvements to IFRS Accounting Standards – Volume 11*, which seeks to clarify wording in different IFRS Accounting Standards or correct relatively minor unintended consequences, oversights or conflicts related to requirements in the IFRS Accounting Standards. On 18 July 2024, the IASB issued the final amendments.

In November 2023, the IASB issued an Exposure Draft *Financial Instruments with Characteristics of Equity*, which clarifies how a company should distinguish debt instruments from the equity instrument it issues.

During 2023, the IASB also completed its deliberations on the *Primary Financial Statements* and *Subsidiaries without Public Accountability: Disclosures* projects and is planning to issue two new IFRS Accounting Standards in 2024: IFRS 18 *Presentation and Disclosure in Financial Statements* and IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

A complete overview of the projects is available on the IFRS Foundation's website.[7]

2.3. TRANSPARENCY AND ACCOUNTABILITY

2.3.1. TRANSPARENCY RULES

All meetings of the IASB and the IFRS Interpretation Committee are open to the public. The meeting agendas are published in advance and the meetings themselves can be watched online. In addition, the IASB publishes quarterly meetings with stakeholders on its website.[8]

[7] IFRS Foundation work plan: https://www.ifrs.org/projects/work-plan/; and completed projects: https://www.ifrs.org/projects/completed-projects/.
[8] https://www.ifrs.org/groups/international-accounting-standards-board/stakeholder-engagement-register/.

2.3.2. REPRESENTATION OF STAKEHOLDERS

The IFRS Foundation constitution requires the appointment of six Trustees from Europe, as well as for America and Asia-Oceania plus one Trustee from Africa and three Trustees from any area subject to maintaining an overall geographical balance. Similarly, the criteria for appointment as board member of the IASB require four members from each region, one member from Africa and one member from any area.

On 31 December 2023, the IFRS Advisory Council comprised 51 organisations, including the European Central Bank (ECB), the European Securities and Markets Authority (ESMA) and EFRAG. The Commission participates as an observer.

2.3.3. PREVENTION OF CONFLICT OF INTERESTS

The Trustees of the IFRS Foundation are appointed for a three-year term that can be renewed once, and they must commit to act in the public interest. In principle, a Trustee and a Monitoring Board Member cannot be employed by the same organisation.

All IASB members are full-time and must sever all employment relationships and ties that might affect their independence. Neither secondment from an employer nor rights to reintegrate with the former employer are allowed.

2.3.4. BREAKDOWN OF FUNDING

In 2023, the IFRS Foundation received a EUR 3.05 million grant from the Commission for IASB related activities, representing 16.4% of the total contributions for IASB related activities received. The Commission continued to be the largest contributor, although the relative share of the Commission and Member States funding went down compared to 2022 (from 34.4% to 32.0%).

A breakdown of funding for IASB related activities by main geographical areas and international accounting networks shows that the EU and its Member States made 32.0% of the total contributions, Asia-Oceania 35.6%, international accounting networks 15.5%, Americas 5.7%, Africa 0.8% and others 10.3%.

The downward trend in contributions for IASB related activities to the IFRS Foundation in recent years has continued in 2023. The reported contributions were down by 5.0% (GBP 848,000) as a whole, however with significant variations between contributors. The decrease is primarily based on an around 20% cut in the Commission's grant funding.

The total retained surplus of the IFRS Foundation as at 31 December 2023 amounted to GBP 49.5 million.

3. EFRAG

3.1. GOVERNANCE

EFRAG is a publicly and privately funded organisation working in the European public interest and has the legal form of an AISBL (Belgian international non-profit organisation). Since 2022, EFRAG has a dual mission.

In the area of financial reporting, EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring that these views are properly considered in the IASB's standard-setting process and in related international debates. EFRAG provides advice to the Commission on whether new (or revised) IFRS Accounting Standards should be endorsed by the EU, based on the criteria of IAS Regulation[9]. Alongside, EFRAG performs also pro-active accounting research work.

In the area of sustainability reporting, pursuant to the Corporate Sustainability Reporting Directive (CSRD)[10], EFRAG provides technical advice to the Commission in the form of draft European Sustainability Reporting Standards (ESRS) elaborated under a robust due process and supports the effective implementation of ESRS. In developing draft ESRS, EFRAG promotes the interoperability of draft ESRS with other international standard setters, in particular the ISSB and GRI (the Global Reporting Initiative).

The EFRAG Administrative Board is responsible for the due process oversight of all technical bodies. In doing so, it is supported by a Due Process Committee (DPC). During 2023, Wolf Klinz chaired the EFRAG Financial Reporting Board (FRB), Patrick de Cambourg the EFRAG Sustainability Reporting Board (SRB) and Hans Buysse the EFRAG Administrative Board.

3.2. FINANCIAL REPORTING PILLAR

In 2023, EFRAG's work on financial reporting remained largely driven by the work programme of the IASB, the IFRS Interpretations Committee and the IFRS Foundation.

Before EFRAG issues a final endorsement advice on a new IFRS Accounting Standard or amendments to already existing IFRS Accounting Standards adopted by the IASB, EFRAG issues (draft) comment letters to the IASB and draft endorsement advice for the Commission. This robust due process allows stakeholders to express their views on EFRAG's positions.

In terms of output, EFRAG issued in 2023 four final endorsement advice on the amendments to IFRS 16 *Leases* "Lease Liability in a Sale and Leaseback", on the amendments to IAS 1 *Presentation of Financial Statements* "Non-current Liabilities with Covenants", on the amendments to IAS 12 *Income Taxes* "International Tax Reform – Pillar Two Model Rules", on amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* "Supplier Finance Arrangements", and another final endorsement advice on the amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* "Lack of Exchangeability" in January 2024.

The EFRAG FRB also issued five comment letters and four feedback statements, and published research paper on accounting for variable considerations.

In addition, EFRAG closely monitored important ongoing IASB projects that are expected to result in IASB standard-setting requiring EU endorsement in 2024 or 2025. These projects include *Primary Financial Statements*, *Subsidiaries without Public Accountability: Disclosures*, and *Rate-regulated Activities*. EFRAG organised during 2023 extensive outreach activities and roundtables to identify whether and how IASB considered accounting treatments

[9] Please see footnote 4.

[10] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322 of 16.12.2022, p. 15).

would work for European constituents or pose application challenges. EFRAG then informed the IASB of issues faced by European stakeholders.

Through its Academic Panel and Academic Network, EFRAG enhanced its cooperation with academics.

3.3. SUSTAINABILITY REPORTING PILLAR

On 20 November 2022, EFRAG submitted the first set of 12 draft ESRS to the Commission. They cover the full range of environmental, social, and governance issues, including climate change, biodiversity, and human rights. They provide information for investors and other stakeholders to understand the sustainability risks and opportunities to which investments are exposed as well as impact of companies on people and the environment. The Commission adopted the ESRS on 31 July 2023. The corresponding Delegated Act and annexes, after scrutiny by the European Parliament and Council, were published in the Official Journal on 22 December 2023.

During 2023, EFRAG's priority has been on the implementation work on the ESRS, with the aim of contributing to the goal of reducing burden on companies. EFRAG established an online question and answer platform through which companies and other stakeholders can receive answers to technical questions about ESRS. In December 2023, EFRAG released three draft implementation guidance documents for companies preparing their sustainability statement according to the ESRS, covering materiality assessment, value-chain reporting, and a listing of datapoints.

EFRAG advanced in its work to develop draft reporting standards for standards for SMEs. In early 2024, EFRAG was able to launch a public consultation on a draft standard for use by listed SMEs as foreseen in the CSRD, as well as on a separate standard for voluntary use by non-listed SMEs. Once finalised, these proportionate standards should help to reduce the reporting burden for SMEs: the standards for listed SMEs would create a proportionate framework for the reporting by smaller issuers while the standards for non-listed SMEs will help these companies provide information to banks or larger groups which include them in their value chain.

In addition, EFRAG continued its preparatory work for the draft sector-specific reporting standards, which are required by the CSRD, and for the XBRL digital taxonomy which would enable companies to meet the requirement to digitally tag the information that they report.

In all of its work EFRAG continued to give high priority to ensuring the interoperability of European standards with global standards, in particular with the standards of the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). On 2 May 2024, EFRAG and the IFRS Foundation published an interoperability guidance illustrating the high-level alignment achieved between the ESRS and the ISSB and how a company can apply both sets of standards, including detailed analysis of the alignment in climate-related disclosures.

3.4. TRANSPARENCY AND ACCOUNTABILITY

3.4.1. TRANSPARENCY RULES

EFRAG has a transparent public due process. EFRAG's due process allows all European constituents to put forward their views for consideration by EFRAG. It ensures that the diversity of accounting and economic models and views in Europe are taken into account in determining EFRAG's positions, especially with regard to the endorsement of IFRS Accounting Standards and the development of ESRS.

As part of its due process, EFRAG publishes draft positions for consultation, undertakes field tests and other forms of effect analyses, organises outreach events and undertakes surveys, publishes their results in feedback statements and then publishes its final positions. EFRAG contributes to evidence-based standard-setting by undertaking quantitative studies that inform the discussion on EFRAG's comment letters and endorsement advice and which are gradually becoming a more important part of EFRAG's research work.

Meetings of the EFRAG FRB and EFRAG SRB, EFRAG FR TEG and EFRAG SR TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) are held in public. The agendas, supporting agenda papers and summaries of the meetings are published on EFRAG's website. The meetings can also be watched online, and recordings remain online for several months. EFRAG maintains a public transparency register.

3.4.2. REPRESENTATION AND ACCOUNTABILITY

EFRAG strives for a proper geographical, professional background and gender balance in its Financial and Sustainability Reporting Boards, the corresponding Technical Expert Groups, its Working Groups and Advisory Panels, and the European Lab Steering Group and its project task forces. There is a limit for the number of members of the FRB and SRB and their TEGs with the same nationality and there are rules on professional background and gender balance.

EFRAG Board members are nominated by the EFRAG Member Organisations.

3.4.3. PREVENTION OF CONFLICT OF INTERESTS

EFRAG has a conflict of interest policy to underpin its public interest mandate, which is published on EFRAG's website.[11] EFRAG Board members and EFRAG staff confirm yearly their independence in a signed declaration.

3.4.4 CONTACTS WITH THE EUROPEAN PARLIAMENT AND MEMBER STATES

EFRAG has close contacts with members of the European Parliament. On sustainability reporting, the European Parliament has set up a liaison group that regularly engages with EFRAG.

EFRAG regularly attends meetings of the European Commission's Accounting Regulatory Committee and of the Member States Expert Group on Sustainable Finance to discuss

[11] www.efrag.org.

outstanding issues with Member States' experts, including concerning the endorsement of IFRS Accounting Standards.

3.5. DIVERSIFICATION AND BUDGET

For 2023, EFRAG's total budget was EUR 12.3 million. There were estimated EUR 3.3 million contributions in kind by third parties, i.e. time of external members of the EFRAG FRB and SRB, the EFRAG FR and SR TEGs (only the chairs are paid), as well as temporary secondments to the EFRAG secretariat.

In view of the subsequent follow-up work on ESRS, such as the implementation guidance for companies and the development of an XBRL digital taxonomy, the Commission has increased the EU contribution for 2023 from EUR 4.2 million to EUR 6.3 million to cover the additional personnel and administrative costs at EFRAG. It has split the operating grant into two action grants, one for financial reporting (EUR 2.0 million) and one for sustainability reporting (EUR 4.3 million). The co-financing share for sustainability reporting is higher. The Commission funded a maximum 60% of EFRAG's eligible costs for the financial reporting and a maximum 90% of EFRAG's eligible costs for sustainability reporting. Other cash contributions on financial reporting came from European stakeholder organisations (EUR 0.7 million) and some national stakeholder organisations (EUR 1.9 million).

On sustainability reporting, European stakeholder organisations funded EUR 0.5 million, some national sustainability organisations EUR 0.9 million and civil society organisations EUR 0.2 million.

4. PIOB

4.1. GOVERNANCE

The PIOB is the global independent oversight body that oversees the standard-setting process for the international audit, assurance, and ethics standards formulated by the international standard-setting boards: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). Its main role is to ensure that IAASB and IESBA apply due process for the development of standards and strategies, in line with the public interest framework. Since 2022, the PIOB is responsible for the selection and nomination of the members of the IAASB and IESBA.

The Monitoring Group[12], of which the Commission is a member, monitors how the PIOB is carrying out its public interest mandate with particular regard to the PIOB's oversight of the standard setting process. It appoints the ten PIOB members (with the exception of the Chair, who is appointed by IOSCO).

4.2. ACTIVITIES

Sustainability featured prominently in 2023. Other topics related to the strengthening of the auditor's responsibility in relation to fraud, enhancements with respect to going concern, a

[12] The Monitoring Group (iosco.org)

proportionate auditing standard for less complex entities, and behavioural change with respect to tax planning based on a new ethics standard.

The PIOB selected several new members of the IESBA and the IAASB, resulting in the biggest rotations in years. This was a major step forward in fulfilling the Monitoring Group Recommendations of 2020 with respect to the multi-stakeholder composition of the two Boards.

The PIOB selected members of a new Stakeholders Advisory Group to provide strategic advice from a multi-stakeholder perspective to the IESBA and the IAASB on their strategies, work plan priorities and projects, which was then established on 6 February 2024.

On 31 May 2024, the PIOB published its 19th Public Report published which gives a full overview of the PIOB's activities in 2023.[13]

4.3. DIVERSIFICATION OF FUNDING

For 2023, PIOB's income amounted to EUR 2,296,552. The PIOB received 17 monetary contributions. International Federation of Accountants (IFAC) remained the largest contributor, but in line with the recommendations of the Monitoring Group to reduce the dependence of the audit profession on the audit standard-setting system, IFAC's contribution has shrunk from EUR 1,392,754 (or 63.56%) in 2022 to EUR 950,000 (or 41,37 %) in 2023. The Commission remained the second biggest donor with a contribution of EUR 350,000 (or 15.24%), followed by the US Securities Exchange Commission (USD 200,000), the International Organization of Securities Commissions (IOSCO) (EUR 150.000) and the International Foundation for Ethics and Audit (USD 130,000. The Spanish government provides for the housing of the PIOB, which was valued at EUR 192,659.[14]

Whilst IFAC's contribution will decrease further, the PIOB and the Monitoring Group continue to do further outreach to attract other sponsors and to broaden its funding base.

5. CONCLUSIONS

For many years now the EU has financially contributed to the IFRS Foundation, EFRAG and the PIOB. Its continuous support (not only financially, but also politically) has been indispensable. It has enabled them to carry out their respective tasks in the public interest, thus contributing to high quality accounting and auditing standards. In 2023, most funding was allocated to EFRAG to help the development of the ESRS.

[13] https://ipiob.org/

[14] The full list of contributions is on page 78 of PIOB's annual report.