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Ex-Ante Evaluation for establishing a Community programme to support specific activities in the field of financial services, financial reporting and auditing

accompanying document to the

Proposal for a
DECISION OF THE EUROPEAN PARLIAMENT AND THE COUNCIL establishing a Community programme to support specific activities in the field of financial services, financial reporting and auditing

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1. Ex-Ante Evaluation For Establishing A Community Programme To Support Specific Activities In The Field Of Financial Services, Financial Reporting And Auditing

1.1. Background

A single market, where people, goods, services and capital move around as freely as within one country, is the core of today's European Union and one of its greatest achievements.

Whilst in most fields the internal market has become a reality, more efforts are still needed as regards the financial services sector which is indeed a key component of an efficient internal market. Financial markets are critical for the functioning of modern economies. The more integrated they are, the more efficient the allocation of capital and long-running economic performance will be. Completing the internal market in financial services is thus a crucial part of the overriding objective of achieving more and better jobs in a more dynamic, innovative and attractive Europe.

At the same time, it is also necessary to provide for the creation of a favourable business environment for EU firms to operate effectively across Member States. Harmonisation of the rules relating, for example, to accounting and auditing is crucial in this respect.

In addition, the current financial crisis has put the issues of supervision of financial institutions and of accounting standards at the centre of the EU's political agenda[1].

An efficient single market does not bring benefits only within its own borders. It also strengthens the position of the European Union in global markets by increasing the world-wide competitiveness of European firms, fostering the EU influence globally and making the European marketplace more attractive for investors from third countries.

Successful completion and operation of the internal market in the above outlined areas are part of the European Commission's key objectives. However, the Commission is not capable of ensuring the achievement of these objectives by itself since they largely depend on the performance of some other bodies, both European and international. These bodies are, among others, the following:

– **Committees of Supervisors**[2] are independent advisory groups established by Commission Decisions[3] and made up of the national supervisors competent in the field of securities, banking and insurance in each Member State. The Commission decisions setting up the Committees of Supervisors do not provide the Committees with a legal personality on the European level. However, to be able to contract with third parties and to receive administrative support to carry out their missions as provided for in the Commission decisions, the members of each Committee of Supervisors have set up support structures with legal personality in each Member State where these committees are situated, i.e.

1 See for instance Conclusions from the Spring European Council, Brussels 13-14 March 2008, para. 30 et seq., available on http://register.consilium.europa.eu/pdf/en/08/st07/st07652-re01.en08.pdf

2 Committee of European Securities Regulators (CESR), Committee of European Banking Supervisors (CEBS) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

3 Commission Decisions 2001/527/EC, 2004/5/EC and 2004/6/EC establishing Committee of European Securities Regulators (CESR), Committee of European Banking Supervisors (CEBS) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), respectively.

France, the United Kingdom and Germany.[4] The sole purpose of these structures is to provide such administrative support to the Committees.

The Committees' mandate is threefold. First, they act as independent bodies for reflection, debate and advice for the Commission in the above fields. Second, they contribute to the consistent and timely implementation of Community legislation in the Member States. Third, they contribute to the convergence of supervisory practices throughout the Community and promote cooperation in each of the above fields, for instance via the exchange of information. The Committees of Supervisors act independently when carrying out the second and the third aspect of their mandate, the supervision of financial institutions not being an EU competence *per se*. Convergence and supervisory cooperation are missions of EU public interest, as acknowledged by the ECOFIN Council and the European Parliament on several occasions[5].

– **International Accounting Standards Committee Foundation (IASCF)** is a not-for-profit corporation incorporated in the State of Delaware, USA. Its operating office is based in London, United Kingdom[6]. The IASCF provides the overall governance and funding framework for two entities, the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), which respectively issue International Financial Reporting Standards (IFRS) and interpretations of such standards. The International Accounting Standards Board (IASB) involves a broad range of stakeholders in its work through an open consultation process, including preparers of financial statements, investors, auditors and national accounting standards setters.

  Regulation (EC) No 1606/2002 on international accounting standards foresees that the European Commission may, subject to certain conditions, decide on the applicability of IFRS and related interpretations to the consolidated accounts of companies with securities listed on a regulated market within the Community. Pursuant to this Regulation, IFRS have been in force in the EU since 2005. New standards are periodically adopted by the Commission, subject to a regulatory comitology procedure.

– **European Financial Reporting Advisory Group (EFRAG)**[7] is a Belgian law non-profit international association ("IVZW/AISBL") set up in Brussels by the main European professional associations interested in financial reporting. Its current members are BUSINESSEUROPE (European Business Federations), FEE (European Federation of Accountants), CEA (European Insurance Organisation), EBF (European Banking Federation), ESBG (European Savings Banks Group), EACB (European Association of Co-operative Banks), EFAA (European Federation of Accountants and Auditors) and EFFAS (European Federation of Financial Analysts). It also co-operates with national accounting standards-setters from EU Member States. The European Commission is an observer in several EFRAG internal committees and working groups. EFRAG was set up in 2001 to assist the European Commission in the endorsement of international accounting standards by providing advice on the technical quality of such standards. EFRAG is also gradually taking up the role of pro-actively influencing the development of international accounting standards. This role is seen as crucial by all European stakeholders as it is important to ensure that the standards developed at the international level reflect the business reality and concerns of European firms.

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4 "Association Loi 1901" in France for CESR, " eingeschriebener Verein (e.V.)" in Germany for CEOIPS and "Limited company by guarantee and without share capital" in the UK for CEBS

5 See section 2.1. of the Annex on Committees of Supervisors.

6 http://www.iasb.org/About+Us/About+the+Foundation/About+Foundation.htm

7 http://www.efrag.org/

– **Public Interest Oversight Body (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 institutions[8], and the International Federation of Accountants (IFAC), which is the private body representing accountants and auditors worldwide[9]. The PIOB consists of ten members including its Chairman. 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.

  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.

Despite their major roles in contributing to more efficient supervision in the EU (Committees of Supervisors), assisting the European Commission in endorsing international accounting standards (EFRAG), developing these standards (IASCF) and ensuring sound public oversight of processes leading to the adoption of international auditing standards, potentially applicable across the Member States (PIOB), none of these bodies benefit from any financial support from the Community budget. This may affect their capacity to comply with their respective missions which are decisive for the functioning of the internal market. The current evaluation therefore examines whether and to what extent Community funding is appropriate.

The current models of financing, among the organisations under consideration, are varied. The funding models are, in principle, the following:

a) **Funding via contributions from public or private sources, either European or international**. The Committees of Supervisors in the financial services sector are financed by their members, who are supervisory authorities of Member States (i.e. public entities). EFRAG, on the contrary, is primarily funded by private bodies since its members are European associations representing the industry. The IASCF and the PIOB are also financed from the private sector and the contributions to their budgets come from professional organisations and/or stakeholders both within and outside the EU. Moreover, models combining public and private money also exist. This applies, for example, to EFRAG whose activities are to a certain extent co-financed via national funding mechanisms (NFMs) in Member States which may use funds from both public and private sources.

b) **Funding via contributions from members or stakeholders in general**. The Committees of Supervisors and EFRAG are financed by all their members, while the majority of

8 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) and the World Bank. The MG observers are: FSF (Financial Stability Forum) and IFIAR (International Forum of Independent Audit Regulators).

9 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 funds are provided by a single member, the International Federation of Accountants (IFAC), representing auditors and accountants from all over the world. The IASCF is not a membership organisation and is currently financed by external stakeholders, mostly on a voluntary basis and with the detailed modalities varying from one country to another. The four main international audit firms currently contribute about one third of the IASCF's funding, with the rest of the IASCF's funding provided mostly by listed companies.

c) **Funding via cash contributions or combined with contributions in kind**. As a general rule, the bodies in question are financed via cash contributions. In the case of EFRAG, however, about 40% of its current budget is funded via staff contributions. Also for the Committees of Supervisors, occasional contributions in kind have enabled development of certain activities (e.g. hosting of an EU component of a common IT system, organisation of trainings for free).

A detailed analysis of the current situation for each of these bodies is set out in the Annexes, establishing any shortcomings that need to be addressed with a view to ensuring the efficient functioning of the European single market.

1.2. Problem Definition

Proper implementation of some key European Union policies is at risk, either (i) because of insufficient financial means to carry out certain projects (Committees of Supervisors, EFRAG) or (ii) because of reliance on non-diversified, and voluntary funding from interested parties (IASCF, EFRAG, PIOB) – see Annexes for more detail.

The issue of funding is at the heart of the problem for these bodies: either the funding is insufficient or is non-diversified and provided on a voluntary basis by interested parties, leading to concerns about the independence of the work of the relevant bodies. A clear, adequate and stable funding solution for the above bodies is therefore necessary (i) to support EU supervisory convergence and cooperation, as underlined by the European Parliament and the ECOFIN Council on several occasions and (ii) to support the European financial sector and the European industry at large by ensuring that investors, creditors and other stakeholders have access to timely, reliable and relevant information about the financial condition of companies.

1.2.1. Insufficient Financial Means To Carry Out Public Interest Missions

The financial, accounting and auditing sectors have gone through major regulatory changes over the last few years, notably with the implementation of the Financial Services Action Plan, the setting-up of the Lamfalussy process for the regulation and supervision of the financial sector, the endorsement in the EU of International Financial Reporting Standards and the adoption of the 8th company law directive on auditing. As a result, the bodies concerned have become responsible for an increasing number of tasks of major political priority. However, very often, the funding which these bodies benefit from has been insufficient to allow them to fulfil their missions in a fully satisfactory way.

This situation causes serious difficulties in delivering important pan-European projects. In the case of the Committees of Supervisors, this applies, for example, to the Transaction Reporting

Exchange Mechanism (TREM)[10], which is a EU-wide IT system necessary for the implementation of the Markets in Financial Instruments Directive (MiFID). TREM is being established by the Committee of European Securities Regulators (CESR) which – due to its limited budgetary means – was not able to deliver the project on time in accordance with MiFID.

Generally, the Committees of Supervisors are currently unable to carry out any projects which reach beyond their basic activities[11], even if these are fundamental to enhancing supervisory cooperation and convergence. The current situation has a negative impact on the quality of the work carried-out by the bodies concerned. EFRAG, for example, is expected to provide (i) advice to the Commission on the technical quality of IFRS and, (ii) as a European representative, technical input to the International Accounting Standard Board. However, this latter role has been significantly constrained by the current lack of expert staff. At present, EFRAG is not in a position financially to recruit the number of accounting experts needed to manage its workload and to take up new responsibilities. The current resources of EFRAG allow it only to fulfil its task of providing the European Commission with endorsement advice. European technical input to the international standard setting process, which is at least equally important, does not receive sufficient priority. EFRAG's contribution to IASB work (and thereby that of European market players) is thus less influential in comparison to those of its American, Japanese and other counterparts. Consequently, EU business and economic interests may be less well represented in the IASB's work.

1.2.2. Reliance On Non-Diversified And Voluntary Funding From Interested Parties And Its Negative Consequences

The present funding arrangements of the IASCF, EFRAG and the PIOB imply that they receive most or a significant part of their funding from private-sector parties who have a direct stake in the outcome of their work. This situation gives rise to concerns about the operational independence of these bodies, as stakeholders may use the threat to withdraw or reduce funding to exercise undue influence over their standard-setting or oversight work.

IASCF, for instance still depends for about a third of its funding on the four big world-wide audit firms, who are precisely responsible for enforcing the accounting rules developed by the IASCF. Most of the rest of the IASCF's funding is provided on a voluntary basis by listed companies that are the primary users of IFRS.

EFRAG has been mainly financed by voluntary contributions from the main European industry associations representing stakeholders with an interest in financial reporting standards. EFRAG's financial reliance on them and the voting rights tied to their financial contribution raises concerns about the operational independence of EFRAG from the main organisations interested in financial reporting, whereas this organisation should act in the general European public interest.

The **PIOB** oversees the standard setting activities of IFAC in the field of auditing (via one of its Committees, the International Auditing and Assurance Standards Board (IAASB)) while

[10] TREM is an EU wide IT system which is being established by the Committee of European Securities Regulators (CESR) in accordance with the Markets in Financial Instruments Directive (2004/39/EC). For details, please refer to Annex on the Committees of Supervisors, section 2.2.1.

[11] Cf. the example of a common training programme of the Committees of Supervisors, Annex on the Committees of Supervisors, section 2.2.2.

being financed by IFAC at 93 %. In these circumstances, it appears difficult to make sure that independent oversight is actually ensured and to avoid risk of perceived conflict of interests with the audit profession represented by IFAC.

1.3. Objectives

1.3.1. Strategic objective

The strategic objective to be achieved by the new funding arrangements is to ensure stable, diversified, sound and adequate funding to enable the relevant bodies to carry out their EU-related or EU public interest mission in an independent, efficient and satisfactory way.

1.3.2. Operational objectives

1.3.2.1. Avoid reliance of IASCF, EFRAG and the PIOB on voluntary funding from interested parties, thus ensuring independence of their work.

A first operational objective is to avoid reliance of IASCF, EFRAG and the PIOB on non-diversified, voluntary funding from interested parties such as audit firms. Such reliance raises concerns of possible conflicts of interest. There is thus a need to ensure the independence of their standard-setting related activity before the translation of such standards into EU law i.e. standard setting (IASCF), standard reviewing (EFRAG) or standard setting oversight (PIOB).

1.3.2.2. In addition to the above, promote the international acceptance of IFRS and IAS

A second operational objective is to ensure that the IASCF's funding regime facilitates the broader international acceptance of IFRS, in particular in the United States of America. This would thus advance the Community's objective of achieving global acceptance of IFRS. In practice, this implies the need to establish a funding regime that is non-voluntary, transparent and stable.

1.3.2.3. Ensure fair burden sharing/ level playing field within the EU for the financing of IASCF and EFRAG

A third operational objective is to eliminate or mitigate concerns about free-riding or unfair burden-sharing within the EU. Under the current funding arrangements, funding schemes for the IASCF and/or EFRAG have been established in only a minority of Member States. This situation raises concerns of equity, as stakeholders in some Member States bear the cost of funding, while those in other Member States do not. There is therefore a need to ensure that the funding regime is reformed to eliminate or mitigate such concerns.

1.3.2.4. Ensure that Committees of Supervisors and EFRAG are adequately equipped with the financial means to carry out certain projects

A fourth operational objective is that the Committees of Supervisors and EFRAG are adequately equipped with the financial means to carry out certain new, strategic projects, which significantly exceed the current funding arrangements.

1.3.2.5. Achieve the above objectives within a reasonable period of time considering the EU and international context.

A fifth operational objective is to ensure that the establishment of satisfactory funding arrangements reflects the urgency dictated by the overall policy context. The need for urgent solutions in relation to funding has recently been underlined by the ECOFIN Council for the Committees of Supervisors, the IASCF and EFRAG.

Moreover, the reform of the funding regime of the IASCF and of EFRAG should be seen within the broader initiative to enhance their governance arrangements, which are expected to be finalised and/or implemented during 2009. In the case of EFRAG, the need for additional resources is also driven by the broader international acceptance of IFRS, in particular in major jurisdictions that can mobilise significant resources to participate in the IASB's standard-setting work. In this context, the EU must ensure that it has the means to appropriately influence international accounting developments.

In relation to PIOB, IFAC contribution has always be considered as a short term solution only.

1.4. Available Policy Options

1.4.1. Status quo

As examined in detail in the Annexes, under the present circumstances, the shortcomings described in section 1.2. could not be solved without a modification of the existing funding models or external intervention. Preserving the status quo would therefore imply that the given operational objectives, and hence the strategic objective will not be achieved:

⇒ IASCF, EFRAG and PIOB would continue to rely for most, or at least a significant part, of their funding on voluntary contributions from interested parties. The concerns around their independence will persist (Operational objective n° 1.3.2.1.).

⇒ As a result of the preceding paragraph, the global acceptance of IFRS would be undermined (Operational objective n° 1.3.2.2.).

⇒ There would be no improvement in the current situation in relation to free-riding within the EU. Stakeholders in some Member States would continue to bear the cost of funding, while those in other Member States do not, thus maintaining a situation were there is no level playing field and no fair burden sharing at EU level (Operational objective n° 1.3.2.3.).

⇒ The Committees of Supervisors and EFRAG would not be given the possibility, at least in a foreseeable future to take on new strategic tasks (certain projects relating to training of personnel and information technology in the case of the Committees of Supervisors, pro-active work in relation to IASCF for EFRAG) (Operational objective n° 1.3.2.4.).

⇒ To conclude, the status quo would not enable to achieve any of the above operational objectives within the foreseeable future (Operational objective n° 1.3.2.5.).

1.4.2. Increase in financial contributions within the existing funding model

Considering the status quo as unsatisfactory it is necessary to first examine whether increase in financial contributions under the present funding models would be viable and could help to resolve some of the existing problems. This solution should indeed be considered where bodies have been lacking financial means to fulfil their public interest mandate. This section is not relevant for the IASCF as the main concern about its funding arrangements is not the amount of funding it receives but the origin of its funding.

Ensuring adequate resources for the functioning of the **Committees of Supervisors** could be achieved by two kinds of actions. The members of the Committees would either need to pay considerably higher annual contributions to the Committees' budgets (i.e. almost a 30% increase on the basis of the request for contribution put forward by the Committees[12]) or commit additional funds for specific projects, or there could be a combination of both. This would require changes to budgetary provisions of the Committees' charters. At the same time, the national funding mechanisms would need to be adjusted.

Despite the encouragement for higher financial commitments by national authorities to their work within the Committees of Supervisors[13], the room for manoeuvre is limited. Difficult budgetary discussions have already taken place. As a result of the significant increase in their regular contributions over the past years[14], the Committees' members are no longer able or willing to provide additional funds to finance specific projects. Under the current circumstances, it is therefore unlikely that all Committees' members would be able to provide the contributions at a level which is required to finance the new needs of the Committees. Neither is it likely that the necessary changes at both Committees' and national levels would be implemented in a foreseeable future.

As regards the **EFRAG**, an increase in the contributions of its member organisations could be envisaged. However this option would not solve the current problems. EFRAG's level of independence would if not be decreased, at least perceived to be decreased by the general public. In addition, since EFRAG's independence will have to be increased in line with its public interest activities, individual stakeholders currently financing EFRAG will have to give up much of their existing influence in EFRAG. In this context, it does not seem reasonable to expect them to double their current amount of contribution to EFRAG's budget. From all discussions within the Supervisory Board of EFRAG and with several of the member organisations, it is clear that they are not willing or are not in a position to increase their contributions by such a degree that it would make a real difference, i.e. be enough for carrying out the pro-active work properly

One could also envisage an increase in contributions via the national funding mechanisms, but this would mean considerably higher annual contributions from their part (up to 160% increase on the basis of the projections for 2010[15]). Such mechanisms exist only in a few Member States and would first need to be established across all European Union countries. This would inevitably require some time. Furthermore, even if these funding mechanisms were set up in all Member States, reluctance to levy a tax, lack of political willingness to

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12 See section 2.4.8.2. of the annex on the Committees of Supervisors

13 For example, the ECOFIN of 14 May 2008 invited the Member States to ensure that adequate resources are in place for supervisory authorities to perform their EU work.

14 For details, refer to Annex on the Committees of Supervisors, section 2.4.2.

15 See section 4.4.9. of the annex on EFRAG

create another tax-like system, would not ensure sufficient funding nor lead to an appropriate increase in EFRAG's budget.

1.4.3. Setting up national funding schemes (public financing or levy over industry)

Alternatively, one should consider a modification to the present funding arrangements, in particular, by enlarging the membership of the organisations in question or extending the scope of contributors to their budgets (e.g. public funds in the case of financing from the private sector and vice versa). This would affect the work of these organisations in different ways:

⇒ As regards the **Committees of Supervisors**, enlargement of their membership would be impossible as a matter of principle. The members of the Committees are exclusively supervisory authorities of Member States, responsible for a specific sector, so that the Committees' composition and the number of their members are given *a priori*.

Therefore, the Committees could only envisage raising funds from non-member cash contributions coming from financial institutions which they supervise. To reach the level of Committees' spending needs the industry contributions would need to amount to one quarter or even one third of the Committees' budgets. This indeed exists in certain Member States where national supervisory authorities are partially financed by players of the private sector which they supervise.

At the Community level, however, such a funding model combining private money levied by way of a tax with public contributions coming from budgets of Member States' authorities would not be viable for the moment. Firstly, it would require complete re-shuffling of the Committees' funding model. Considering the difficult issues at stake (agreeing on private sector financing, different existing models), this is highly unlikely to be achieved at the present juncture taking into account that in accordance with the Committees' internal rules unanimous decision of all members would be needed to this end.

In addition, reluctance to levy a tax over the private sector, lack of political willingness to create another tax-like system, could mean that these funding mechanisms could not bring up sufficient funding for the Committees of Supervisors. This option also implies that the Member States would be entitled to decide on the level of their national contribution. This may result in a continuing lack of level playing field for listed companies of different nationalities. This makes this option also incompatible with the need to provide the Committees of Supervisors with sufficient funding within an acceptable period of time.

⇒ In the case of the **PIOB**, in order to avoid excessive dependence on a single contributor (IFAC), some other possible sources of funding have been discussed with Member States. In particular the possibility of having contributions from the EU national ministries (Economy, Finance, or Justice), supervisors of banks or of securities markets, and from EU national audit oversight bodies has been discussed at several meetings of the AuRC (the Audit Regulatory Committee) and of the EGAOB (the European Group of Auditors' Oversight Bodies). Questions were raised related to the inherent difficulties to agree on the geographical distribution within the EU, and to the fact that it is too early for many auditors' supervisors recently set up, as required by the 8th Company Law Directive, to make contributions to international bodies.

One could explore alternative sources of funding for PIOB, and especially industry financing. This indeed could be the case where the funding in certain Member States might come from large companies or national associations of auditors or accountants. Such an arrangement would be very difficult to set up and run, even assuming a reasonable co-operation from those entities. Indeed, companies or stock exchanges may legitimately argue that these standards concern the audit profession and not them and that therefore there is not any evident reason to act as a donor. Moreover, such a complex funding system would not benefit from economies of scale and can not be considered as cost-effective given the large number of individual contributions. This may also put into question, as is the case with IFAC, the operational independence of the PIOB.

⇒ **EFRAG's** current founding members are representing and thus are financed by the main beneficiaries of EFRAG's work: listed companies and investors. The other source of EFRAG's funds, national funding mechanisms exist currently only in some Member States. Setting these up is time-consuming, whereas the need for a sound EU representation at the international accounting level is urgent. And even if such funding mechanisms were set up in all Member States, this solution would not lead to an appropriate increase in EFRAG's budget.

Reluctance to levy a tax over the private sector, lack of political willingness to create another tax-like system, mean that these funding mechanisms cannot sufficiently increase the contribution to the work of EFRAG. This option also implies that the Member States would be entitled to decide on the level of their national contribution. This may result in a continuing lack of level playing field for listed companies of different nationalities.

While Member States are reluctant to increase the levies on national levels, imposing an EU-wide tax-like levy would require unanimous support from the Member States. There is no provision in the Treaty that would allow the Community to impose a fee on private companies in favour of another private body or association.

⇒ In the case of **IASCF**, existing national funding mechanisms in EU Member States take the form either of privately-arranged voluntary funding schemes or, in a minority of cases, of statutory levies on companies with listed securities. National funding schemes have been established in only 8 Member States.[16]

In order to achieve a level playing-field within the EU and to promote the independence of the IASB, the IASCF's funding regime would need to ensure non-voluntary contributions shared on an equitable basis by stakeholders in all Member States. This could in principle be achieved by establishing a national funding scheme based on a statutory levy in each Member State.

Such national funding schemes would require a legal basis in either national or Community law. However, the adoption of a harmonised statutory levy is not feasible for a combination of legal and political considerations (lack of an explicit legal basis for such a proposal in the EC Treaty, political objections to Community intervention in direct taxation).

In the absence of a Community legal basis, the Commission could promote the establishment of national funding schemes based in those Member States where none exist

[16] France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom.

for the time being. This approach was already suggested in the conclusions of the ECOFIN Council of July 2006, and experience has shown that it has not been successful in meeting our objectives.

1.4.4. Co-financing under the Community budget

The financial contribution from the EU budget will provide a stable and clear source of funding for the Committees of Supervisors, IASCF, EFRAG and PIOB. Based on the proposal for a European Parliament and Council Decision establishing a new Community programme, a new permanent budget line will be created to this end.

A financial contribution from the EU budget will eliminate or mitigate the reliance of the IASCF, EFRAG and PIOB on non-diversified and voluntary contributions from interested parties. This will enhance the independence of each of these three bodies;

⇒ as a result of the preceding paragraph, the global acceptance of IFRS and ISAs would be promoted;

⇒ Committees of Supervisors and EFRAG would be given the possibility to take on new strategic tasks corresponding to growing expectations;

⇒ co-financing under the EU budget will ensure a level playing and a fair burden sharing at EU level for all bodies concerned;

⇒ co-financing under the EU budget can be achieved within a reasonable period of time.

1.4.5. Setting up a dedicated EU Agency or body

While considering options for installing stable budgetary arrangements the Commission services looked into the issue of Community agencies. Agencies are granted an autonomous budget, which is financed entirely or partially from a Community subsidy set aside for this purpose in the general budget of the European Union.

This subsidy element from the Community budget, combined with agency's independence and accountability to the EU institutions, could theoretically solve the budgetary problems of the bodies under consideration since it would provide them with a stable, regular funding from a public source.

However, in the case of the established international bodies (**IASCF, PIOB**), transforming them into Community agencies or creating a dedicated EU standard setting or oversight body would be neither feasible nor appropriate considering the international character of IFRS or ISAs. As regards the **Committees for Supervisors** and **EFRAG** this would be, at the present juncture, not politically feasible[17]. Indeed, the Commission intends to launch a horizontal evaluation of the existing EU regulatory agencies and has decided not to make any proposals for a new regulatory agency until the conclusion of this exercise (end of 2009)[18]. In addition, on 21 October 2008, the European Commission set up a high level group, chaired by Jacques

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[17] For details, refer to Annex on Committees of Supervisors, section 2.4.5., and Annex on EFRAG, section 4.4.5.

[18] For details, refer to Communication from the Commission to the European Parliament and the Council. European agencies – The way forward (COM(2008) 135 final).

de Larosière.[19] This group will look at the possibilities to strengthen cross-border financial supervision and the Commission will await its recommendations that are foreseen for the spring 2009 European Council.[20] As a result, the outcome of these discussions should not be pre-empted.

1.4.6. Comparison of options

As part of the present evaluation an individual analysis for each entity in question was carried out, assessing all available options and, in particular, use of alternative sources of financing. The criteria used for the comparison of options have been considered equally important in testing the cost-effectiveness of each option. However, for each body concerned by the funding proposal, some of these criteria feature more prominently within their specific context. Therefore, with this in mind, the criteria have been prioritized, rather than weighted, as explained in each of the comparison of options section of the four annexes.

The major findings are compared in the below table:

ASSESSMENT / **OPTIONS**	**Achievement of objectives** **High (+++)** **Medium (+/-)** **Low (- - -)**	**Time needed for implementation** **High (+++)** **Medium (+/-)** **Low (- - -)**	**Feasibility** **Straightfroward (+++)** **Medium (+/-)** **Complex (- - -)**	**Implication for EU budget** **Positive (+ to +++)** **Negative (- to - - -)**	**Overall Assessment** **Positive (+ to +++)** **Negative (- to - - -)**
Option 1 Status Quo	- - -	- - -	+ + +	+++	- -
Option 2 Increase contributions within the existing funding models	- - -	+ + +	- -	+++	- -
Option 3 Setting up national funding schemes	+/-	+ + +	- - -	+++	- -
Option 4 Setting up dedicated EU Agency or EU body	+++	+ + +	- - -	---	+/-

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19 See Speech of José Manuel Durão Barroso, President of the European Commission, 21st October 2006 in Strasbourg: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/544&format=HTML&aged=0&language=EN&guiLanguage=en

20 Décision de la Commission relative à la mise en place du Groupe d’experts de haut niveau sur la supervision financière (C(2008) 6492).

Option 5 Co-financing under the Community budget	+ + +	- - -	+ + +	----	+ + +

Status quo (**Option 1**): even if by definition, and on the positive side, time needed for implementation would by definition be equal to zero, feasibility would not raise any difficulties, and there would be no implication for the Community budget, **Option 1** would achieve none of the objectives, which is enough to disqualify it (see section 1.4.1. above).

Increase of contributions under the current funding arrangements (relevant for the Committees of Supervisors and EFRAG) **(Option 2)**: on the positive side, one should consider the absence of impact of Option 2 for the Community budget. On the negative side, feasibility is likely to be low, considering the current funding difficulties. It is likely that none of the objectives would be achieved. Time needed for implementation due to the complexity of the issue is likely to be long, whereas time is of the essence in the context of the financial crisis. For these reasons, Option 2 is to be disregarded.

The assessment of **Option 3** (**Setting up national funding schemes)** is similar to Option 2. On the positive side, one should consider the absence of impact of Option 3 for the Community budget. On the negative side, feasibility is likely to be even lower than Option 2, due, *inter alia*, to likely political resistance among some Member States to the creation of a new levy-like system at EU level or possible institutional obstacles (cf. for instance IASCF). As a result of the political and legal uncertainties surrounding this solution, there is no guarantee that the objectives would be achieved (in particular ensuring adequate financial means (cf. section 1.3.2.4.) or ensure fair burden sharing/ level playing field (section 1.3.2.3.)). Moreover, time needed for implementation due to the complexity of the political and institutional issues is likely to be long, whereas time is of the essence in the context of the financial crisis. For these reasons, Option 3 is to be disregarded.

For **Option 4**, i.e. **Setting up of a dedicated EU** Agency (Level 3 Committees, EFRAG) (not relevant for international organisations such as IASCF or PIOB – see section 1.4.5. for further explanations), the assessment is as follows: on the positive side, the objectives would be achieved. On the negative side, feasibility is low due to the current Commission approach on agencies. As a result, time needed for implementation is likely to be high, whereas time is of the essence in the context of the current financial crisis. Another drawback would be the implication for the Community budget. For these reasons, Option 4 is to be disregarded.

Co-financing under the Community budget (Option 5) presents the drawback of its impact on the Community budget. On the other hand, Option 5 presents several advantages. It would allow the achievement of all the objectives outlined in section 1.3. In particular, it would bring clarity by avoiding reliance on voluntary funding from interested parties in relation to IASCF, EFRAG and PIOB and by ensuring a level playing field for contributions in the EU. Option 5 is also technically feasible and will ensure that the current situation is improved in short to medium term, which is crucial as time is essential in the context of the current financial crisis. The credibility and independence of the different bodies financed would be safeguarded as this would put an end to the reliance on voluntary funding from interested parties to fulfil a public and community interest mandate pursuant to Community law.

In addition, a contribution from the EU budget would be appropriate for the following reasons:

- In the context of the current financial crisis, the EU would demonstrate its willingness to upgrade certain issues of supervision of financial institutions and accounting standards;

- In relation to international organisations such as IASCF and the PIOB, a Community funding programme will strengthen the position of the European Union, notably in the context of the current discussions on the governance of these bodies. This will also be the case in relation to EFRAG by strengthening its ability to feed European views into the standard setting process within the IASCF;

- In the case of IASCF, EFRAG and PIOB, it would signal Community interest in international solutions to all parties concerned and encourage other public bodies and institutions to provide funds to these organisations;

- It would enhance the general recognition of EFRAG and PIOB;

- Financial support under the Community budget would provide the chosen beneficiaries with a stable solution in terms of budgetary planning;

- At the same time, the Community funding would also allow for some flexibility, especially if the beneficiaries are financed via action grants (see below). In these cases, the EU contributions would be easily adjustable with respect to actual needs and level of priority;

- Community co-funding can be established within a short to medium period of time. If the founding Decision is adopted by the co-legislators in 2009, the new Community programme could be launched as of 2010;

- Moreover, the Community funding programme could serve as a framework for further urgent funding needs which may occur in the future. To this end, it would need to contain some flexible provisions to extend the list of beneficiaries to the Community programme, originally identified in the founding Decision (e.g. comitology procedure for new long-term beneficiaries).

Therefore, taking into account limitations of the other available options and the strong Community interest in meeting the objectives outlined in section 1.3. in the short to medium term, a financial contribution to all analysed bodies coming from the Community budget (Option 5) seems to be the most appropriate solution.

1.4.7. Method of implementation for the selected option

Regarding the legal support structures to the Committees of Supervisors, IASCF, EFRAG and PIOB as possible eligible beneficiaries, each of these entities complies with the requirements laid down in the Financial Regulation because they all pursue an aim of general interest and are non-profit organisations. Legally speaking each of these entities has been incorporated and is regulated under, respectively French/German and UK law (Committees of Supervisors), US law (IASCF), Belgian law (EFRAG) and Spanish law (PIOB) as not-for-profit organisations.

In practical **terms of implementation**, financial support from the Community budget can be provided via action or operating grants. Whereas the funding concerns of the Committees of Supervisors could be best addressed by targeted financing of specific projects via action grants, in the case of the EFRAG, IASCF and PIOB proportional EU contribution to their budgets would be more appropriate via operating grants[21].

Specific requirements with regard to EU funding of each potential beneficiary as well as the most appropriate method of implementation have been described in detail in the annexes and are summarised below.

1.4.7.1. Committees of Supervisors

Targeted Community financing for specific projects regarding in particular training of personnel and information technology will put the Commission in a better position to ensure that these projects are delivered in time and in a proper way. The implementation of the project will be monitored in detail in line with the project description submitted by the Committee(s) and agreed with the Commission.

1.4.7.2. *IASCF*

In view of the public policy objectives and the type of beneficiary, it is considered that a direct financial contribution from the EU budget by way of an operating grant constitutes the best solution to address the proposed funding. Indeed, the choice to provide an operating grant to the IASCF seems the most appropriate because, unlike a grant for action, which helps to co-finance a one-off action over a given period of time, an operating grant allows co-financing of the whole institution's functioning from a much broader perspective.

1.4.7.3. *EFRAG*

In the case at hand, the aim is to finance mainly the pro-active work of EFRAG; therefore the option of co-financing EFRAG via action grants has also to be considered. However, the activities of EFRAG are highly interdependent. The same experts do the pro-active work and the tasks related to endorsement advice. Therefore, it seems almost impossible to determine which costs should be considered as eligible for financing and which relate to activities that would not be the subject of the Community funding. Consequently, EFRAG can be co-financed only via an operating grant.

Developing and representing an influential, single "European accounting voice" is clearly a pan-European project that should be able to count on the support of the European Community. Top-quality European accounting experts have to be recruited and employed by EFRAG in order to be able to match the experience of the international standard setters and efficiently represent the European interests.

1.4.7.4. *PIOB*

In view of the public policy objectives and the type of beneficiary, it is considered that a direct financial contribution from the EU budget by way of an operating grant constitutes the best solution to address the proposed funding. Indeed the choice to provide an operating grant to the PIOB seems the most appropriate because:

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[21] For details, refer to Annexes on Committees of Supervisors (section 2.4.7.), IASCF (section 3.4.6.), EFRAG (section 4.4.8.) and PIOB (section 5.4.6.).

⇒ Whereas some organisations work on an activity-based budgeting system, the PIOB, given its size and mandate, operates on a cash budget basis which is not conceived for the monitoring of the implementation of specific activities;

⇒ Unlike a grant for action, which helps to co-finance a one-off action over a given period of time, an operating grant allows co-financing of the whole institution's functioning from a much broader perspective.

1.4.8. Volume of appropriations, human resources and other administrative expenditure

In view of estimations realised on the basis of, as the case may be, current or projected expenses of the different bodies (see relevant annexes for further explanations), it is considered reasonable that the yearly Community intervention for the period 2010-2013 amounts to the following amounts:

	Yearly contribution (in EUR)	**Total contribution (in EUR) over the 2010-2013 period**
3 Committees of Supervisors	2,000,000	8,000,000
IASCF	5,000,000 (as from 2011)	15,000,000
EFRAG	3,000,000	12,000,000
PIOB	300,000	1,200,000
Total amount	*5,300,000 (10,300,000 as from 2011)*	*36,200,000*

Finally, management of such Community programme would entail related **administrative work by the services of the European Commission**. It is estimated that 12 additional posts for officials in the financial field would need to be created as the result of the management of the programme in operational units' in the financial unit and in the Internal audit capability of the Directorate-General Internal Market and Services.

1.5. Conclusion

In view of the above and to ensure stable, diversified, sound and adequate funding to enable the Committees of Supervisors, IASCF, EFRAG and PIOB to carry out their EU-related or EU public interest mission in an independent, efficient and satisfactory way, it is considered important for the Community to contribute to their funding.

Such a funding would in particular:

⇒ Ensure that Committees of Supervisors and EFRAG are adequately equipped with the financial means to carry out certain new, strategic projects, which significantly exceed the current funding arrangements

Ensure that IASCF, EFRAG and PIOB do not rely on non-diversified and voluntary funding from interested parties thus avoiding concerns as to the credibility and independence of their standard-setting related activity before the translation of these standards into Community law.

Specifically, it is concluded that the best way forward is to co-finance the Committees of Supervisors, IASCF, EFRAG and PIOB either by way of an action grant (Committees of Supervisors) or by way of an operating grant (IASCF, EFRAG and PIOB).

It is proposed to provide the Committees of Supervisors, IASCF, EFRAG and PIOB with a total sum of EUR 5,300,000 (10,300,000 as from 2011) per year for the 2010–2013 period, making a total of EUR 36,200,000.

1.6. Follow-Up: Arrangements For Monitoring, Reporting And Evaluation

Details of specific success criteria for use in the evaluation are set out in the annexes.

The proposed Community programme is intended to run until the end of the financial perspectives 2007-2013. Prior to the end of the financial perspectives, i.e. before 2012, the programme as a whole will be evaluated to determine whether the funding arrangements should be continued after 2013 and, if so, to provide an evidence-base for the submission of a proposal for renewal, with appropriate amendments if necessary, in the light of the experience gained during the previous programme operations. An article to this effect will be included in the proposal.

More specifically, and as provided for in the implementing rules applicable to the general budget of the European Communities, the evaluation will review the human and financial resources allocated and the results obtained in order to verify that they were consistent with the objectives. The evaluation shall be carried out in accordance with a timetable which enables the findings of that evaluation to be taken into account for any decision on the renewal, modification or suspension of the programme. The evaluation shall be proportionate to the resources mobilized for, and the impact of, the programme.

2. ANNEX I TO THE EX-ANTE EVALUATION: PROPOSED COMMUNITY FUNDING OF THE COMMITTEES OF SUPERVISORS IN THE FIELD OF FINANCIAL SERVICES (CESR, CEBS AND CEOIPS)

2.1. Background

Whilst the EU has equipped itself with a largely harmonised prudential framework in the field of financial services, the effective, day-to-day implementation of such rules and supervision of financial institutions and markets remains a Member State prerogative. Already in its final report of 2001[22], the Committee of Wise Men on the Regulation of European Securities Markets remarked that "*existing rules and regulations are implemented differently and […] therefore inconsistencies occur in the treatment of the same type of business, which threatens to violate the pre-requisite of neutrality of supervision*". The Stockholm European Council of March 2001 endorsed this recommendation and called for "*National regulators and the Regulators Committee* [to] *play an important role in the transposition process* [of EU legislation] *by securing more effective cooperation between supervisory authorities, carrying out peer reviews and promoting best practice, so as to ensure more consistent and timely implementation of Community legislation in the Member States*"[23]

As a result, the Lamfalussy process[24], first launched in 2001 in the securities sector and extended in 2005 to banking and insurance, provides for stronger cooperation between national supervisory authorities and convergence in the day-to-day application of EU directives. This has to be achieved by the Committees of Supervisors, established by Commission Decisions[25] and consisting of high level representatives from Member States' supervisory authorities competent in the field of securities, banking and insurance in each Member State. The three Level three Committees[26] do not have legal personality on the European level. However, in order to be able to contract with third parties and facilitate the operation and administration of the Committees, the members of each Committee of Supervisors have set up support structures with legal personality in each Member State where these committees are situated, i.e. France, the United Kingdom and Germany[27].

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22 http://ec.europa.eu/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf

23 See annex I of the European Council conclusions of March 2001, available on: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.%20ann-r1.en1.html

24 The Lamfalussy process is a 4-level regulatory approach for adoption, implementation and enforcement of legislation and implementing measures in the financial services area. At Level 1, framework legislation setting out the core principles is adopted by co-decision after a full consultation process. At Level 2, technical implementing measures are adopted by the Commission, on the advice of the relevant advisory committee, after a binding vote of the competent comitology Committee and taking into account the European Parliament's view. At Level 3, the appropriate advisory committee draws up common interpretation guidelines and common standards and compares regulatory practice in the various Member States to foster supervisory convergence and cooperation. Level 4 is where the Commission enforces the timely and correct transposition of EU legislation into national law.

25 Commission Decisions 2001/527/EC, 2004/5/EC and 2004/6/EC establishing Committee of European Securities Regulators (CESR), Committee of European Banking Supervisors (CEBS) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), respectively.

26 Commission Decisions 2001/527/EC, 2004/5/EC and 2004/6/EC establishing Committee of European Securities Regulators (CESR), Committee of European Banking Supervisors (CEBS) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), respectively.

27 "Association Loi 1901" in France for CESR, " eingeschriebener Verein (e.V.)" in Germany for CEOIPS and "Limited company by guarantee and without share capital" in the UK for CEBS

The Committees' mandate is threefold. First, they act as independent bodies for reflection, debate and advice for the Commission in the above fields. Second, they contribute to the consistent and timely implementation of Community legislation in the Member States. Third, they contribute to the convergence of supervisory practices throughout the Community and promote cooperation in each of the above fields, for instance via the exchange of information. The Committees of Supervisors act independently when carrying out the second and the third aspect of their mandate, the supervision of financial institutions not being an EU competence *per se*. Convergence and supervisory cooperation are missions of EU public interest, as acknowledged by the ECOFIN Council and the European Parliament on several occasions, as explained below.

In 2007, the Lamfalussy process and the functioning of the Committees of Supervisors in particular were extensively evaluated by the European Institutions and various groups (see in particular the report of the Inter-institutional Monitoring Group (IIMG)[28], the Commission Communication on the Review of the Lamfalussy process[29], the report of the sub-group of the Financial Services Committee of the Council of Ministers [30] and the Resolution on financial services policy of the European Parliament[31]). These contributions triggered a debate at political level which resulted in ECOFIN Council Conclusions of 4 December 2007 with a roadmap on concrete actions to be implemented in 2008 and 2009.

This review of the Lamfalussy process underlined in particular the urgent necessity to strengthen the functioning of the Committees, also in budgetary terms. The ECOFIN Council Conclusions of 4 December 2007[32] underlined in particular "*the importance of [the three Committees of Supervisors] and their members having adequate means to fulfil their tasks in terms of EU supervisory convergence and cooperation*".

Although the Committees provide for a European structure for financial supervision across Member States they do not receive any financial support from the Community budget. Hence stakeholders and European institutions argued in the recent evaluations that an EU funding for some activities of the Committees of Supervisors is worth considering.

In its Communication on the Lamfalussy review, the Commission stated that *"some financial assistance may be appropriate to encourage European supervisory convergence, provided it meets existing EU regulatory and budgetary provisions. The Commission is examining possible modalities of contributing to the financing of both specific projects stemming from legal obligations under existing directives and of cross-sectoral training schemes for EU supervisors in a first instance and non-EU supervisors subsequently"*.

Accordingly, the ECOFIN Council invited the Commission in its Conclusions of 4 December 2007 *"(i) to consider financial support from the EU budget for specific EU wide projects that are requested from [the three Committees of Supervisors]; and (ii) to study the possibilities*

28 http://ec.europa.eu/internal_market/finances/committees/index_en.htm#interinstitutional
29 COM(2007) 727 final
30 The final FSC's Report on Long Term Supervisory Issues ("Ter Haar Report"; FSC 4162/08) was adopted in March 2008.
31 (2007)0338
32 Council Conclusions 15698/07 of 4 December 2007

for EU funding under the EU budget of the development of tools to help build a common supervisory culture by [the three Committees of Supervisors]".

In the Council Conclusions of 14 May 2008, the ECOFIN repeated that it looks forward *"to the Commission assessment and proposal concerning financial support under the EU Budget for specific EU-wide projects that are requested from the EU Committees of Supervisors and for developing supervisory tools and for building a common supervisory culture".*

In its opinion of 10 September 2008 on the draft 2009 EU budget, the Committee on Economic and Monetary Affairs of the European Parliament reiterated that "*sufficient funding must be set aside for a financial contribution to the functioning of the three Lamfalussy level 3 committees*"[33].

The present report responds to these requests and examines whether and to what extent Community funding is appropriate.

2.2. Problem Definition

2.2.1. Insufficient financial means to carry out public interest missions

The Committees of Supervisors are financed by their members who contribute annually to the Committees' budgets according to their internal rules of procedure which define the way contributions are calculated and the modalities of payment. The contributions are currently based on the number of votes held by the respective Member State in the Council.

Since their establishment in 2001 and 2004, the Committees have been obliged to considerably uplift their resources in order to match the broadening scale of tasks which they are expected to carry out. The Committee of European Securities Regulators (CESR), which is the original Committee of Supervisors, reported that its total budget has significantly increased in six years of its existence and reached almost € 3.5 million[34] in 2007. Total expenses of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) in 2004 and 2005[35] amounted to € 385.000[36] and € 909.000[37], respectively, in comparison to € 1.790.000[38] in 2007[39]. The Committee of European Banking Supervisors (CEBS) spent in 2005 which was its first full operational year about £ 1.6 million [40] compared to over two million pounds[41] in 2007.

Despite the efforts of their members (in the case of CESR, for example, contributions from members increased in one year from € 2.450.001 in 2006 to € 4.009.995 in 2007), the

33 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-/EP//NONSGML+COMPARL+PE-407.786+02+DOC+PDF+V0//EN&language=EN
34 See Annual Financial Statement in CESR Annual Report 2007, p.87
35 2004 being a setting up period for CEIOPS, a certain amount of costs related to the first months of establishment were incurred, which were charged to CEIOPS only in 2005.
36 See Annual Financial Statements in CEIOPS Annual Report 2004, p. 41
37 See Financial Statements in CEIOPS Annual Report 2005, p. 65
38 See Financial Statements in CEIOPS Annual Report 2007, p. 91
39 At the same time, the total revenues increased from € 760.079,31 in 2004 and € 1.674.171,30 in 2005 to € 1.790.000,00 in 2007.
40 See Revenue and Expenses in CEBS Annual Report 2005, p. 40. The total revenues in 2005 amounted to £ 1.861.000.
41 See Financial Statement in CEBS Annual Report 2007, p. 61. The total revenue in 2007 equalled to £ 1.497.000.

Committees' budgets have not grown to the level which is required to cover the (real or desired) expenditures of the Committees, due to the incapacity or unwillingness of these members to commit additional funds. For small authorities, the annual contribution to one of the Committees might currently represent more than 5% of their budget and for authorities from Member States benefiting from a high number of votes but regulating a relatively small financial market the annual contribution is perceived as unfair (see for example CESR's contribution to the Lamfalussy review [42]). It is estimated that together the three Committees of Supervisors currently lack in total about €3 million a year to reach the level of their spending needs (for details see below).

At the present juncture, the available resources allow the Committees to perform their main tasks and to cover operational cost. By "main tasks", one should mean (i) advice on technical issues (including analysis of impact) to the Commission when the Commission drafts legislative proposals and implementing measures and (ii) contribution to a consistent and timely implementation of the Community law as well as to convergence of supervisory practices (via the issuance of non-binding standards, guidelines and recommendations). However, there is an increasing necessity to develop new, sizeable projects which significantly exceed current funds.

So far, such projects have been financed from reserves accumulated by the Committees in the past and by additional, voluntary contributions of Committee members (e.g. yearly contributions paid for the development of a Transaction Reporting Exchange Mechanism (TREM) (see section 2.2.2. below) in addition to regular member's fees, organisation and hosting of seminars within the training project).

This approach, however, has reached its limits. It has led to situations where it has been very difficult to provide projects beyond the operational agendas of the Committees with sufficient resources. This is in particular due to the following reasons:

– The Committees' overall budgets and thus regular cash contributions from their members have significantly increased over the past years along with the extension of Committees' tasks. As a result, the Committees' members are no longer able or willing to provide additional funds.

– Development of such projects requires sizeable resources. It is estimated, for example, that in 2008 the funds needed for development of the TREM project will equal to about one quarter of CESR's operational budget.

– The establishment of new frameworks at EU level coincides frequently with the setting up of the national level of such frameworks. So the Community and national systems compete for the same resources within the budgets of national supervisory authorities (in particular in these Member States whose supervisors’ budgets are quite limited).

The two main categories of such projects are, on the one hand, information technology projects relating inter alia to the establishment of databases for exchange of information between national supervisors (see section 2.2.2. with the example of TREM), IT systems

[42] "A proposed evolution of EU securities supervision beyond 2007" (CESR ref. 07-783), p. 7; http://www.cesr-eu.org/popup2.php?id=4854

for common reporting[43] and web-based frameworks for supervisory disclosure[44] and, on the other hand, projects relating training of personnel, as inter alia, common training programmes for officials from national supervisory authorities [45] (see example under section 2.2.3. below) and staff secondment schemes.

2.2.2. *Information technology projects*

The "Transaction Reporting Exchange Mechanism" (TREM) is a key component in the implementation of Markets in Financial Instruments Directive (MiFID). TREM is an EU wide IT system allowing regulators to exchange among themselves transaction reports submitted by firms in relation to transactions in instruments admitted to trading on regulated markets. Those reports, and the exchange of information, are envisaged within Article 25(3) of the MiFID[46].

TREM is being established by the Committee of European Securities Regulators (CESR). Its financing is divided between set-up and running costs. In the absence of any EU funding, the project is currently financed from CESR reserves and additional, direct contributions by CESR members. However, as described above, it has been very difficult to ensure sufficient resources for the creation and operation of the TREM.

(1) This has resulted in significant delays in delivering the project on time. Moreover, under present circumstances, CESR was able and decided to put in place only an "interim solution" which is based on the use of an existing infrastructure (i.e. the EU component is hosted by a CESR member). A "longer-term" solution should be developed as soon as the resource situation permits.

(2) The development of the TREM is divided into several subprojects. Therefore, the related cost can vary over time and amounts, on average, to between EUR 500 thousand to EUR 1 million a year.

2.2.3. *Projects relating to training of staff of national supervisors*

A practical response to the necessity of building up a pan-European financial supervisory culture are common training programs for staff from national supervisory authorities which

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[43] As highlighted in the Commission's 2007 evaluation of the Lamfalussy process development of common reporting standards (ie reporting duties of financial institutions to their respective supervisors) is one of the Commission's priorities (cf. Communication on Lamfalussy review, chapter 4.5, p. 12). The up to now result has not lived up to the expectations (see ibid, chapter 4.1, p. 7).

[44] For example, article 144 of the Capital Requirement Directive (CRD) includes the requirement for supervisors to disclose information regarding the implementation of the CRD in national law and the use made of a range of national options and discretions in this Directive. To facilitate its consistent implementation CEBS has developed a web-based mechanism for supervisory disclosure. A similar provision has been included in the proposal for the Solvency II Directive in the insurance sector.

[45] In its 2007 evaluation of the Lamfalussy process, the Commission acknowledged the important role of training programmes and staff exchanges between supervisors in the development of a common supervisory culture (cf. Communication of Lamfalussy review, chapter 4.1, p.7)

[46] The basic components of TREM are (i) a central hub (computer system facilitating exchange of files between national authorities) and (ii) 29 local interfaces to this central hub (computer systems run by national authorities in order to interface between the central hub and national transaction reporting systems).

are currently being developed by the Committees of Supervisors. A few pilot seminars[47], hosted by Committee members, took place in late 2007 and early 2008.

Organisation of events in two main areas is foreseen. Firstly, cross-sectoral training co-developed and co-delivered by all three Committees of Supervisors which will be launched in 2009. Secondly, sectoral training programs of each Committee building upon their present practice[48]. These programs will aim at enabling staff from national supervisory authorities to deepen their knowledge of EU regulatory processes, to share practical experience in their day-to-day supervisory activities, to develop common practices and thus foster common European supervisory culture.

Moreover, as already mentioned in the Commission Review of the Lamfalussy process, it would be beneficial from the EU perspective if these programs were gradually extended to involve supervisors from third countries: *"Their participation in the training programmes would be aimed at raising awareness and improving their knowledge of the EU regulatory system and therefore helping to promote the EU's regulatory approach as international best practice to build a sustainable network between global regulators.*[49]*"*

The participants to the trainings will be charged as the preparation of the pilot seminars showed that participants can afford to pay €500 – 600 for a 2-day seminar, taking into account other expenses to be borne by the participants such as accommodation, travel expenses. However, these fees will not cover all the running cost of these programs, as the cost of a 2-day seminar for 35 participants is estimated at € 30 – 40.000[50]. The Committees of Supervisors will therefore need to raise additional funds if these programs are to be delivered.

2.3. Objectives

2.3.1. Strategic objective

The strategic objective to be achieved by the proposed funding arrangement is to ensure stable, diversified, sound and adequate funding to enable the Committees of Supervisors to carry out certain projects in an independent, efficient and satisfactory way.

2.3.2. Operational objectives

2.3.2.1. Ensure that Committees of Supervisors are adequately equipped with financial means

A first operational objective is that the Committees of Supervisors are adequately equipped with the financial means to carry out certain new, strategic projects, which significantly exceed the current funding arrangements.

– Increase in financial means of the Committees of Supervisors will improve their output, both in qualitative and quantitative terms. In the light of the problems outlined in section 2.2. above, additional funding would enable in particular:

[47] For more information, see e.g. CESR Annual Report 2007, p. 76

[48] See e.g. CEIOPS Annual Report 2007, p. 28 et seqq.

[49] Commission Communication on the Review of the Lamfalussy process, p. 13

[50] The three Committees of Supervisors plan to jointly organise at least 10 cross-sectoral a year. In addition to this common work, each Committee expects to run yearly about 15 sector-specific seminars.

– The development of training programmes for officials from national supervisory authorities both at sectoral (banking, securities and insurance) and cross-sectoral level or of secondment schemes, which would foster the emergence of an European supervisory culture and deepen cooperation between national supervisory authorities ; and

– The development of heavy and complex projects aimed at supervisory convergence, involving substantial IT development costs, such as in the case of TREM (see above), IT systems for common reporting or web-based frameworks for supervisory disclosure.

2.3.2.2. The above objectives should be achieved within a reasonable period of time considering their urgency in the current EU and international context

A second operational objective is to achieve the above objectives within a reasonable period of time considering their urgency in the current EU and international context.

As concluded in the 2007 Commission's evaluation of the Lamfalussy process[51], the recent turmoil on financial markets *"has clearly demonstrated growing interconnectivity and globalisation of financial markets. (…) This experience further underscores the need to adopt a globally convergent approach to regulation and supervision, with sound prudential rules and a consistent approach to supervision."* The Committees of Supervisors have a key role to play in this respect.

Reflecting this sense of urgency from a political point of view, the ECOFIN Council asked for concrete progress by the end of 2008 in the implementation of the Lamfalussy roadmap in the conclusions of its meeting of 14 May 2008: "*The Council STRESSES the need for full and timely implementation of the roadmap agreed in December 2007 on the Lamfalussy review, including financial supervision, to achieve further concrete results by the end of 2008*[52]." Among the initiatives to be implemented (cf. section 2.1. above), the ECOFIN Council specifically referred to the "*Commission assessment and proposal concerning financial support under the EU Budget for specific EU-wide projects that are requested from the EU Committees of Supervisors and for developing supervisory tools and for building a common supervisory culture".*

In its work programme in the economic and financial field (established together with the forthcoming Czech and the Swedish Presidencies –released in June 2008), the French Presidency of the Council of the European Union made clear that " *The current financial turbulences bring out the importance to the European Union of a sound, exemplarily supervised financial system. The Presidency would therefore like to make supervision more European, by stepping up coordination between national supervisors*"[53].

2.4. Available Policy Options

The five available policy options have been considered with a view to the achievement of the objectives identified in section 2.3.

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51 Commission Communication on the Review of the Lamfalussy process, p. 13

52 See p.16 of ECOFIN Council press release, available on http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/100339.pdf

53 Available on http://register.consilium.europa.eu/pdf/en/08/st11/st11204.en08.pdf

2.4.1. Status quo

First, it could be decided that there will be no increase in Committees' budgets.

Since the Committees of Supervisors are – financially – hardly in a position to carry out properly any sizeable projects it can be expected that while preserving the status quo development of European supervisory culture will be put at risk or, at least, significantly slowed down. Obviously, this will hamper the process of convergence in national supervisory practice and will not remedy the high cost of supervision across the European Member States.

Moreover, a funding model based to a certain extent on ad hoc voluntary contributions does not match the requirement for a stable budgetary solution.

2.4.2. Increase contributions within the existing funding models

Second, members of the Committees of Supervisors might be requested to increase their annual contributions to the Committees budgets and/or to commit additional funds for specific projects.

At national level, this would imply increase in budgets of national supervisory authorities, re-allocation of their budgetary appropriations or, in the case of some Member States, even require changes in national legislation. At the Committees' level, changes to budgetary provisions of the Committees' charters might be necessary, in particular, if the current voluntary ad hoc contributions to the development of specific projects were to become binding.

Considering the expanding role of the Committees and the scope of their responsibilities it is certainly appropriate that the Committees' members assign more resources to their work. This was indeed addressed by the ECOFIN which –in a complementary way to financial support from the EU budget – invited in its Conclusions of 14 May *"each Member State to ensure that adequate resources are in place at the national level for Financial Supervisory Authorities to perform their tasks, taking account of the EU dimension and their contribution to the work of the EU Committees of Supervisors"*.

However, as described above, the Member States' authorities are currently not able or willing to pay considerably more for the work of the Committees' of Supervisors. At the same time, as shown by recent experience[54], it would be extremely difficult to find a consensus among the national supervisors on any changes to the Committees' funding model.

All in all, it is highly unlikely that, in a short to medium term, the Committees' members would increase their contributions to the level which is required to finance the needs of the Committees. Neither is it likely that the changes at Committees' and national levels which are necessary to ensure stability of Committees' funding would be implemented quickly.

[54] The strain of funding the TREM, for example, has led CESR's members to re-open this very contentious issue. In this debate, some Member States which have relatively small financial markets but a large population have complained about the funding formula which is based on the latter criterion only.

2.4.3. *Setting up national funding schemes*

Third, one could explore alternative sources of Committees' funding and, especially, industry financing. This indeed exists in certain Member States where national supervisory authorities are partially financed by players of the private sector which they supervise.

At the EU level, however, such a funding model combining private money with public contributions coming from budgets of Member States' authorities would not be viable for the moment. Firstly, it would require complete re-shuffling of the Committees' funding model. Besides the main decision on being or not being co-financed from the private sector, the Committees' members would need to agree on a number of difficult operational issues taking into account that different funding models of supervisory authorities exist across Member States (based on contributions from private sector; consisting of public money only etc.), such as, for example, how to avoid duplication of expenditure provided by industry nationally and at EU level. This is highly unlikely to be achieved at the present juncture taking into account that in accordance with the Committees' internal rules unanimous decision of all members would be needed to this end. This makes this option also incompatible with the need to provide the Committees of Supervisors with sufficient funding within an acceptable period of time.

Secondly, setting up national funding mechanisms up is time-consuming, whereas the need for a strengthening of the funding of the Committees of Supervisors is urgent. In addition, reluctance to levy a tax, lack of political willingness to create another tax-like system, could mean that these funding mechanisms cannot bring up sufficient funding for the Committees of Supervisors. This option also implies that the Member States would be entitled to decide on the level of their national contribution. This may result in a continuing lack of level playing field for listed companies of different nationalities.

2.4.4. *Co-financing under the Community budget*

Fifth, financial support for activities of the Committees of Supervisors can be provided under the EU budget, within a framework of a Community funding programme.

Such support will provide the Committees with financial means at the level which is needed to finance the kind of projects mentioned above. With a targeted contribution from the Community budget the Committees will be able to equip themselves with the appropriate expert staff and technical support, required for the proper development of these projects. The Commission, at the same time, will monitor closely and regularly their operation and be able to intervene if problems occur. This will strengthen its position as regards enforcement of proper implementation of these projects.

The financial contribution from the EU budget will also provide a stable source of funding. Based on the European Parliament and Council Decision establishing a new Community programme, DG MARKT will create a new permanent budget line to this end.

It can be achieved within a reasonable period of time. If the founding Decision is adopted by the co-legislators in 2009, the new Community programme could be launched as of 2010.

2.4.5. Setting up a dedicated EU Agency

Fourth, a dedicated EU Agency for financial services could be established, Such Agency would be granted an autonomous budget which could be partially financed from a Community subsidy set aside for agencies in the general budget of the European Union.

However, the creation of an Agency would be politically not feasible at the present juncture. Given that the Commission intends to launch a horizontal evaluation of regulatory agencies, proposals for new regulatory agencies will not be decided upon until the conclusion of this exercise (end of 2009)[55]. Additionally, following the in-depth evaluation of the Lamfalussy process in 2007, the ECOFIN Council[56] agreed on a number of concrete actions to be implemented by the Member States, the Commission and the Committees of Supervisors in 2008 and 2009. These actions which are practical, necessary and achievable improvements to the current EU supervisory framework represent the maximum what is politically achievable at the moment.

In addition, on 21 October 2008, the European Commission set up a high level group, chaired by Jacques de Larosière. [57] This group will look at the possibilities to strengthen cross-border financial supervision and the Commission will await its recommendations that are foreseen for the spring 2009 European Council.[58] As a result, the outcome of these discussions should not be pre-empted. For the time being, the agency model can therefore not be regarded as a possible option to improve the current situation within an acceptable period of time.

2.4.6. Comparison of options

The criteria used for the comparison of options are considered equally important in testing the cost-effectiveness of each option. However, some of these criteria feature more prominently. With this in mind, the criteria have been prioritized, rather than weighted.

The criteria of the **achievement of the objectives** (ensure adequate financial means) and the **time needed for implementation** should be given an **equal first priority**.

Indeed, the first priority should be to answer the requests from both ECOFIN Council and European Parliament to the Commission to come forward with a solution to the issue of adequate funding of the Committees of Supervisors by the end of 2009[59]. In addition, the current financial crisis has increased the pressure to improve supervisory cooperation and convergence at EU level urgently.

A second priority should be the criteria of **feasibility** (from a legal and or political point of view), considering the numerous stakeholders involved and the specific legal status of the Committees of supervisors under Community law.

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55 For details, refer to Communication from the Commission to the European Parliament and the Council. European agencies – The way forward (COM(2008) 135 final).

56 Cf. ECOFIN Council Conclusions of 4 December 2007 and of 14 May 2008

57 See Speech of José Manuel Durão Barroso, President of the European Commission, 21st October 2006 in Strasbourg: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/544&format=HTML&aged=0&language=EN&guiLanguage=en

58 Décision de la Commission relative à la mise en place du Groupe d'experts de haut niveau sur la supervision financière (C(2008) 6492).

59 Cf. section 2.1. above

A third priority should be the implications for the EU budget.

ASSESSMENT / OPTIONS	**1. Time needed for implementation** **High (+++)** **Medium (+/-)** **Low (- - -)**	**2. Achievement of objectives** **High (+++)** **Medium (+/-)** **Low (- - -)**	**3. Feasibility** **Straightfroward (+++)** **Medium (+/-)** **Complex (- - -)**	**4. Implication for EU budget** **Positive (+ to +++)** **Negative (- to - - -)**	**Overall Assessment** **Positive (+ to +++)** **Negative (- to - - -)**
Option 1 Status Quo	- - -	- - -	+++	+++	- -
Option 2 Increase contributions within the existing funding models	+ + +	---	- - -	+++	--
Option 3 Setting up national funding schemes	+/-	+++	- - -	+++	--
Option 4 Co-financing under the Community budget	- - -	+ + +	+ + +	---	+ + +
Option 5 Setting up dedicated EU Agency or EU body	+++	+++	- - -	---	- - -

Option 1 (status quo) would not achieve the objectives set out in section 2.4.1. and we therefore have an adverse opinion about this option, which we discard. Option 2 (increase of contributions within the existing funding models), 3 (setting up national funding schemes) and 5 (setting up dedicated EU Agency or EU body) are not feasible for political considerations in the short to medium term, and we therefore have an adverse opinion about these options, which we similarly discard.

Although option 4 - a Community contribution to the activities of the Committees of Supervisors– carries a significant direct budgetary and administrative cost to the Community budget, it is the only policy option that can achieve the pursued objectives described in section 2.4.4. We therefore have a positive opinion about this option, which we retain.

On the contrary, the strongest benefits are to be expected from option 4. From a European perspective, a single contribution from the EU budget would make much more sense for the following main reasons:

– it can be achieved within a reasonable period of time (cost-effectiveness)

– it is easier to put in place compared to the other options which require lengthy and difficult discussions with all the stakeholders at the political and practical levels. If the funding Decision were adopted by the co-legislators in 2009, the new Community funding programme could be launched as of 2010,

– it would be easier to handle once in place,

– the Commission will be able to monitor closely and regularly the Committee of Supervisors initiatives covered by the action grants and be able to intervene if problems occur,

In summary then, in terms of the pursued public interest objectives, Community co-funding of the Committees of Supervisors, via the European Commission, clearly represents the less risky solution and would most likely yield the most positive returns.

2.4.7. Methods of implementation for selected option

Regarding **the Committees of Supervisors** as possible eligible beneficiaries, it shall be noted that these Committees do not have legal personality on a European level. However, in order to be able to contract with third parties and facilitate the operation and administration of the Committees, the members of each Committee of Supervisors have set up support structures with legal personality in each Member State where these committees are situated, i.e. France (CESR), the United Kingdom (CEBS) and Germany (CEIOPS).[60] These support structures qualify as eligible beneficiaries since they comply with the requirements laid down in the Financial Regulation. In particular, they pursue an aim of general interest and are non-profit organisations.

In the light of the objectives to be achieved by the Community funding programme, financial assistance provided for specific projects and activities which cannot be delivered without any EU funding is appropriate. Moreover, by awarding grants for targeted projects the Commission will be in a better position to enforce that these projects are delivered in time and in a proper way. Such action grants should be used exclusively by the support structures of the Committees to finance actions specified in the financing program. These action grants will by no mean interfere with the scope of the mandate of the Supervisory Committees as such. The implementation of the project will be monitored in detail in line with the project description submitted by the Committee(s) and agreed with the Commission. It will be stated in the grant themselves that all liabilities to arise as a result of the Community financing will be born by the recipients.

[60] “Association Loi 1901” in France for CESR, " eingeschriebener Verein (e.V.)" in Germany for CEOIPS and “Limited company by guarantee and without share capital” in the UK for CEBS

Accordingly, the European budgetary authorities (the Council[61] and the European Parliament[62]) as well as the Commission[63] consider that some financial support for specific activities (and not the running cost as such) of the legal structures supporting the Committees of Supervisors are appropriate.

2.4.8. *Volume of appropriation, human resources and other administrative expenditure*

At present the operating costs of the Committees of Supervisors are financed almost entirely by their members on an annual basis and based on the number of votes held by the respective Member State in Council meetings.

Expenses (EUR)	**2007**	**2006**
CESR	**3.445.210**	2.566.293
CEBS	**2.542.000**[64]	2.179.000[65]
CEOIPS	**1.545.224**	1.434.087
TOTAL	**7.532.434**	6.169.380

(Source: annual reports of CESR, CEBS and CEOIPS)

2.4.8.1. Volume of appropriation

1. <u>As regards projects relating to training of personnel</u>

   The Committees of Supervisors intend to co-develop and co-deliver cross-sectoral training programs for officials from national supervisory authorities. In addition to these cross-sectoral training programs, each Committee of Supervisors could further build upon its long standing tradition of its members facilitating trainings for other members. In addition, bilateral staff secondment programs could be further enhanced, aimed both at acquiring specific expertise and knowledge on certain supervisory topics and also in acquiring knowledge and exchanging experiences on more general supervisory policies and practices.

   The needs in respect of projects fostering a common supervisory culture have been estimated by the Committees of Supervisors for the year 2009 at EUR 1,636,513 (not

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61 Refer, for example, to the ECOFIN Conclusions of 14 May 2008: *"(…) financial support under the EU Budget* ***for specific EU-wide projects****"*.

62 Refer, for example, to the EP Report on Financial Services Policy ((2007)0338), paragraph 55, which suggests that the Committees of Supervisors come up with: *"****concrete plans*** *for cooperation and implementation of agreed measures, possibly* ***drawing on EU budgetary resources****"*.

63 Refer, for example, to the Commission Communication on the Lamfalussy review, p. 13: *"(…) financing of both* ***specific projects*** *stemming from legal obligations under existing directives and of cross-sectoral training schemes (…)"*.

64 GBP 2,017,000 converted as at 18 September 2008

65 GBP 1,729,000 converted as at 18 September 2008

covering staff secondements programs). This amount would enable to organise courses as follows:

	CEBS	CEIOPS	CESR	Cross-sectoral
Course details				
Number of courses projected for 2009	16	16	13	10
Number of participants per course	30	60	35	35
Cost per course (approx, €)	26,250	29,357	26,676	30,000
Expected charge to participants	€ 500-1000	Nil	€ 600	€ 500-600

(Source: CEBS, CESR and CEOIPS)

It has been estimated by the Committees of Supervisors that the needs for funding of the development of training and secondments projects would amount over a period of five years to EUR 2,500,000 for CESR, EUR 4,470,000 for CEBS and EUR 4, 470,000 for CEIOPS, so a total of EUR 11,440,000.

In view of this estimation it is considered reasonable that the Community intervention for the period 2010-2013 covers at least part of the 2009 expenses (the baseline year). **This represents a sum of EUR 1,040,000 per year for the three Committees of Supervisors**. The proposed funding of the Committees of Supervisors would be part of a Community Programme which is intended to last for four years (2010-2013) in order to be aligned with the duration of the financial perspectives.

2. As regards the development of complex information technology projects

The Committees of Supervisors have identified a certain number of such projects that could benefit from co-financing by the European Commission and at the same time can be specifically defined and sufficiently separated from other Committees' activities. Such projects are as follows:

- CEBS and CEIOPS initiated some time ago on the delivery of a CEBS and CEIOPS website on supervisory disclosure[66]. It is envisaged that in future this disclosure framework will be enhanced, which will lead to additional IT development costs;

- Development of an IT-tool for self-assessments by CEBS and CEOIPS in the context of peer reviews, in line with the request of the ECOFIN Council to

[66] Cf. section 2.3. above.

explore the possibilities to strengthen the national application of guidelines, recommendations and standards[67];

- Putting in place IT backing to the developments demanded in the area of common reporting.

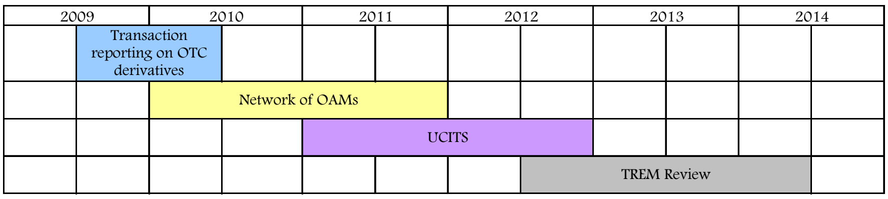
In addition, four possible IT projects destined at improving cooperation and implement EU rules have been identified as possible CESR projects to be financed by the EU budget:

- Exchange of transaction reports on OTC Derivatives in TREM

- EU electronic network of officially appointed mechanisms (OAMs) for the storage of regulated information.

- Exchange of information on UCITS

- TREM Review



As explained in section 2.2.1. above the development of the TREM project has been divided into several subprojects. Therefore, the related cost can vary over time and amounts, on average, to between EUR 500,000 to EUR 1,000,000 a year.

It has been estimated by the Committees of Supervisors that the needs for funding of the development of the above IT projects would amount over a period of five years to EUR 1,660,000 for the above projects for CEBS and CEIOPS together, and to EUR 3,510,000 for the four projects identified by CESR, so a total of EUR 5,170,000.

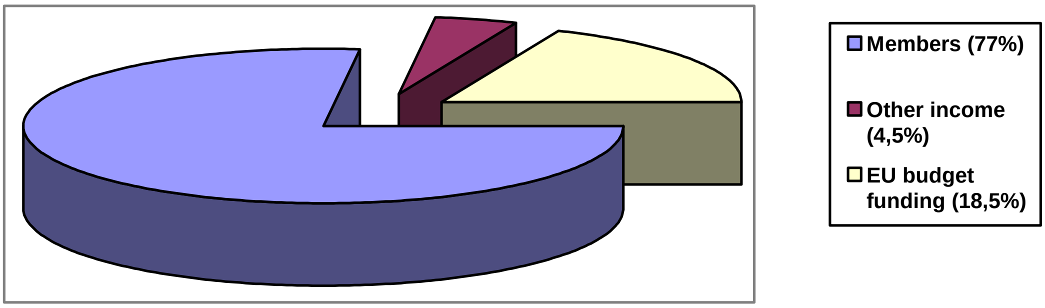
In view of this estimation it is considered reasonable that the Community intervention for the period 2010-2013 covers a substantial amount of these costs. **This represents a sum of EUR 960,000 per year for the three Committees of Supervisors**. The proposed funding of the Committees of Supervisors would be part of a Community Programme which is intended to last for four years (2010-2013) in order to be aligned with the duration of the financial perspectives.

3. In view of the above it is considered reasonable that the Community intervention for the period 2010-2013 in favour of the three supporting structures to the Committees of Supervisors amounts to **EUR 2,000,000 per year**, in the two areas under consideration (building a common supervisory culture and carrying out complex projects involving IT development costs).

[67] See Council conclusions of 4 December 2007, p. 17, available on http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/97420.pdf

2.4.8.2. Expected impact of community funding from the EU budget over the budget of the Committees of Supervisors

The main sources of financing (expressed in %), which will result from the Community intervention, are illustrated in the pie chart below. On the basis of 2007 figures, it is estimated that the proposed funding of the Committees of Supervisors under the Programme will amount to 18.5% of their sources of financing.



(Based on data contained in CEBS, CESR and CEOIPS Annual reports, 2007)

2.4.8.3. Impact on human resources and other administrative expenditure

Taking into consideration that the envisaged funding would finance actions, this will entail related administrative work by the European Commission. Since DG MARKT does not have sufficient administrative resources for managing such a significant amount of money compared to our budget line, there will be a need for some additional specialist financial officers and additional financial training for existing staff, which is estimated under section 1.4.8. of the general section of the ex ante evaluation.

2.5. Conclusion

In view of the above and to ensure that the Committees of Supervisors are adequately equipped with the financial means to carry out certain new, strategic projects, which significantly exceed the current funding arrangements, it is considered important for the Community to contribute to their funding. Specifically, it is concluded that the best way forward is to co-finance the legal structures supporting the Committees of Supervisors to carry out a certain number of actions, as underlined by the European Parliament and the ECOFIN Council on several occasions. Specifically, it is proposed to provide the supporting structures of the Committees of Supervisors the sum of EUR 2,000,000 per year for the 2010–2013 period, making a total of EUR 8,000,000.

2.6. Follow-Up: Arrangements For Monitoring, Reporting And Evaluation

The Commission will closely monitor the application and evaluate the impact of the proposed funding to make sure that the money has been used in accordance with the principles of economy and cost-effectiveness. To this end, the Commission will:

- Analyse the Committees of Supervisors Annual Reports;

- Evaluate the Financial Statements and the Auditor's Report ;

- Evaluate the quality, relevance and the usefulness of the trainings/ staff secondments offered, notably via a systematic survey of the satisfaction of the participants to the trainings and/ or staff secondments;

- Evaluate the IT projects referred to above, both in the course of their development and upon completion;

- Arrange visits to the Committees of Supervisors premises when deemed necessary to verify budgetary systems and controls;

Finally, in line with current financial regulations and practices, the programme as a whole will be properly evaluated in order to determine its possible renewal in 2013.

3. ANNEX II TO THE EX-ANTE EVALUATION: PROPOSED COMMUNITY FUNDING OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION (IASCF)

3.1. Background

Accounting standards play a critical role to ensure the effective operation of capital markets and of the broader economy. By ensuring that investors, creditors and other stakeholders have access to reliable and relevant information about the financial condition of companies, accounting standards *inter alia* allow companies to raise funds and facilitate contractual relations with their suppliers and customers. Accounting standards can also have important tax implications and regulatory impacts, notably for regulated financial institutions.

The Community first adopted harmonised accounting requirements for limited liability companies in 1978 in the form of the 4th company law directive on annual accounts.[68] This was followed in 1984 by the 7th company law directive on consolidated accounts.[69] After almost 20 years which saw no major changes to the Community's accounting legislation, a major breakthrough was made in 2002 with the adoption of Regulation (EC) No 1606/2002 on international accounting standards (the IAS Regulation).[70]

The adoption of the IAS Regulation took place in the context of a broader Financial Services Action Plan (FSAP) whose objective was to promote the integration of European capital markets. The use of IFRS is also required pursuant to the Transparency Directive[71] and to the Prospectus Directive,[72] two major elements of the EU's securities markets legislation that were also adopted in the context of the FSAP.

The IAS Regulation foresees that the European Commission may, subject to certain conditions, decide on the applicability of International Financial Reporting Standards (IFRS) and related interpretations to the consolidated accounts of companies with securities listed on a regulated market within the Community. Pursuant to this Regulation, IFRS have been in force in the EU since 2005. New standards are periodically adopted by the Commission, subject to a regulatory comitology procedure. So far the Commission has adopted all IFRS in full, with one partial exception related to the accounting standard on financial instruments.

The IAS Regulation includes an option allowing Member States to extend the scope of application of IFRS to the annual accounts of listed companies or to the accounts of non-listed companies. Several Member States have taken advantage of this option, especially in relation

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68 Directive 78/660/EC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies, OJ L 222, 14.8.1978, p. 11.

69 Council Directive 83/349/EEC of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts, OJ L 193, 18.7.1983, p. 1.

70 Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, OJ L 243, 11.09.2002, p. 1.

71 Directive 2004/109/EC of the Council and o the European Parliament of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, OJ L 390, 31.12.2004, p. 39.

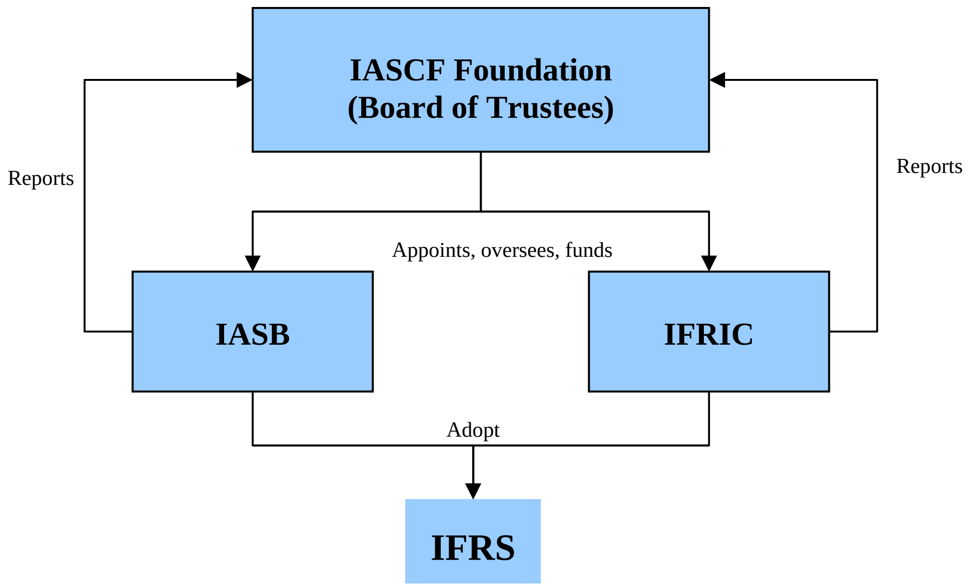
72 Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, OJ L 345, 31.12.2003, p. 64.

to regulated financial institutions, including two Member States that require the use of IFRS for all limited liability companies.

The incorporation of IFRS into Community law and into the national law of Member States means that these standards play a major role to ensure the effective operation of the Single Market and of the EU's economy. Although the Commission can in principle refuse to adopt standards that do not meet the relevant criteria – and has made use of this option in one occasion – this option has serious disadvantages and is only to be used as a last resort. The Community therefore has a direct interest to ensure that the process through which these standards are developed delivers accounting standards that are consistent with the public interest (e.g. financial stability) and with the Community's legal framework. One aspect that must be considered in this context is the funding of the standard-setting process.

IFRS and related interpretations are issued by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC), two bodies of the International Accounting Standards Committee Foundation (IASCF). The IASCF is a not-for-profit corporation incorporated in the State of Delaware, USA. Its operating office is based in London, United Kingdom.[73] It provides the overall governance and funding framework for the IASB and IFRIC. Figure 1 shows a simplified diagram of the current structure of the IASCF and of its standard-setting bodies.

Figure 1: IASCF current structure (simplified)



3.2. Problem Definition

3.2.1. Reliance on non-diversified, voluntary and precarious funding from interested parties and its negative consequences

There are long-standing concerns about the IASCF's funding arrangements, a subject that has been repeatedly highlighted by the ECOFIN Council in its conclusions adopted in July 2006[74]

73 http://www.iasb.org/About+Us/About+the+Foundation/About+Foundation.htm

74 http://tinyurl.com/5pb8kn

and July 2007.[75] In its conclusions of 8 July 2008, the ECOFIN Council also referred to the urgent need to secure appropriate funding for the IASCF.[76] The European Parliament (EP) has also criticised the IASCF's current funding arrangement and called on "the Community to examine under what conditions and in what form it might consider contributing to that funding."[77] The pace of progress achieved in reforming the IASCF's governance, including its funding arrangements, is one of the elements that will influence the EP's willingness to accept future IFRS.[78] In its opinion dated 10 September 2008, the Committee on Economic and Monetary Affairs of the EP reiterated that "*sufficient funding must be set aside for […] international accounting standard setting, in particular to the International Accounting Standards Committee Foundation, including the International Accounting Standards Board.*"[79]

The IASCF has responded to the concerns expressed by the EU institutions by attempting to secure and diversify its funding base.[80] While these developments are welcome, several aspects of the IASCF's funding system remain of concern today:[81]

- While the number of organisations contributing to the IASCF's funding has grown from less than 200 organisations in 2005 to several thousands in 2008, the Foundation remains dependent on the voluntary contributions of four major international audit networks[82] for about one third of its funding[83] (see Figure 2). Funding from some jurisdictions is also dominated by a limited number of companies from a specific stakeholder group with a major and direct interest in shaping the content of accounting standards. For example, 9 large financial institutions account for half of the contributions raised in the US (Commission services calculation based on confidential data received from the IASCF.)

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75 http://tinyurl.com/6b6gmv

76 http://tinyurl.com/6y5k9u, p. 13.

77 See paragraph 16 of the EP's Resolution on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB) adopted on 24 April 2008, http://tinyurl.com/6ddah5.

78 The EP participates in the adoption of IFRS through the regulatory procedure with scrutiny (PRAC).

79 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-407.786+02+DOC+PDF+V0//EN&language=EN

80 http://www.iasb.org/News/Press+Releases/Update+on+Funding+for+2008.htm.

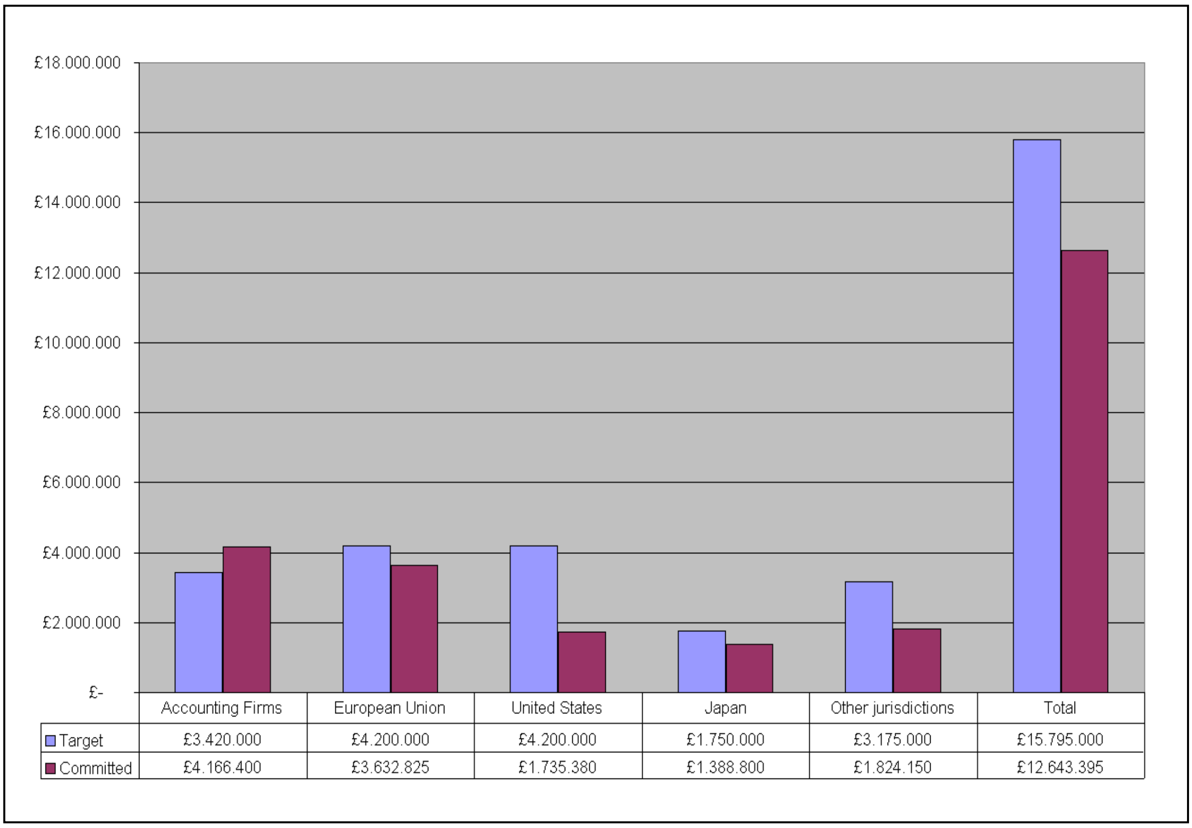
81 See also the Commission's 3rd report on IASCF governance, http://tinyurl.com/66nlsj.

82 Deloitte, Ernst&Young, KPMG, PriceWaterhouseCoopers.

83 http://www.iasb.org/News/Press+Releases/Update+on+Funding+for+2008.htm.

Figure 2: Contributions to IASCF 2008 budget (target and committed per source)

Source: data submitted by IASCF



Notes:

1. funding from the European Union is currently arranged at national (Member State) level.

2. Data current as of 16 January 2008.

The IASCF's financial dependence on the voluntary contributions of key stakeholder groups gives rise to continued concerns about the latter's potential influence over the IASB's standard-setting process. This situation undermines the IASB's operational independence, an indispensable requirement in the case of the EU as the standards issued by the IASB are bound to become EU law. Similar concerns about the funding arrangements of the US Financial Accounting Standards Board (FASB) led to the enactment of a non-voluntary funding regime pursuant to the Sarbanes-Oxley Act of 2002.[84] In addition, there is no guarantee that these voluntary funding contributions will

84 See for example Walter Mattli and Tim Büthe, "Accountability in Accounting? The Politics of Private Rule-Making in the Public Interest", Working Paper 12, School of Public Policy Working Paper Series, University College London (December 2004), available at http://tinyurl.com/5fsw5j: "Business can resort to a variety of strategies to push its demands. For thirty years, the funding of the [FASB] was raised by the FAF [the Financial Accounting Foundation, the US counterpart to the IASCF] from voluntary donations. The bulk of this funding for FASB came from business groups. When dissatisfied with FASB decisions, business often reminded the agent on whom the Board's continuing existence depended. However, this has now changed. In the wake of recent accounting scandals, questions were raised in Congress and beyond about the impact of the funding structure on the independence of FASB as a regulatory agent. In August 2003, a new funding structure, initiated under the Sarbanes-Oxley Act, was implemented. Under the new scheme, FASB's budget is paid by mandatory contributions of some 7,500 publicly listed companies. This change from voluntary to mandated funding has removed one important means of pressure from business." (pp. 14-5)

continue to be available in the future: companies could withdrawn funding in protest at the adoption of accounting standards they do not favour or due to financial difficulties. For example, several of the US financial institutions referred to in the previous section have since declared bankruptcy, merged or are facing serious financial difficulties, thus threatening their continued contribution to the IASCF's budget.

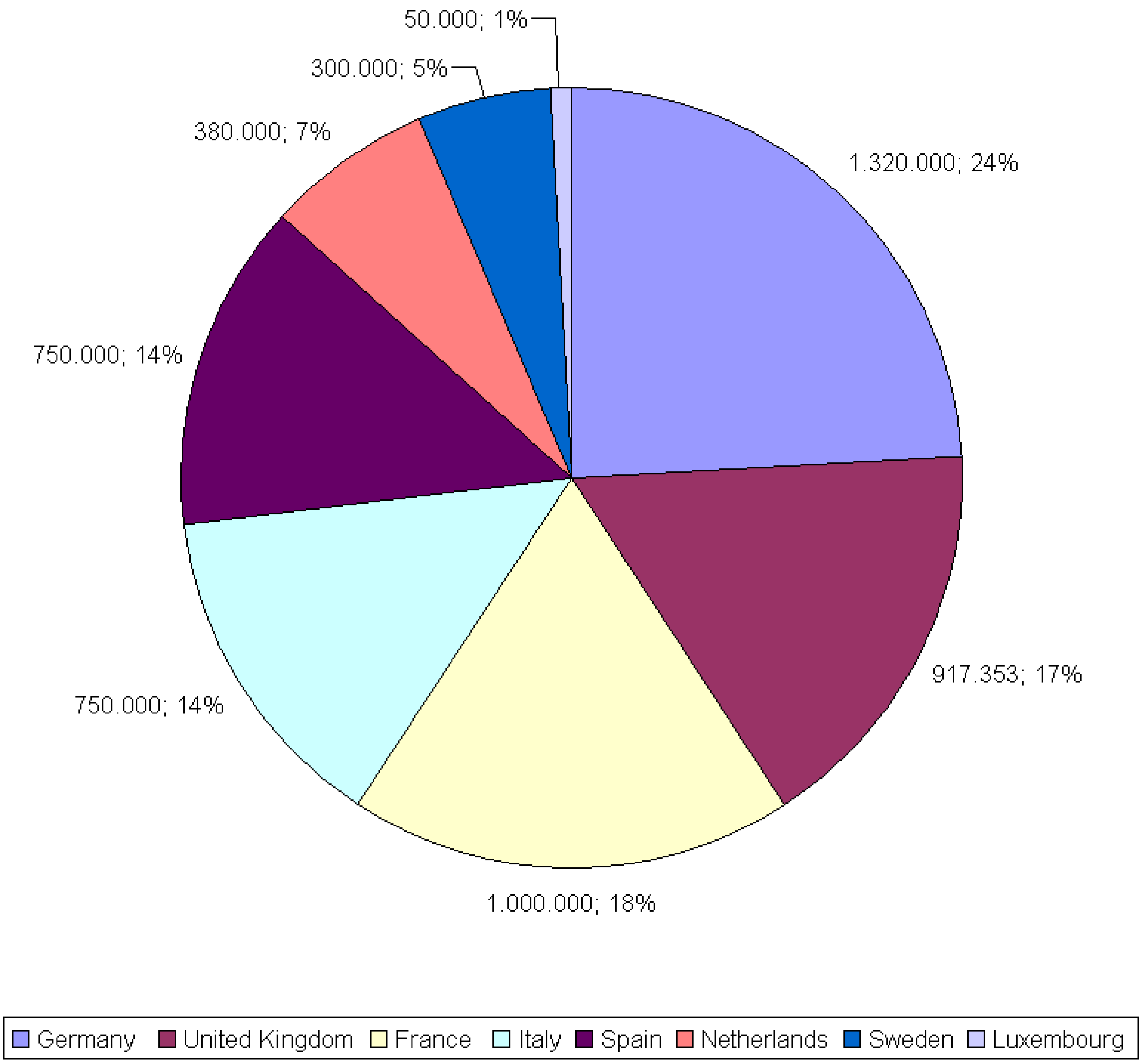
- Funding of the IASCF raised within the EU is currently arranged at national (Member State) level. To date, national funding schemes have been established in only 8 Member States[85] (in some cases still subject to final confirmation) either through privately-arranged voluntary funding schemes or, in a minority of cases, via statutory levies on companies with listed securities.[86] Figure 3 shows the target contributions for these 8 Member States. While the IASCF continues its efforts to raise funding from additional Member States, little or no progress has been made. Moreover, based on informal contacts with the IASCF, Member States and European stakeholders our assessment is that no significant progress can be expected towards establishing national funding schemes in all Member States in the foreseeable future.[87] This situation raises concerns of equity (stakeholders in some Member States bear the cost of IASCF funding, while those in other Member States do not) which may lead some existing national funding schemes to withdraw funding, thus threatening the continuity of the IASB's operations. There is clear and present risk that such a withdrawal could occur in the near future.

85 France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom. See source quoted in footnote 80.

86 Mandatory levies on listed companies exist in Italy, Spain and the United Kingdom. The Netherlands initially planned to introduce a mandatory levy but has so far not able to identify a legal basis to do so following advice from the government's legal service.

87 For example, the IASCF has for some time been negotiating with stakeholders in Austria, Denmark and Finland, which were initially expected to contribute towards the 2008 budget. These contributions have so far not been confirmed and the IASCF currently does not expect them to materialise.

Figure 3: Contributions by Member State (target, does not represent actual money disbursed to the IASCF)



Source: IASCF website (absolute figures may not fully correspond to those shown in Figure 2 due to different cut-off dates).

Failure to reform the IASCF's funding arrangements risks undermining the acceptability and legitimacy of IFRS in the EU, which could in turn lead to the non-endorsement of IFRS for use in the EU. A refusal by the EP to endorse one or more IFRS would undermine the implementation of the IAS Regulation, of the Transparency Directive and of the Prospectus Directive, possibly triggering a damaging political debate about the continued appropriateness of IFRS as a whole for the EU. Failure to achieve a satisfactory reform of the IASCF's funding arrangements also risks triggering the withdrawal of funding from one or more national funding schemes in EU Member States, leaving the IASB with inadequate resources to fulfil its standard-setting role. Either outcome would undermine the functioning of the Single Market and, in particular, of the EU's capital market.

In addition, the European Commission has sought more fundamental reforms of the IASCF's governance arrangements, including of its funding regime, in order to address the concerns expressed by the Community legislators.[88] For example, in the context of the ongoing review of the IASCF's constitution, the Commission services are currently negotiating with counterparts in the US Securities and Exchange Commission (SEC) and in the Financial Services Authority of Japan (JFSA), as well as with the IASCF, to establish an international Monitoring Board composed of public authorities, including the European Commission, that would *inter alia* review the ongoing adequacy of the IASCF's funding arrangements.[89] This is expected to lead to the establishment of a non-voluntary, transparent and stable funding platform for the IASCF and the IASB towards which the EU would need to contribute. The IASCF is expected, no later than 1 January 2009, to amend its constitution in order to formally recognise the role of this future international body in its governance arrangements. In order to ensure that the EU is in a position to participate in the IASCF's revised funding arrangements after the completion of its governance reforms, it is important to complete preparations within the EU – including, if necessary to create a legal basis – for this financial commitment as soon as possible.

3.3. Objectives

3.3.1. Strategic objective

The strategic objective to be achieved by the proposed funding arrangement is to ensure stable, diversified, sound and adequate funding to enable the IASCF to carry out its public interest mission in a way that ensures its independent and efficiency, as well as the high quality of the accounting standards produced by the IASB.

3.3.2. Operational objectives

3.3.2.1. Avoid reliance on precarious, voluntary funding from interested parties thus ensuring stability and independence of the IASCF's work

The first operational objective is to guarantee the IASCF's financial independence from voluntary contributions from parties with a direct interest in accounting standards, while at the same time ensuring sound, stable and sustainable funding arrangements. For the reasons explained in section 3.2., this in practice implies that the IASCF's funding should rely mainly on non-voluntary contributions. In particular, the IASCF should in future no longer rely on voluntary contributions from the four major international accounting networks which currently contribute US$8 million per annum. This funding needs to be replaced from new sources.

3.3.2.2. Ensure a level playing field for all stakeholders within the Internal Market

The second operational objective is to reform the IASCF's funding regime to allow the Community to contribute in a manner that ensures a fair burden sharing for stakeholders throughout the EU. This could in principle be achieved by establishing non-voluntary funding schemes in all Member States (involving a statutory levy on all listed companies in each Member State or a direct contribution from the Member States' national budgets) or by a direct contribution from the Community budget.

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88 See the 3 Commission staff reports on governance developments in the IASB and IASCF available at http://ec.europa.eu/internal_market/accounting/ias_en.htm.

89 See the consultation document about the revision of the IASCF's constitution available at http://tinyurl.com/4n7eje, in particular the creation of the Monitoring Group to oversee the IASCF.

3.3.2.3. Promote the international acceptance of IFRS in the world's major capital markets

A third operational objective is to support the Community's financial reporting strategy, which seeks to promote the international use and acceptance of IFRS, in particular in the world's major capital markets.

This is particularly relevant in relation to the USA. The EU has implemented a multi-annual joint work programme with the US, in particular with the Securities and Exchange Commission (SEC) and accounting standard-setter (FASB) to facilitate the convergence of US accounting requirements with IFRS, with a view to the latter's eventual implementation in the US. Consequently, the US SEC has recently adopted a roadmap towards the full implementation of IFRS by US listed companies by 2015.[90]

The full implementation of IFRS in the US would require the SEC to recognise the IASB as a standard-setting body pursuant to the Sarbanes-Oxley Act, which *inter alia* mandates that recognised standard-setting bodies must be funded in a manner that ensures their independence from those parties directly affected by accounting standards.[91] In practice, recognition of the IASB by the SEC would require all or a majority of the IASCF's funding to be raised through non-voluntary sources. A contribution from the Community budget to the IASCF's budget (our preferred policy option as described below) would align the latter with the requirements set out in the Sarbanes-Oxley Act, thus facilitating the IASB's recognition as a standard-setting body by the SEC and supporting the Community's objective of achieving global acceptance of IFRS.

3.3.2.4. Achieve the above objectives within a reasonable period of time considering their urgency in the current EU and international context

A final operational objective is to achieve the abovementioned objectives within a reasonable period of time considering their urgency in the context of the current financial crisis. In particular, given the anticipated timetable of the reform of the IASCF's funding arrangements (2010-11), it is important to complete preparations within the EU – including, if necessary to create a legal basis – for this commitment as soon as possible. If an EU legal basis needs to be created, it needs to be adopted before the end of the current parliamentary term, failing which the EU risks being unable to participate in the reform of the IASCF's funding regime, thus putting at risk the achievement of the objectives set out in section 3.3.2.1. to 3.3.2.3.

3.4. Available Policy Options

It is therefore necessary to reform the IASCF's funding arrangements in a manner that achieves the objectives set out in section 3.3. The remainder of this section describes the available policy options.

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90 http://www.sec.gov/news/press/2008/2008-184.htm

91 This issue was for example raised on 14 November 2007 by US Senator Christopher Dodd, Chairman of the US Senate Committee on Banking, Housing and Urban Affairs, and Senator Jack Reed, Chairman of the Subcommittee on Securities, Insurance and Investment, in a letter to the Chairman of the SEC, in which they stated that "The IASB's lack of independent funding sources is troubling and inconsistent with the framework set by Congress for the SEC's recognition of any accounting principles established by a standards-setter other than the SEC itself."

3.4.1. Status quo

In the absence of a policy intervention by the Community, we judge that Member States and/or the private sector would not be able to undertake a co-ordinated initiative to enhance the IASCF's funding. While the IASCF continues its efforts to raise funding from additional Member States, little or no progress has been made in the last year towards establishing national funding schemes in all Member States. Moreover, based on informal contacts with Member States and with European stakeholders it is our assessment is that no significant further progress in this direction can be expected. In addition, it is unrealistic to expect current contributors to the IASCF budget to increase their contributions, since – as shown in Figure 2 above – contributions to the IASCF is already struggling to meet its current funding target.

The status quo, i.e. no policy intervention, therefore implies that the objectives identified in section 3.3. would not be achieved. This risks undermining the acceptability and legitimacy of IFRS in the EU, which could in turn lead to the non-endorsement of IFRS for use in the EU, in particular due to a refusal by the EP to endorse one or more IFRS. Such a development would undermine the implementation of the IAS Regulation, of the Transparency Directive and of the Prospectus Directive, possibly triggering a damaging political debate about the continued appropriateness of IFRS as a whole for the EU. Failure to achieve the objectives identified in section 3.3. would also risk triggering the withdrawal of funding from one or more national funding schemes in EU Member States, leaving the IASB with inadequate resources to fulfil its standard-setting role. Either outcome would undermine the functioning of the Single Market and, in particular, of the EU's capital market.

3.4.2. Establishment of national funding schemes in all Member States (public financing or levy on industry)

Existing national funding mechanisms in EU Member States take the form either of privately-arranged voluntary funding schemes or, in a minority of cases, of statutory levies on companies with listed securities. If the IASCF's funding continues to rely on such national funding schemes, as explained in section 3.3., such schemes should provide for non-voluntary contributions to the IASCF's budget. This in turn implies the need for a statutory (legal) basis for these funding schemes.

In order to create such a legal basis, the Commission could propose a legal act requiring Member States to finance the IASCF, for example via a statutory levy on companies with listed securities. This option was assessed by the Commission services as far back as 2005. The conclusion is that the Treaty does not provide an explicit legal basis to require Member States to finance the IASCF nor to impose a mandatory levy on listed companies across the EU (a levy on listed companies being a form of direct taxation). Even assuming such a legal basis for a statutory levy could be found on the basis of Article 308 TEC, adoption of the relevant legal act would require unanimity in the Council. This is highly unlikely to be achieved for political reasons with no direct relation to the IASCF, i.e. the negative position of a number of Member States about Community intervention in fiscal matters. The adoption of a harmonised statutory levy is thus not feasible for a combination of legal and political considerations.

Alternatively, the Commission could rely on moral presuasion to encourage stakeholders (private sector and/or public authorities) to establish national funding schemes in those Member States where none exist for the time being. This approach was already suggested in the conclusions of the ECOFIN Council of July 2006, and experience has shown that it has not been successful in meeting our objectives. In practice, this approach is therefore equivalent to the *status quo* (see section 3.4.1. above).

3.4.3. Direct financial contribution to the IASCF from the Community budget

The Community could co-finance the IASCF. This policy option would achieve the first objective (guarantee the IASB's financial independence from stakeholders with a direct interest in accounting standards while at the same time ensure sound, stable and sustainable funding arrangements) if all or a majority of the IASCF's funding were drawn from non-voluntary or public funds. A financial contribution from the Community alone would not be sufficient to achieve this (as explained below, we envisage that the Community contribution would amount to no more than one fourth of the IASCF's budget) and co-ordination and co-operation among the jurisdictions with major capital markets, in particular the EU, Japan and USA, will be necessary to achieve the necessary reforms of the IASCF's funding regime. As described above, negotiations towards the establishment of a Monitoring Board that would *inter alia* review the IASCF's funding arrangments are currently ongoing and the necessary changes to the IASCF's constitution are expected to be adopted before the end of 2008.

This policy option would also achieve the second objective (ensure a level playing field for stakeholders throughout the EU), while it would also facilitate the IASB's recognition as a standard-setting body by the SEC. As the US moves towards implementing IFRS, it will also modify its funding arrangements towards the IASCF by implementing a non-voluntary contribution, since this is requirement for recognising the IASB as a standard-setting body pursuant to sections 108 and 109 of the Sarbanes-Oxley Act (see section 3.3.2.3. above). We expect other major jurisdictions to do likewise as they move towards implementing IASCF.

Provided a legal basis can be adopted under the current legislature, it would also allow the Community to fully participate in and contribute towards the reform of the IASCF's funding arrangements. This would strengthen our negotiating position in the broader discussions about the reform of the IASCF's governance.

3.4.4. Establishment of an EU accounting standard-setting agency or body

The Community could establish a European accounting standards-setting body, either in the form of a private body or by establishing a Community agency, to take over the role currently performed by the IASB. However, this approach has two major disadvantages:

– Article 2 of the IAS regulation specifically defines international accounting standards as "International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)." An amendment to the IAS Regulation would therefore be required in order to allow the Commission to adopt accounting standards developed by a body other than the IASB. Such an amendment risks provoking a damaging political debate and in our judgment would stand no chance of being adopted by the co-legislators;

– the EU's financial reporting policy aims at achieving a single set of globally accepted accounting standards, i.e. IFRS, in order to facilitate cross-border investment and the integration of global capital markets (especially the trans-Atlantic capital market). It is therefore of paramount importance to avoid the emergence of regional accounting standards which would inevitably undermine this objective. Consequently, the establishment of European standard-setter, be it private or public, is not compatible with the Community's financial reporting policy;

In addition, the establishment of either a private or public European accounting standard-setter is unlikely to be possible without Community funding comparable in amount to the financial contribution to the IASCF's funding foreseen under the preceding option (*a fortiori* in the case of an agency, which would ultimately be funded entirely from the Community budget). Moreover, the Commission's management of the financial contribution to and/or co-ordination with a European standard-setting body would imply administrative costs for the Commission which would also be comparable to that associated with a financial contribution to the IASCF's budget. From the Commission's point of view, this policy option therefore does not present any significant budgetary or administrative advantages compared to the preceding option.

3.4.5. Comparison of options

The matrix below is used to compare the relative merits of four competing options based on a qualitative assessment as reliable data are not available.

The criteria used for the comparison of options are considered equally important in testing the cost-effectiveness of each option, however, some of these criteria feature more prominently. With this in mind, the criteria have been prioritized, rather than weighted.

In the case of IASCF, one should consider as a **first priority** the need to **achieve the objectives** set out for the IASCF, as this is the most crucial issue at the moment (avoid reliance on voluntary funding from interested parties, ensure a level playing field, promote IFRS internationally) as evidenced also in the ongoing debate on the governance of the IASCF.

A **second priority** should be the criteria of **feasibility** (from a legal and or political point of view). The fact that the IASCF is an international, not-for-profit corporation incorporated in Delaware, USA, adds a certain degree of complexity to the discussion on feasibility. Looking for a Community solution to the problems defined in section 3.2. above, it is thus a high priority that the option retained at EU level be viable from a legal and political point of view.

A **third priority** should be the **time needed for implementation** as (i) the EU need to be prepared to take part to the reform of the IASCF funding, which is scheduled to take place in 2010-2011 and (ii) the current financial crisis has put accounting standards at the top of the EU political agenda.

A **fourth priority** should be the **implications for the EU budget**.

The option "status quo" scenario (option 1) used as the baseline with no budgetary intervention from the Community is compared to the three other options based on the three following main criteria:

- the degree of effectiveness of their implementing process;
- their impact on costs for the EU; and
- the level of risk of not reaching the objectives above-mentioned in section 3.3.

Table 1: Summary of policy options

ASSESSMENT / OPTIONS	1. Achievement of objectives **High (+++)** **Medium (+/-)** **Low (- - -)**	2. Feasibility **Straightforward (+++)** **Medium (+/-)** **Complex (- - -)**	3. Time needed for implementation **High (+++)** **Medium (+/-)** **Low (- - -)**	4. Implication for EU budget **Positive (+ to +++)** **Negative (- to - - -)**	Overall Assessment **Positive (+ to +++)** **Negative (- to - - -)**
Option 1 Status Quo	- - -	+++	----	+++	- -
Option 2 Setting up national funding schemes	+/-	- - -	+ + +	+++	- -
Option 3 Co-financing under the Community budget	+ + +	+++	----	----	+ + +
Option 4 Setting up dedicated EU Agency or EU body	+++	- - -	+ + +	----	- - -

The preceding analysis is summarised in Table 1. Option 1 incurs no direct costs to the Community budget. However, it leaves the IASCF's funding regime unchanged, does not provide any guarantees about the stability or independence of this funding regime and would not achieve the objectives set out in section 3.3. This option thus carries unacceptable political risks. We therefore have an adverse opinion about this option, which we discard.

Option 2 likewise incurs no direct costs to the Community budget but is not feasible for a combination of legal and political considerations. This option thus also carries unacceptable political risks. We therefore also have an adverse opinion about this option, which we similarly discard.

Option 4 is inconsistent with the Community's legal framework and with the Community's policy in the field of financial reporting. Moreover, this policy option does not present any significant budgetary or administrative advantages compared to the option 3 (our preferred policy option).

Although option 3 – a Community contribution to the IASCF's budget – carries significant direct budgetary and administrative costs to the Community budget, it is the only policy option that can achieve the pursued objectives described in section 3.3. We therefore have a positive opinion about this option, which we retain for the following reasons:

- it would enhance the IASB's financial independence from stakeholders with a direct interest in accounting standards while at the same time ensure sound, stable and sustainable funding arrangements;

- it would ensure a level playing field for stakeholders throughout the EU;

- it would facilitate the IASB's recognition as a standard-setting body and the acceptance of IFRS in other major capital markets, in particular the US;

- it would strengthen the Community's negotiating position in the broader discussions about the reform of the IASCF's governance.

3.4.6. Method of implementation for the selected option

As the Community's financing of the IASCF would not entail a purchase of goods and services, the most appropriate means to finance the IASCF would be via a grant.

As a general rule, financial support from the Community budget could be provided either:

1. by contributing to the overall budget of the body (via operating grants); <u>or</u>

2. by co-financing specific targeted activities of the body (via grants for action).

Concerning publicity rules, the possibility of providing a grant following a call for proposal should be excluded from the outset since the beneficiary (the IASCF) is in a situation of legal monopoly in accordance with Article 168 of the Implementing Rules to the Financial Regulation.

In view of the public policy objectives and the type of beneficiary, it is considered that a direct financial contribution from the EU budget by way of an operating grant constitutes the best solution to address the proposed funding. Indeed, the choice to provide an operating grant to the IASCF seems the most appropriate because, unlike a grant for action, which helps to co-finance a one-off action over a given period of time, an operating grant allows co-financing of the whole institution's functioning from a much broader perspective.

Regarding the IASCF as a possible eligible beneficiary, it complies with the requirements laid down in the Financial Regulation because this organisation pursues an aim of general interest and is a non-profit organisation (legally speaking has been authorised and is regulated as a US not-for-profit foundation).

3.4.7. Volume of appropriation, human resources and other administrative expenditure

The IASB's expenses for 2006 and 2007 are shown in Table 2.

Table 2: IASCF expenses for 2007 and 2006

EXPENSES	**2007 (£'000)**	**2006 (£'000)**
Direct cost of sales from publications & related activities	(2,623)	(2,922)
Salaries, wages and benefits	(9,738)	(9,177)
Trustee fees	(496)	(436)
Cost of meetings and associated travel	(2,117)	(1,907)

Accommodation	(1,320)	(1,238)
Fundraising expense	(175)	(72)
Other costs	(667)	(717)
Changes in fair value of financial instruments	(436)	159
Foreign exchange gains	436	3
TOTAL EXPENSES	(17,136)	(16,307)

Source: IASCF 2007 Annual Report

http://www.iasb.org/About+Us/About+the+IASC+Foundation/2007+Annual+Report.htm

The IASCF budget for 2008 is approximately equal to that for 2006. Moreover, we do not expect significant variations in these expenses since most of them are fixed or highly predictable, e.g. salaries, wages and benefits; Trustee fees; and accommodation (which together represent over two thirds of total expenses). Some categories of expenses may show some volatility, e.g. the meetings and associated travel, due for example to the volatility of the exchange rates and the increasing international adoption of IFRS (which would imply more travel needs).

Based on these historical figures, the budgetary and administrative impact of our preferred policy option may be estimated as follows. The IASCF's budget for 2008 amounts to £16 million, i.e. about €21 million at current exchange rates (this is the IASCF's funding target). Subject to future negotiations with our international counterparts and relevant international organisations, we believe the most appropriate contribution key to the IASCF's budget likely to reflect a fair burden sharing should be linked to the EU's share of global capital markets as by far the primary users of IFRS are capital markets. This current share suggests that the Community contribution would amount to no more than one fourth of the IASCF's budget, i.e. between €5 million to €7 million. This calculation is based on the following assumptions:

(3) no future increase in the IASCF's budget compared to the 2008 budget;

(4) the elimination of the voluntary contribution from the 'Big 4' international accounting networks;

(5) the eventual replacement of existing national funding schemes in EU Member States by a single contribution to the IASCF from the EU budget;

(6) the gradual loss of income from the sale of IASCF publications (about 30% of the IASCF's income in 2007), since the IASCF has stated that it aims to fully fund itself from external contributions. This is justified by the fact that the IASCF aims to make its publications (mainly standards and related interpretations) available free of charge given their legal status in many jurisdictions. The current copyright/licensing regime for these publications creates a number of difficulties for jurisdictions that are required to publish them in their official journals (as is the case for the EU).

Moreover, the envisaged funding would entail additional administrative work by the European Commission. DG MARKT currently does not have sufficient administrative resources to manage such a significant amount of money compared to our current budget line. There will consequently be a need for some additional staff and additional financial training for existing staff, which is estimated under section 3.4.8. of the general section of the ex ante evaluation.

3.5. Conclusion

In view of the above and in order to increase the IASCF's independence, the stability of its funding sources and the quality of international accounting standards, we consider that it is important that the Community contributes to the funding of IASCF. Specifically, we conclude that the best way forward is to co-finance the IASCF and accordingly reduce the contribution from the 'Big 4' accounting networks as well as the IASCF's reliance on income from the sale of publications. Specifically, it is proposed to provide the IASCF with a financial contribution in the form of an operating grant for a sum of no more than €5 million per year for the 2011–2013 period, making a total of €15 million.

The Community contribution will, among other things: (i) increase the IASCF's independence from voluntary contributions by stakeholders with a direct interest in accounting standards; (ii) simplify funding and ensure a level playing field at EU level; and (iii) promote the international adoption of IFRS in other major capital markets.

3.6. Follow-Up: Arrangements For Monitoring, Reporting And Evaluation

The Commission would closely monitor the application and evaluate the impact of the proposed funding to make sure that the money has been used in accordance with the principles of economy and cost-effectiveness. To this end, the Commission will:

- analyse the IASCF annual reports;
- evaluate the financial statements and the auditor's report;
- discuss matters with other fund providers;
- use the Monitoring Board meetings, in which the Commission will be a member, to discuss and clarify funding issues;
- arrange visits to the IASCF premises when deemed necessary to verify budgetary systems and controls.

Finally, in line with current financial regulations and practices, the programme as a whole will be properly evaluated in order to determine its possible renewal in 2013.

3.7. Glossary Of Acronyms

ECOFIN: Economic and Financial Affairs Council

EP: European Parliament

FASB: Financial Accounting Standards Board (the US accounting standards-setter)

FSAP: Financial Services Action Plan

IAS: International Accounting Standards (now referred to as International Financial Reporting Standards or IFRS)

IASCF: International Accounting Standards Committee Foundation

IASB: International Accounting Standards Board

IFRIC: International Financial Reporting Interpretations Committee

IFRS: International Financial Reporting Standards (previously referred to as International Accounting Standards or IAS)

JFSA: Financial Services Authority of Japan

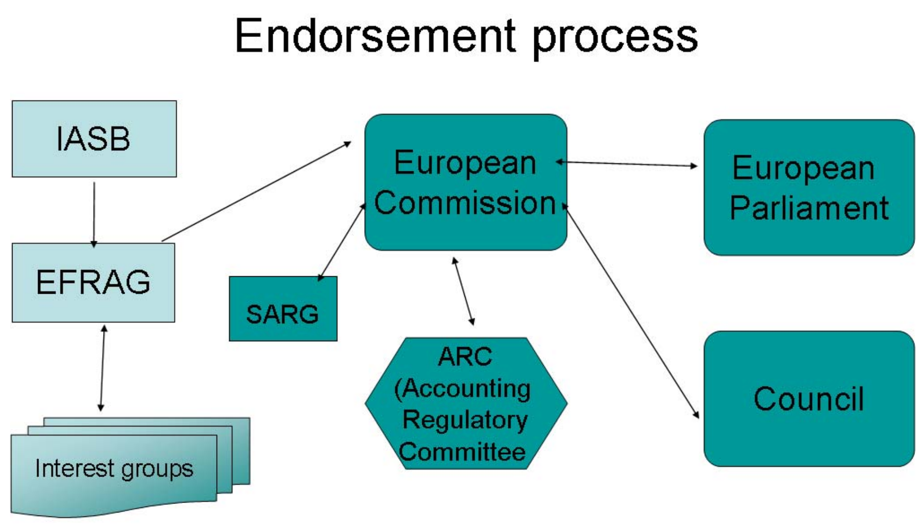
SEC Securities and Exchange Commission (the US securities regulator)

4. ANNEX III TO THE EX-ANTE EVALUATION: PROPOSED COMMUNITY FUNDING OF THE EUROPEAN FINANCIAL REPORTING ADVISORY GROUP (EFRAG)

4.1. Background

Since 2005, all companies listed in a stock-exchange of an EU Member State have to apply the international accounting standards as they are adopted in the European Union by regulations. New standards are adopted by the Commission as and when they are published by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), (two bodies of the International Accounting Standards Committee Foundation (IASCF)[92]) and subject to a regulatory comitology procedure (thus involving the Member States, the European Parliament and stakeholders).

Based on Regulation No. 1606/2002 (the IAS Regulation), the Commission adopts international accounting standards as Community law under the comitology procedure. Before the Commission starts the comitology procedure on adopting new standards, DG Internal Market invites – in accordance with recital (10) of the IAS regulation[93] – the European Financial Reporting Advisory Group (EFRAG) to provide its (non-binding) advice on the technical soundness of new international accounting standards. The endorsement process is shown in the figure below.



(See section 4.7. for further explanation of acronyms)

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92 The IASCF is a not-for-profit corporation incorporated in the State of Delaware, USA. In a nutshell, the IASB is in charge of setting the IFRS, the IFRIC is in charge of issuing consistent interpretations of such standards. They both function under the umbrella of the IASCF. For more information about the IASCF, IASB and IFRIC, see annex of the ex ante evaluation on the proposed community funding for the IASCF.

93 "An accounting technical committee should provide support and expertise to the Commission in the assessment of international accounting standards."

EFRAG[94] was set up in 2001 to assist the European Commission by providing it with the above-mentioned endorsement advice. It is a private association representing the main European parties interested in financial reporting (EFRAG's "founding fathers"). EFRAG is located in Brussels and it was formed as a non-profit association in accordance with the Belgian law of 25 October 1919.

4.1.1. Context

EFRAG has been mainly financed by its founding fathers[95]. The number of votes they have in the General Assembly and in the Supervisory Board is related to their respective contribution to the financing of EFRAG. The Commission Services may attend as observers all EFRAG meetings. EFRAG's chairman chairs the meetings and EFRAG has its own secretariat. The roles of the General Assembly and the Supervisory Board are limited to the administrative issues and appointment of the Technical Expert Group (TEG) members. The TEG is the core of EFRAG's professional work. Any decision and advice on the international accounting standards is taken by the TEG, which acts independently.

EFRAG is involved in defining the accounting standards applicable in the EU also at a stage earlier than providing opinion on the already issued international accounting standards. It provides technical input to the IASB concerning draft standards, through issuing comment letters. In addition, EFRAG has – in co-operation with the national accounting standard-setting bodies of the Member States – increasingly developed its role as a platform used by European stakeholders to provide upstream input to the IASB.

Thus, at present, the objectives of EFRAG fall in two main categories:

(a) advising the European institutions in connection with the international accounting standards: providing technical opinions to the European Institutions confirming or rejecting international accounting standards and related interpretations for application in the European Union, and helping them in their assessment of possible non-conformity of the international accounting standards with the EU law (i.e. the **"original" objective**), and

(b) influencing the IASB on behalf of EFRAG stakeholders before a new standard is issued, commenting draft standards via comment letters (i.e. the **pro-active work**).

There are parallels between the role of EFRAG and the national (accounting) standard setters but EFRAG is not a European standard setter.

The above-described upstream input has attracted growing political interest as a way of ensuring that the IASB's standard-setting process properly reflects the needs and interests of EU stakeholders. We live in historical times when more and more jurisdictions (including the US and China) decide to move towards and apply international accounting standards. Applying these standards naturally awakes the desire to have an influence on their

94 http://www.efrag.org/

95 EFRAG's founding organisations are the following: **BUSINESSEUROPE** (European Business Federations), **FEE** (European Federation of Accountants), **CEA** (European Insurance Organisation), EBF (European Banking Federation), **ESBG** (European Savings Banks Group), **EACB** (European Association of Co-operative Banks), **EFAA** (European Federation of Accountants and Auditors) and **EFFAS** (European Federation of Financial Analysts).

development. The increasingly wide adoption of international accounting standards at international level has given rise to concerns that Europe's influence over the IASB will diminish given the significant resources and expertise that other jurisdictions, especially the US, can mobilise. These concerns have been expressed several times by the Council of Ministers[96], the European Parliament[97] and by Member States in the Accounting Regulatory Committee as well. For instance, in its opinion dated 10 September 2008, the Committee on Economic and Monetary Affairs of the European Parliament reiterated that "*sufficient funding must be set aside for […] international accounting standard setting, in particular to the International Accounting Standards Committee Foundation, including the International Accounting Standards Board, and its European voice through the European Financial Reporting Advisory Group*"[98].

4.2. Problem Definition

In the present situation we face the following problems.

4.2.1. Reliance on non-diversified, voluntary and precarious funding from interested parties and its negative consequences

EFRAG has been financed by its member organisations and by voluntary contributions of EU professional associations. Additionally, private or public national funding mechanisms, set up in certain Member States provide EFRAG with voluntary funding. EFRAG's financing needs to be reconfirmed on a yearly basis. Part of EFRAG's staff, including the TEG chairman, remains on the payroll of their current employer (e.g. an accounting firm). These fragile arrangements may also give cause for public concerns about the operational independence of EFRAG from the main organisations interested in financial reporting.

To address the concerns regarding whether EFRAG's endorsement advice is independent, the Standards Advisory Review Group (SARG) was set up by a Commission decision of 2006. The members of this group receive no remuneration for their professional services. The Commission only reimburses their costs related to their meetings. Although SARG's additional advice about the independence of EFRAG's opinion can be seen as a solution in the case of endorsements, a similar system of additional opinions is from a practical point of view totally impossible when it comes to influencing the international standard setting process (the "pro-active" work). Thus, independence has to be an inherent feature of the body responsible for the pro-active work.

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96 See in particular (i) ECOFIN Council conclusions of 8 July 2008, pp 12-13, available on http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/101742.pdf and (ii) ECOFIN Council conclusions of 15 July 2003, Item 7, available on http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/76683.pdf

97 See in particular (i) Report of the European Parliament on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB) (2006/2248(INI)) ("Radwan Report") 5 February 2008, pp 7 and 11, available on http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2008-0032+0+DOC+PDF+V0//EN&language=EN and (ii) Written question n° E-3992/08 by Klaus Heiner Lehne (PPE-DE) to the Commission, available on http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+E-2008-3992+0+DOC+XML+V0//EN&language=EN (with answer available on http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2008-3992&language=EN)

98 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-407.786+02+DOC+PDF+V0//EN&language=EN

4.2.2. *Insufficient financial means to carry out public interest missions*

Currently, the European interests are not well taken into account at the international level. International accounting standards are developed by bodies (IASB and IFRIC) in which the European interest is not guaranteed. These standards are endorsed in the European Community after having taken into account many views and interests from stakeholders. If then the European view was not well taken into account at the level of the IASB/IFRIC, due to lack of resources that would allow to set up and maintain some kind of think-tank that is able to properly influence the international standard setting process, problems may arise in the course of the endorsement procedure.

Such problems were in the past temporarily solved by not endorsing the international accounting standard in question in full (referred to as "carve-outs")[99]. However, this solution can only be regarded as temporary, since the use of international accounting standards in Europe will fulfil its function only if it corresponds entirely to the international accounting standards issued by the IASB/IFRIC as used elsewhere in the world.

The real solution is thus not to create a maze of carve-outs but to make sure that the accounting standards that we are about to endorse properly reflect the interest of the European stakeholders. Consequently, we have to influence the standard-setting process at the earliest stage possible.

In order to create a European representation at the level of the international standard setting as quickly as possible, the Proactive Accounting Activities in Europe (the PAAinE) initiative was launched in 2005. Through this initiative, EFRAG and the national standard setters[100] of the largest Member States pool some of their resources in order to stimulate a debate in Europe on the most important international accounting standards under development.

PAAinE is a coordination mechanism, which aims at the largest extent possible to ensure that the messages Europe gives to the IASB are consistent – however, this is constrained by circumstances which are inherent features of the system:

- There is not a single body (nor EFRAG nor any of the national standard setters) responsible and accountable for this important proactive work: the national standard setters share the leadership of pro-active projects on an ad-hoc basis with EFRAG. Thus, different projects are led by different groups.

- More importantly, the possibility of creating a truly single European voice is fairly limited, since there is no continuity in the work of PAAinE.

- Not all Member States are always interested in contributing to a particular pro-active project. So, the necessary resources may not be put up for some still important projects.

- The issues with which the PAAinE deals is also picked mainly on the basis of the four largest Member States' opinion – thus the issues affecting other Member States are less likely to be dealt with. In the system of PAAinE, which is based on the voluntary coordination of Member States' resources, the interest of the other Member States that

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99 See for example the case of IAS 39 in connection with hedge accounting.

100 National standard setters can be both private non-profit or public organisations depending on the actual constituency.

do not have sufficient resources to contribute to the PAAinE initiative is likely to be neglected.

To remedy the limits of a mechanism functioning on an ad-hoc basis (such as PAAinE), a single body equipped with sufficient resources has to take up the task of developing the pro-active input to the international standard setting process and replace PAAinE. Considering the urgency of such an activity, it is rational to build on the existing bodies, namely EFRAG.

However, the current resources of EFRAG allow it only to fulfil its task of providing the European Commission with endorsement advice. Its resources are not sufficient enough to cover the additional, at least equally important task of feeding the European views into the international standard setting process. If EFRAG is to take up new responsibilities (i.e. pro-active work at the external international level), it needs to be provided with more resources.

In 2007[101], EFRAG had a total budget of approximately €3.25 million, of which ca. €1.6 million was funded via voluntary cash contributions from its members and the rest via staff contributions from various resources. All TEG members, as well as members of the specialized working groups work without any charge for EFRAG. They are paid by the organisation employing them – national standards setters (basically the French, German, the UK, the Italian and the Swedish standard setters), organisations from the accountancy and audit profession, preparers, users and academic institutions. This contribution by delegating experts for free to take part in the work of EFRAG on an independent basis is considered as "contribution in kind" to EFRAG's budget. A declaration of the experts is however not enough for the independency credentials of EFRAG. These experts also need to be perceived as independent by the outside world. Thus an additional financing of EFRAG will be partly used to put certain current experts on EFRAG's payroll, whereas the other part will go to an increase in the number of its staff.

EFRAG's stakeholder base needs to be expanded to better reflect the public interest. In order to ensure an increased public oversight and accountability, EFRAG's governance structure is currently undergoing reforms. Regular liaison with the European Commission will be put in place at relevant levels; the meetings of EFRAG's bodies will be open to the public. Nomination processes will be open and wider consultations will be held than in the past. Greater transparency will be ensured also through regular reports in addition to the annual reports – among others to the Accounting Regulatory Committee and the relevant European institutions. The national standard setters will continue to participate in the professional work of EFRAG as non-voting members of the TEG and the newly set-up body (Planning and Resource Committee) responsible for the pro-active work.

4.3. Objectives

Further to the above-described issues, a solution has to be found that meets the following strategic and operational objectives.

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101 2007 is the most recent year for which we have final financial data.

4.3.1. Strategic objective

The strategic objective to be achieved by the proposed funding arrangement is to ensure stable, diversified, sound and adequate funding to enable EFRAG to carry out its European public interest mission in an independent, efficient and satisfactory way.

4.3.2. Operational objectives

4.3.2.1. Avoid reliance of on precarious/voluntary funding from interested parties thus ensuring credibility and independence of its work

A first operational objective is to avoid EFRAG's reliance on precarious/voluntary funding from interested parties, thus ensuring credibility and independence of its standard-setting related activity (influencing the standard setting process and reviewing the newly issued standards) before the endorsement of these standards in the EU law.

For the credibility of a single European accounting voice it is indispensable that EFRAG is perceived as independent. Currently, the organisation relies on the voluntary contributions received from stakeholders interested in financial reporting. Their financial commitment often needs to be re-confirmed on an annual basis. These stakeholders that have a direct interest in the result of EFRAG's work have also voting and appointment rights in the governing bodies of the organisation. Making the financing of EFRAG more independent from the voluntary contributions of interested parties can guarantee the operational independence of EFRAG from inappropriate pressure coming from the business community.

4.3.2.2. Boost the international reputation, attractiveness and acceptance of the standards

A second operational objective is, in addition to the above, to boost the international reputation, attractiveness and acceptance of the standards set by the IASB/IFRIC and part (or bound to become part) of the EU *acquis*.

When EFRAG is successful in its pro-active work, the European context will be taken into account in the course of developing international accounting standards. This means that the European Community will play an active role in the international standard setting process – instead of passively being bound to adopt accounting standards that are designed for the need of other jurisdictions, companies with backgrounds different from that of the European ones.

As a result of the envisaged enhancement of EFRAG, there will be no need for the above-described carve-outs in the future, which is indispensable for the acceptability of the international accounting standards in Europe in the course of the comitology procedure[102].

In addition, it will also ease the EU's international relations in the field of accounting. The argument for accepting the European entities financial reports in third countries will be well-founded. This applies in particular to the US, where a number of large European players raise funds. As a bonus, if European accounting standards fully correspond to the international accounting standards, decisions on whether third country accounting practices are equivalent to those of the EU will be more easily taken.

[102] Member States (through the Accounting Regulatory Committee) as well as the European Parliament have to consent to the endorsement of international accounting standards in Europe.

4.3.2.3. Ensure fair burden sharing within the EU in the financing of EFRAG

A third operational objective is to ensure fair burden sharing within the EU in EFRAG's financing.

Putting in charge one single European body to represent the European interest at the international standard setting level will also bring the benefit of ensuring fair burden sharing. EFRAG is now mainly financed by its members and the contributions provided by the Member States' national funding mechanisms come mainly only from the four largest constituencies. The current PAAinE mechanism works also on the basis of contributions only from the largest Member States, which circumstance puts unintentionally the others in an unfair free-rider position. Naturally, financing means greater influence – thus the current PAAinE cannot be regarded as a truly European voice as it represents only those Member States that actually put up the money for a particular pro-active project.

EFRAG taking up the pro-active work will be able to represent the interest of all Member States – not only the largest ones that can raise sufficient funds to also individually operate a lobby-procedure at the IASB/IFRIC. Thus, a single, truly European voice could be developed.

4.3.2.4. Ensure that the relevant bodies are adequately equipped with the financial means to carry out EU or EU-related public interest mandates or activities

A fourth operational objective is that EFRAG is adequately equipped with the financial means to carry out its EU public interest mandate of pro-actively influencing the international standard setting process.

Technical competence would be the best way of increasing EU influence in the IASB. To build respect and status, EFRAG needs to give top quality advice and provide technically sound opinions. EFRAG needs to expand in order to arrive at a solid basis and have a critical mass of experts. Only a critical mass of experts would be able to manage the workload and match the expertise and personnel of our international counterparts. We need professionals that are appropriate for this work both in quantity and quality. At the same time, it is not only the quantity of staff that matters. We need the best people to be able to speak the technical language that the IASB/IFRIC speaks. The experience of our European experts has to meet that of their US colleagues. When trying to attract and recruit the best quality people, EFRAG competes with the private sector including leading audit networks. This implies the need to pay competitive salaries[103], which represent EFRAG's main cost. Should EFRAG not be able to afford to pay the best people, the objective of developing a powerful European voice would not be met.

4.3.2.5. Achieve the above objectives within a reasonable period of time considering their urgency in the current EU and international context

A fifth operational objective is to achieve the above objectives within a reasonable period of time considering their urgency in the current EU and international context.

We live in historic times: the IASCF is currently undergoing major reforms. International standard setting processes are being opened up and the representatives and views of jurisdictions adopting international accounting standards are welcome and listened to. If we

[103] Based on informal estimates, the annual salaries of accounting experts are higher than EUR 300,000.

do not grab this opportunity now, we will not have the chance to do so in the future. Currently, we can claim that the EU is the largest constituency applying the international accounting standards. With more and more countries adopting them, among them such large countries as the US and China, it will be hard for Europe even to maintain its positions and it most likely will not be able to increase its influence.

Therefore, we need to react quickly. EFRAG's reform process began in time to allow it to react to the changes in the international environment adequately. But these governance reforms have to be matched by the necessary financial support.

4.4. Available Policy Options

4.4.1. Status quo

Under this scenario, EFRAG continues to be financed by its founding organisations and the national funding mechanisms operating in some of the Member States. The Community is not involved in the organisation's financing.

This option's greatest advantage is that is easy to be realized since things can continue to go on without any further action from the side of the European Commission. Also, this scenario has no implications for the Community budget, no additional Community money has to be spent.

However, the disadvantages clearly overshadow the advantages of this option. If the number of EFRAG's staff is not increased, the absence or leave of one colleague may make it impossible to continue work on a whole project, as they have no back-ups. Also, considering that the same people have to work on issuing the endorsement advice and developing the pro-active input at the same time, clearly the first would be prioritised. This prioritising is understandable if we consider that providing the Commission with endorsement advice is EFRAG's original objective as agreed by their founding (and funding) organisations. Providing endorsement advice is even a task which is more measurable, visible and also, more pressing since if this is not done, the adoption of accounting rules within the European Community would come to a complete halt. Clearly, in case of a collision of duties, less attention and time would be left for the pro-active work. It is even possible that from time to time the pro-active projects underway have to be set aside in order to be able to manage the workload of advising the European Commission on the endorsement of the already issued standards. So the objective of developing a single and influential European accounting voice is not met.

This option does not solve the current problems of passive adoption, non-equivalence and carve-outs either. At the same time, we would miss the historic opportunity described above to get involved in the international standard setting process.

Not supporting EFRAG with Community funds would also mean that the currently ongoing reforms of EFRAG's governance loose ground. The system of voting rights tied to the share in financing would prevail. The stakeholders directly concerned by EFRAG's advice could keep their influence on the organisation's work.

The absence of Community funding would also be seen by others as demonstrating the weakness and the low-standing of EFRAG. Thus, in the end, this scenario would worsen EFRAG's current reputation and status as opposed to just not improving it.

4.4.2. *Increase contributions within the existing funding models*

EFRAG could ask for an increase in the contributions of its member organisations. This option would not solve the current problems. EFRAG's level of independence would if not decreased, at least perceived to be decreased by the general public. In addition, since EFRAG's independence will have to be increased in line with its public interest activities, individual stakeholders currently financing EFRAG will have to give up much of their existing influence in EFRAG. In this context, it does not seem reasonable to expect them to double their current amount of contribution to EFRAG's budget. From all discussions within the Supervisory Board of EFRAG and with several of the member organisations, it is clear that they are not willing or in a position to increase their contributions by such a degree that it would make a real difference, i.e. be enough for carrying out the pro-active work properly.

4.4.3. *Setting up national funding schemes (public financing or levy over industry)*

National funding mechanisms have been designed to support the various accounting standard setting activities (e.g. standard setting at national level, influencing the international standard setting process) for the benefit of the stakeholders of one particular country. The private and public funding systems for national standard setters (i.e. national funding mechanisms) are equally common[104]. In case of private funding systems, the accountancy profession and preparers (industry) together with the stock exchanges are the most common providers of funding where the national funding system works on a non-voluntary basis. There are also some cases of mixed funding systems where government participates in a mainly private system or private contributions are paid to mainly government funded standard setters.

However, counting on the increased contribution only from this source has considerable disadvantages. National funding mechanisms exist currently only in some Member States. Setting these up is time-consuming, whereas the need for a sound EU representation at the international accounting level is urgent. And even if such funding mechanisms were set up in all Member States, this solution would not lead to an appropriate increase in EFRAG's budget. Reluctance to levy a tax, lack of political willingness to create another tax-like system, mean that these funding mechanisms cannot sufficiently increase their contribution to the work of EFRAG. This option also implies that the Member States would be entitled to decide on the level of their national contribution. This may result in a continuing lack of level playing field for listed companies of different nationalities.

While Member States are reluctant to increase the levies on national levels, imposing an EU-wide tax-like levy is not a feasible option. It would require unanimous support from the Member States. There is no provision in the Treaty that would allow the Community to impose a fee on private companies in favour of another private body or association.

4.4.4. *Co-financing under the Community budget*

A grant agreement without a call for tender is a solution worth considering. Following Article 108 of the Financial Regulation, grants can be used *to finance the functioning of a body which pursues an aim of general European interest or has an objective forming part of a European Union policy*.

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[104] In Northern Europe standard setters are primarily financed by the private sector; whereas in Southern Europe, there is public financing.

The grant will be designed to co-finance the functioning (basically the staff costs) of EFRAG (operating grants). By definition, such co-financing has no direct link to any deliverables. On the other hand, the Commission will contribute only to financing the actual costs incurred by EFRAG without allowing for a profit margin.

This option has clear advantages. Co-funding from the European Union will ensure that the missing resources can be brought up to achieve the objectives above and a stable solution providing for continuity in the funding of EFRAG. This option is a clear and straight-forward solution to the current funding problems. It is possible to extend the grant in time and transfer it into long-term financing. The independence and thus the credibility of EFRAG will be enhanced, while a level playing field will be ensured for all listed companies irrespective of their nationalities.

This option enjoys the support of the European Parliament and the Council as highlighted several times by the ECOFIN Council and by the European Parliament.[105]

The articulation of a single European voice is of a broader European interest, thus, coordinated actions at European level should be able to count on support from the European budget.

4.4.5. Setting up a dedicated EU Agency or body

Setting up a *European standard setter* would imply that European companies have to compile their financial reports on the basis of European accounting standards. If these accounting standards are truly European, they will differ from those applied in other parts of the world. Thus, Europe would not benefit from the trend that the same sets of accounting rules are applied more and more globally. European companies would have to prepare several sets of financial report if they wish to raise funds outside of Europe. In addition, this idea lacks the support of all parties involved – including the Member States and the Commission.

Establishing a *new agency* could also be an option to be considered. The Commission would set up an Advisory Accounting Agency (replacing EFRAG), financed directly from the Community budget. This agency would take over all current tasks of EFRAG. However, the feasibility of setting up an agency is doubtful. Given that the Commission intends to launch a horizontal evaluation of regulatory agencies, proposals for a new regulatory agency will not be decided upon until the conclusion of this exercise (end of 2009)[106]. There is thus currently a general moratorium on the creation of new agencies. The need for financing the pro-active accounting work is urgent; therefore, this scenario would lead to missing our unique opportunity to get involved in the international accounting standard setting at the right time. Later we may not have the chance to do so.

In addition, the establishment of an agency is unlikely to be possible without Community funding comparable in amount to the financial contribution to the EFRAG funding foreseen under the preceding option as an agency would ultimately be funded entirely from the Community budget. Moreover, the Commission's management of the financial contribution to and/or co-ordination with an Agency would imply administrative costs for the Commission

[105] Cf. references above in section 4.1.1.

[106] For details, refer to Communication from the Commission to the European Parliament and the Council. European agencies – The way forward (COM (2008) 135 final).

which would also be comparable to that associated with a financial contribution to the EFRAG budget.

4.4.6. *"Internalize" functions within the Commission*

Under this scenario, the technical expertise provided by EFRAG would be carried out internally by the services of the European Commission.

Besides the difficulties this scenario would represent from a human resources point of view (as it would imply a substantial recruitment of accounting experts), it is not desirable as the Commission would find itself in the situation where it would have to take the decision to endorse accounting standards on the basis, inter alia, of a technical advice which by its nature should be seen as independent. It is thus not desirable that the missions of EFRAG are carried out "in-house" by the Commission.

4.4.7. *Comparison of options*

The table below is used to compare the relative merits of the above options based on a qualitative assessment as reliable data are not available.

In the case of EFRAG the criteria are considered equally important in testing the cost-effectiveness of each option, however, some of these criteria feature more prominently. With this in mind, the criteria have been prioritized, rather than weighted.

One should consider as a **first priority** the need to **achieve the objectives** set out for EFRAG, as this is the most crucial issue at the moment (avoid reliance on voluntary funding from interested parties, ensure fair burden sharing in financing, boost attractiveness and acceptance of IFRS, ensure adequate financial means to carry out EU public interest mandate) as evidenced also in the debate on the EFRAG's missions within the European Parliament and the ECOFIN Council[107].

A **second priority** should be the **time needed for implementation** as (i) EFRAG's reform process need to be speeded up to allow the EU to react to the current changes at international level in relation to IASCF (see specific annex) and (ii) the current financial crisis has put accounting standards at the top of the EU political agenda.

A **third priority** should be the criteria of **feasibility** (from a legal and or political point of view), considering the numerous stakeholders involved and the role of EFRAG in the endorsement process.

A **fourth priority** should be the **implications for the EU budget**.

The option "status quo" (option 1) used as the baseline with no budgetary intervention from the Community is compared to the five other options based on the four following main criteria:

- The degree of achieving the objectives described above,
- Time needed for implementation,

[107] See section 4.1.1. above

- Feasibility, and
- Implication for the EU budget.

ASSESSMENT / OPTIONS	**1. Achievement of objectives** **High (+++)** **Medium (+/-)** **Low (- - -)**	**2. Time needed for implementation** **High (+++)** **Medium (+/-)** **Low (- - -)**	**3. Feasibility** **Straightforward (+++)** **Medium (+/-)** **Complex (- - -)**	**4. Implication for EU budget** **Positive (+ to +++)** **Negative (- to - - -)**	**Overall Assessment** **Positive (+ to +++)** **Negative (- to - - -)**
Option 1 Status Quo	- - -	- - -	+ + +	+ + +	- -
Option 2 Increase contributions within the existing funding models	- - -	- - -	- - --	+ + +	- -
Option 3 Setting up national funding schemes	+/-	+ + +	- - -	+ + +	- -
Option 4 Co-financing under the Community budget	+ + +	- - -	+ + +	- - -	+ + +
Option 5 Setting up dedicated EU Agency or EU body	+ + +	+ + +	- - -	+ + +	- -
Option 6 Internalizing EFRAG's functions within the Commission	- - -	+/-	+/-	+ +	- -

The "status quo" scenario (option 1), which leaves the funding of EFRAG to its private member organisations can be assessed as the worst case scenario from the EU perspective as no full guarantee exists that public interest is duly taken into account by international standard setters.

On the contrary, the strongest benefits are to be expected from option 4. Providing EFRAG with co-funding from the EU budget would have the following important advantages:

- it can be **realized quickly** enough to meet the urgent needs and it is easier to put in place compared to the other options which are lengthy if they can be realized at all, but in many cases practically impossible to be realized. If the funding Decision were adopted by the co-legislators in 2009, the new Community funding programme could be launched as of 2010;

- it would considerably **enhance EFRAG's independence** from the stakeholders and support its current governance reforms that aim at increasing EFRAG's public oversight and accountability,

- it provides a more **stable** source of funding also in the long-term compared to annually approved member contributions,

- it would **increase EFRAG's general recognition** and give its opinion the necessary weight and importance at the international scene,

- it would signal to all parties concerned the **EU public interest** and role of EFRAG and encourage other public bodies and institutions to contribute to EFRAG's financing.

In sum, Community co-funding of EFRAG clearly represents the quickest solution which is also in line with EFRAG's public interest activities and international role.

4.4.8. Method of implementation for the selected option

Further to the above, the optimal solution combines certain of the above options. The solution could be co-financing EFRAG via operating grants from the Community budget and at the same time raising additional resources from third parties. EFRAG is attempting to mobilise the following additional resources:

- staff allocations by national accounting standard setters, either detached to EFRAG or to participate in joint working groups (in the long-run these in-kind contributions may be transformed into cash contributions);

- additional cash contributions from national funding mechanisms and/or the private organisations that founded EFRAG;

- co-funding from the Community budget.

Based on the financial rules governing the management of the Community budget, financial support from the Community budget could be provided either in the form of operating grants (i.e. contributing to the overall budget of a body) or in the form of action rants (i.e. co-financing specific targeted activities of a body).

In the case at hand, the aim is to finance mainly the pro-active work of EFRAG; therefore the option of co-financing EFRAG via action grants has also to be considered. However, the activities of EFRAG are highly interdependent. The same experts do the pro-active work and the tasks related to endorsement advice. Therefore, it seems almost impossible to determine which costs should be considered as eligible for financing and which relate to activities that would not be the subject of the Community funding. Consequently, it is rational to co-finance EFRAG via an operating grant.

EFRAG, as a possible eligible beneficiary, complies with the requirements laid down in Article 162 (b) IR[108]. This is a non-profit organisation pursuing an aim of general interest as a European body representing a network of non-profit bodies active in the Member States.

EFRAG is clearly *European*: it is incorporated in one of the Member States (as a non-profit organisation, AISBL under Belgian law), and its members are all European organisations. Also its objectives and activities are focused on Europe: EFRAG facilitates the development of pan-European accounting standards.

EFRAG represents a *network of non-profit organisations* active in the Member States. Its member organisations are representative federations and associations of experts and the industry, non-profit national standards setter institutions that are active in the Member States are among its partners. EFRAG represents its members when it expresses views on various fora about the European accounting policies and takes into account its members' interests when advising the European Commission. It should also represent the widest possible range of stakeholders when providing input to the international standard setting process.

Therefore, as a body pursuing an aim of general European interest both in the term's legal sense and in its everyday meaning, we consider that EFRAG is eligible for receiving operating grants from the European budget.

Since EFRAG is in a de facto monopoly position as described in Article 168 1(c) IR, these grants may be awarded to EFRAG without a call for proposals.

4.4.9. Volume of appropriation, human resources and other administrative expenditure

At present the operating costs of EFRAG are financed primarily by its European member organisations. In addition, stakeholders contribute in-kind to the operation of EFRAG by providing the organisation with experts who are on their payroll but who work for EFRAG part-time or full-time. Occasionally, EFRAG receives voluntary contributions from stakeholders.

[108] Regulation No. 2342/2002 (regulation implementing the Financial Regulation)

The current budget of EFRAG is presented in the following table.

in thousand euros

Income Statement (in-kind contributions are not included)	**Year**	**Year**
	2006	**2007**
Members' Contributions	1075	1338
Voluntary Contributions	0	283
Total Contributions	**1075**	**1621**
Personnel costs	-886	-997
Office costs	-114	-130
Meeting costs	-26	-26
Other costs	-117	-122
Operating Expenses	-1143	-1275
Operating Profit or Loss	**-68**	**346**
Financial Result	-8	1
NET PROFIT or LOSS	**-76**	**347**

Source: EFRAG Annual Review 2007, April 2008

The table above shows that EFRAG is currently a rather fragile organisation, depending on some Brussels-based associations. Voluntary contributions may determine whether the organisation's budget is in surplus or in the red and this may affect as a minimum the perception of its independence. The figures above show the past/current situation, when EFRAG is mainly engaged in giving endorsement advice to the European Commission as stipulated in the IAS Regulation.

For the future, when EFRAG has to expand in order to accommodate its role as a representative of the singe European accounting voice, supposing that the Community co-financing will be in place by 2010, the following budget plans have been drawn up (see in the table below).

in thousand euros

Budget forecast (excluding in-kind contributions)	**Year**	**Year**	**Year**
	2008	**2009**	**2010**
European member organisations	1.100	1.000	1.000
National Funding Mechanisms	770	2.000	2.000

EC funding	0	0	3.000
Total revenues	**1.870**	**3.000**	**6.000**
Staff costs	-1.010	-1.455	-5.170
New staff	-340	-990	
Offices	-162	-210	-210
Other	-300	-345	-620
Total expenditures	**-1.812**	**-3.000**	**-6.000**
Net profit/loss	**58**	**0**	**0**

Source: Informal discussions with EFRAG on 3 June 2008

As the figures show clearly, the increase in the budget will be spent on staff costs. Since these depend on the actual pace of recruitment, these figures cannot be set precisely, and thus the exact amount of the EC contribution cannot be predicted.

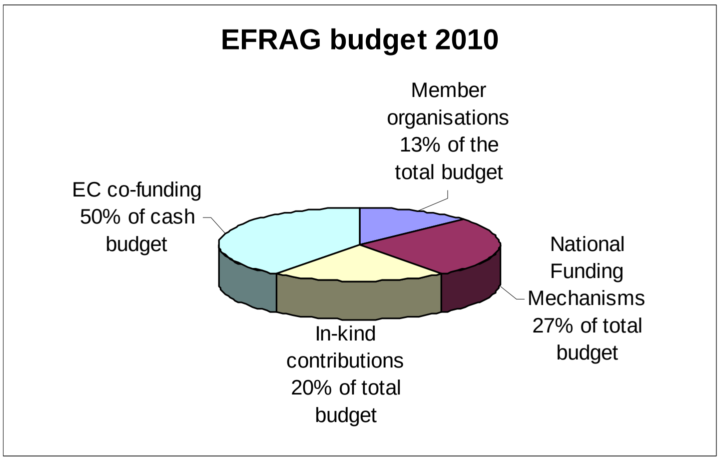
Please note that the above figures are all cash-based accounts and projections, and they exclude the *in-kind contributions* of the stakeholders and the maintained in-kind contributions of the national standard setters. Based on the data received from EFRAG, these are estimated to reach approximately *€1.5 million* annually.

- **Volume of appropriation**

Further to the above, it is considered reasonable that the Community intervention covers up to 50% of the EFRAG 2010 total expenses (the baseline year). Taking into consideration both only the cash elements of EFRAG's budget, this co-financing will represent approximately a sum of €3 million per year. The current contribution of the European member organisations and national standard setters would not be reduced – they would be maintained or even increased. Moreover, the proposed EFRAG co-funding would be part of a Community programme which is intended to last for four years (2010–2013) in order to be aligned with the duration of the financial perspectives. As described earlier, it is expected that this level of Community funding would signal to all parties concerned the Community interest in international solutions and encourage other public bodies and institutions to increase their contributions to EFRAG.

- **Expected impact of community funding**

The main sources of EFRAG financing (expressed in %), after 2010 i.e. including the Community intervention, are illustrated in the pie chart below.



Source: Strengthening the European Contribution to the International Standard-setting Process – Proposals for public consultation, July 2008[109]

- **Impact on human resources and other administrative expenditure**

Taking into consideration that the envisaged funding would finance operating costs, this will entail related administrative work by the European Commission. Since DG MARKT does not have sufficient administrative resources for managing such a significant amount of money compared to our budget line, there will be a need for some additional specialist financial officers and additional financial training for existing staff, which is estimated under section 1.4.8. of the general section of the ex ante evaluation.

4.5. Conclusion

In view of the above, considering the public interest role that EFRAG plays at present in the endorsement of the international accounting standards in the EU, and the role that it is envisaged to take up in pro-actively influencing the international standard setter, it is rational and important that this organisation is supported also financially by European public money in carrying out its tasks. Therefore, it is proposed to provide EFRAG from 2010 with a co-financing of up to 50% of its annual cash budget via operating grants. This would mean an annual amount of approximately €3 million per year for the period of 2010-2013.

The Community contribution will, inter alia: (i) provide a stable funding that enables EFRAG to carry out its public interest activities (ii) demonstrate Community interest in international solutions, and (iii) incite other public bodies or institutions to provide funds to EFRAG.

4.6. Follow-Up: Arrangements For Monitoring, Reporting And Evaluation

In order to make sure that the Community money is spent to the purposes it was targeted at and in a cost-effective way, we envisage that EFRAG's current governance reforms will be realized before the Community co-funding scheme starts and the programme will be monitored and evaluated.

We are currently seeking governance reforms both at the IASFC and at EFRAG in order to ensure that they operate in the public interest and that all stakeholder groups are properly

109 http://www.efrag.org/news/detail.a3sp?id=228

represented. Thus, the raise in funds will be coupled with sufficient reforms both at international and at European level. We envisage that the new structure and rules of procedure of EFRAG will take effect by the beginning of 2009.

The Commission will closely monitor the application and evaluate the impact of the proposed funding to make sure that the money has been used in accordance with the principles of economy and cost-effectiveness. To this end, the Commission will:

- analyse the EFRAG annual reports;
- evaluate the financial statements and the auditor's report;
- discuss matters with other fund providers;
- use the Supervisory Board meetings, in which the Commission will be an observer, to discuss and clarify funding issues;
- arrange visits to the EFRAG premises when deemed necessary to verify budgetary systems and controls.

Should the level of funding contributed by other organizations to EFRAG's budget drop, the EC contribution will also be reduced proportionately to respect the 50% contribution level.

Evaluation should also include the assessment of the quality and efficiency of EFRAG's technical work, and should be based on its work programme and the issued documents.

  - *Efficiency* would be measured by scrutinizing whether EFRAG delivered the documents (e.g., comment letters, input to the IASB's discussion papers) envisaged in its work-programme.
  - *Quality* could be measured by delivering the documents on time and possibly by examining the percentage of EFRAG's comments taken into consideration by the IASB.

Finally, in line with current financial regulations and practices, the programme as a whole will be properly evaluated in order to determine its possible renewal in 2013.

We do not see any feasible and appropriate solution to make the "common European voice" in accounting well-founded (and funded) without sufficient Community support.

4.7. Glossary Of Acronyms

EFRAG: European Financial Reporting Advisory Group

IASB: International Accounting Standards Board

IFRIC: International Financial Reporting Interpretations Committee

IASCF: International Accounting Standards Committee Foundation

AISBL: Association internationale sans but lucrative (international not-for-profit association)

PAAinE: Proactive Accounting Activities in Europe

TEG: Technical Expert Group of EFRAG

SARG: Standards Advisory Review Group

5. ANNEX IV TO THE EX-ANTE EVALUATION: PROPOSED COMMUNITY FUNDING OF THE PUBLIC INTEREST OVERSIGHT BOARD (PIOB)

5.1. Background

Unreliable financial reporting seriously constrains investments or divestments on financial markets. Inefficient or underperforming financial markets carries out a heavy toll on companies and other productive actors, having as a result a significant negative impact on the whole economy.

5.1.1. Audit as a public interest activity

Many decades ago it became mandatory for companies, in many jurisdictions all over the world, to have their financial statements audited. The purpose of an audit is to give reasonable assurance to the public, notably to shareholders and other investors, that financial statements are free from material misstatements and provide a true and fair view of a company's financial position.

It was also decided that audit services, in spite of its own nature as public interest activity should be provided by private auditors and audit firms and not by public authorities or regulatory agencies.

In the EU, Community legislation[110] requires a company's financial statements to be audited by statutory auditors[111] who should provide an independent opinion about a company's financial position, as reflected in the financial statements. This will be particularly important in the case of auditing public interest entities[112] (e.g. listed companies, banks and insurance companies).

5.1.2. Need for International standards for auditors

Investors today increasingly invest or divest, directly or indirectly (e.g. through investment funds), in companies of all sizes (whether listed or not) incorporated in foreign jurisdictions and, therefore, regulators, standard setters, issuers, and other stakeholders can no longer view financial markets from an exclusive domestic perspective.

Auditing standards are standards to be followed by auditors when fulfilling their professional responsibilities in the audit of financial statements and related data. International standards for auditors are developed by independent committees of the International Federation of Accountants (IFAC), which is the global, private organization representing the accounting profession. The most relevant IFAC committee is the IAASB (the International Auditing and Assurance Standards Board)[113].

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110 Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies; Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts; Council Directive 86/635/EEC of 8 December 1986 on the annual and consolidated accounts of banks and other financial institutions; Council Directive 91/674/EEC of 19 December 1991 on the annual and consolidated accounts of insurance undertakings.

111 As defined in Article 2.2 of Directive 2006/43/EC (the 8th Company Law Directive)

112 As defined in Article 2.13 of Directive 2006/43/EC (the 8th Company Law Directive)

Article 26 of Directive 2006/43/EC (the 8th Company Law Directive) foresees the possibility of adopting international auditing standards (ISAs) in the EU if developed and adopted with proper due process, public oversight and transparency subject to a regulatory comitology procedure (thus involving Member States and the European Parliament). As in the case of the IASCF[114] and as a result of the 8th Company Law Directive, this is a rare situation where the standards enacted by the relevant entities of a private body, IFAC, may become EU law[115].

Investors benefit the most from an independent audit opinion when this opinion is based on high quality standards. The financial scandals which took place a few years ago (e.g. Enron and WorldCom in the US or Parmalat in Italy) called into question the work of auditors and their independence. This created a global movement towards reinforcing oversight of auditors by public authorities. At international level a reform of IFAC was deemed necessary. As part of such reform, the Monitoring Group[116] in co-operation with IFAC, decided to create the PIOB (Public Interest Oversight Board) to carry out the oversight of the standard setting activities of, inter alia, the IAASB[117]. The main objective of the PIOB is to ensure that IFAC standard setting activities are responsive to the public interest.

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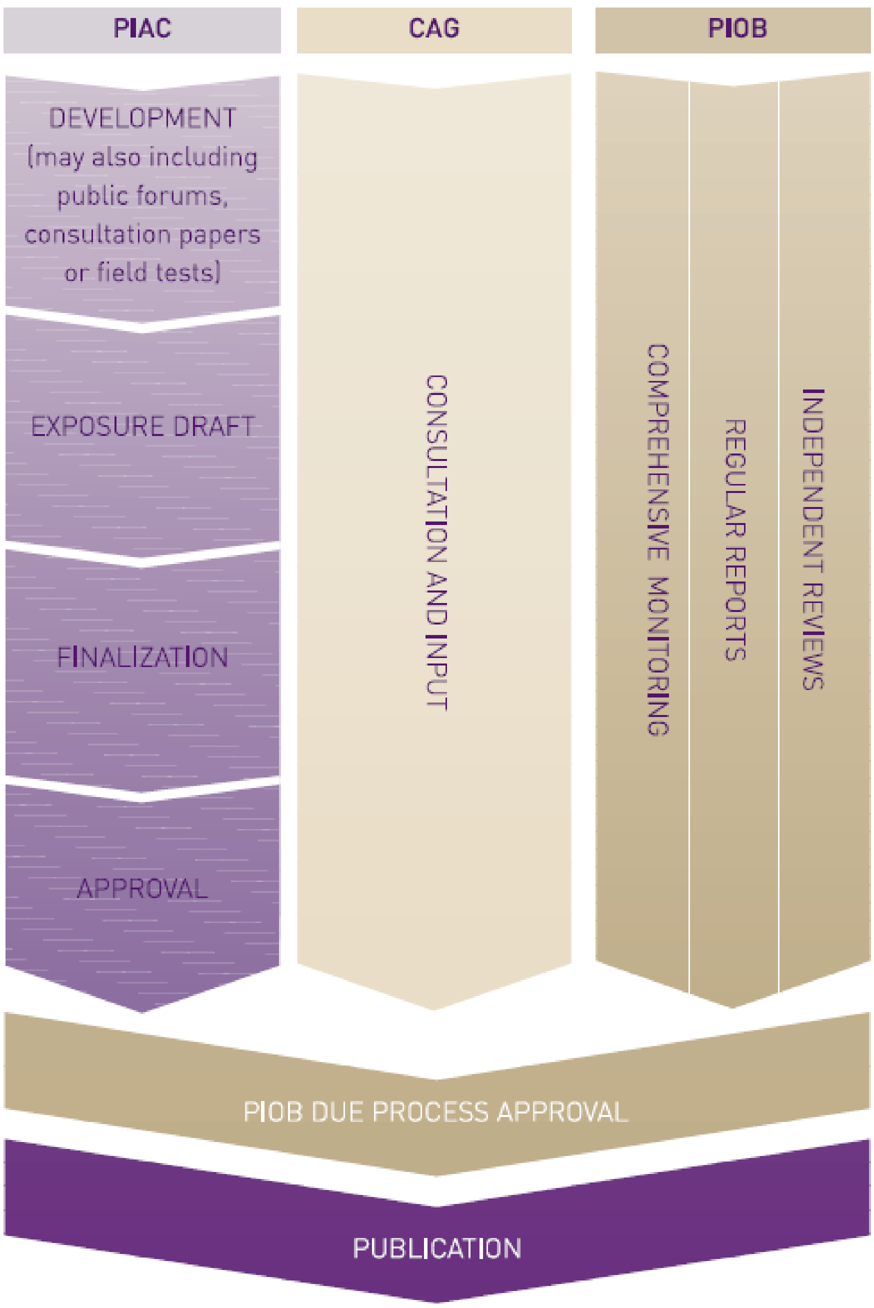
114 See specific annex of the ex ante evaluation on IASCF

115 As with the IASCF, even if the standards and interpretations enacted by the IFAC are applicable to the audit industry, their potential transformation into EU law means that we are not in a context of EU industry self-regulation/ standardization as this is the case, for instance, with CENELEC in the case of electricity.

116 The Monitoring Group (MG) is the international organization responsible for monitoring the implementation of IFAC Reform. The MG nominates PIOB members and engages in dialogue with the international accountancy profession, receives operating and financial reports from the PIOB, and updates the PIOB regarding significant events in the regulatory environment. The members of the MG are the BCBS, IAIS, IOSCO, the World Bank and the European Commission. The FSF and IFIAR are observers.

117 The PIOB also carries out the oversight of the two other standard setting committees of IFAC, namely, the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB). These three committees form part of IFAC's Public Interest Activity Committees (PIACs). Consultative Advisory Groups are constituted to provide advice, including technical advice, to each of the IAASB, IAESB and IESBA. Regular interaction between each CAG and its respective standard setting board is part of the board's formal consultation processes. The PIOB oversees the work of each CAG.

THE PROCESS OF INTERNATIONAL STANDARD SETTING



Source: Third public report of the PIOB, page 10 – May 2008

In the US the Sarbanes-Oxley Act in 2002 was adopted. At EU level the 8th Company Law Directive of 1984 was modernised and expanded in 2006 (Directive 2006/43/EC) to require, among other things, the creation of national public oversight bodies and of publicly controlled external quality assurance systems for auditors. At world level a new forum denominated IFIAR has been created by national independent auditors' oversight bodies to exchange experiences and co-ordinate activities.

At present, the European Commission is deeply involved in the works of the IAASB, where a new upgraded and modernised set of ISAs are under development, and to a lesser extent in the works of the IESBA, where a new Code of Ethics for auditors, including new independence rules, is under discussion. However, whereas Article 26 of Directive 2006/43/EC foresees the possible adoption by Comitology[118] of ISAs, there is not at present a mandate for the European Commission to adopt standards or rules issued by the other IFAC committees These standards and rules, however, may have a strong influence on European legislation (e.g. IFAC independence rules for auditors).

The PIOB started its operations on 1 March 2005. On 15 December 2005 (registered on 8 February 2006) a non-for-profit Spanish Foundation offering legal personality to the PIOB was set up in Madrid. The Foundation is governed by a Board of Trustees in which each member of the PIOB is a trustee. As the PIOB members were chosen for a period of three years, the PIOB has been renewed in March 2008 for another three-year period.

The Monitoring Group (MG) is responsible for the selection and appointment of the PIOB members, including its Chairman. This is done through the Nominating Committee of the Monitoring Group which includes all MG members. The Nominating Committee makes a collective decision to nominate not only individual members of the PIOB but also the entire Board in order to guarantee that the PIOB as a whole is appropriately qualified to complete its mission satisfactorily. Two[119], out of the ten, PIOB members were appointed by the European Commission in February 2008. The Nominated Committee is bound by a Memorandum of Understanding (MoU) signed by all MG members on 9 April 2008. In the name of the European Commission the MoU was signed by Internal Market Commissioner Charlie McCreevy.

The PIOB has a small full time secretariat made up of the Secretary-General, an assistant and two advisors. For the 10 PIOB members, it is a part-time job. To compensate for the time dedicated to the organisation, the PIOB members receive in total an annual stipend of $375.000 ($150.000 for the Chairman + $25.000 for each of the other members).

The diagram below, extracted from the Third PIOB Public Report, provides a mapping of the PIOB work in the context of ensuring a strong "international public interest". In this representation, the international public interest is ensured all along the ongoing flow of activities that move through various phases starting by a credible setting up of international auditing standards, followed by their adoption, implementation, monitoring and evaluation in order to enhance the confidence of the users of accountancy services (e.g. investors) and eventually of the whole financial system.

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118 As stipulated in Article 48 of Directive 2006/43/EC as amended by Directive 2008/30/EC

119 In March 2008 the European Commission nominated Sir Bryan Nicholson and Professor Kai-Uwe Marten to the PIOB

Source: Third Public Report of the PIOB, page 22 – May 2008

Main PIOB activities include the following:

– Activities related to the implementation and monitoring of due process in the development and adoption of international auditing standards issued or under preparation by the IAASB;

– Activities related to the implementation and monitoring of due process in the development and adoption of other IFAC public interest activities such as those in the field of Ethics (IESBA) and Education (IAESB);

– Conferences, workshops and other events aiming at stimulating debate or raising awareness about international auditing standards among stakeholders;

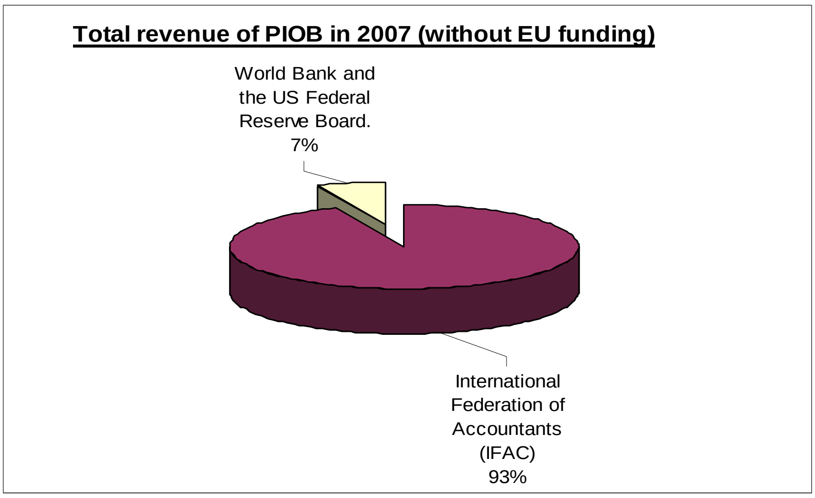
– Running of its Secretariat, including the remuneration of its members and the organisation of their missions.

5.2. Problem definition

5.2.1. Reliance on non-diversified and voluntary funding from interested parties and its negative consequences

To guarantee that the standard setting process in IFAC is responsive to the public interest, it is subject to the independent oversight of a public body (the PIOB). This standard setting model is supposed to profit from both: (i) the knowledge and experience of the standard setting committees of IFAC and (ii) a public oversight designed to ensure that public interest is safeguarded all around the process comprising the proposal, development and adoption of international standards for auditors. However, and because of the private character of IFAC, the Monitoring Group members considered important from the very beginning to make sure that the governance rules of the new standard setting arrangement, including the funding of the PIOB, should be sound and effective to ensure acceptance and wide applicability of the international auditing standards.

Up to now most of the PIOB financing has come from a voluntary contribution from IFAC representing about € 942.247 out of the total budget of PIOB in 2007, i.e. €1.008.021 (see contributions in % from all parties involved in the pie chart below).



Source: Third public report of the PIOB (May 2008)

This has always been considered by the Monitoring Group, IFAC and the PIOB as a transitory solution. This financial arrangement has allowed the PIOB to set up, hire personnel for its secretariat and to become operational from the very beginning. Once this start up period has been successfully completed, the focus is now changing towards having a funding system more compatible with the public function to be performed by this body. Specifically, given the particular mandate of the PIOB, it is considered essential to ensure its financial independence and to avoid, in particular, any real or perceived risk of conflict of interests with the audit profession.

Indeed, the PIOB's financial dependency on the voluntary contribution of IFAC gives rise to continued concerns about the latter's' potential influence over the PIOB's oversight mission.

The situation where an overseer relies for its survival on the voluntary contribution of an organisation representing the profession subject to the standards it oversees is not consider healthy. This situation undermines the public perception of the PIOB's operational independence, an indispensable requirement, especially in the case of the EU as the standards issued by the IFAC are bound to become EU law.

Linking public oversight with independent funding is a traditional policy measure also enshrined in Community legislation. For instance, Article 32(7) of the 8th Company Law Directive when referring to the principles of public oversight in the field of auditing stipulates that: *"The system of public oversight shall be adequately funded. The funding…shall be secure and free from any undue influence by statutory auditors and audit firms".* The same principles are repeated in the same Directive in Article 29.1(c) and (b) when referring to external quality assurance systems and they are further developed in Articles 8 and 9 of the 2008 Commission Recommendation on Quality Assurance[120].

Recital 14 of Directive 2006/43/EC foresees that before the start of the adoption process of an ISA, the Commission conducts review in order to verify whether the requirements set out in the Directive have been met and to report accordingly to the members of the AuRC (Audit Regulatory Committee) which is the committee created by Directive 2008/43/EC to be part of the comitology procedure.

The European Commission may only adopt ISAs for application in the EU if the standards:

- Have been developed with due process (including full participation of all interested parties), public oversight and transparency (i.e. open and transparent procedures have been followed), and are generally accepted internationally
- Contribute a high level of credibility and quality to the annual or consolidated accounts
- Are conducive to the European public good

In order for the Commission to carry out this task, the PIOB's help will be of fundamental importance. Indeed, the PIOB in view of its special mandate will be uniquely positioned to ensure that due process, oversight and transparency have been respected in the proposal, development and adoption of the international standards for auditors.

In addition, the PIOB oversight over the other standard setting activities of IFAC (e.g. IESBA) is also beneficial to the EU and to the Member States.

5.3. Objectives

The main strategic and operational objectives expected to be achieved by the proposed funding arrangement for the PIOB are the following:

5.3.1. Strategic objective

The strategic objective is to ensure a stable, diversified, sound and adequate funding to enable the PIOB to carry out its public interest mission in an independent, efficient and satisfactory way.

[120] Commission Recommendation 2008/362/EC of 6 May 2008 on external quality assurance for statutory auditors and audit firms auditing public interest entities

It is widely accepted that the best way to achieve independent funding for the PIOB, or similar bodies, is to have a well diversified array of contributors mainly from public sources at global level which will reduce, accordingly, the current IFAC contribution. This is also the desire of the PIOB which indicates that: *"in the opinion of the PIOB…it is in the public interest – both real and perceived- that the current funding arrangements be diversified and expanded…"*[121].

5.3.2. *Operational objectives*

5.3.2.1. Avoid excessive reliance of the PIOB on voluntary funding from interested parties thus ensuring credibility and independence of its work

As explained above, at present most of the PIOB funding comes from IFAC which represents the accountancy profession. One key objective, therefore, is to avoid any real or perceived risk of conflict of interest with other parties such as IFAC.

5.3.2.2. In addition to the above, boost the international reputation, attractiveness and acceptance of the standards

As indicated above, because of the private character of IFAC, the Monitoring Group members considered important from the very beginning to make sure that the governance rules of the new standard setting arrangement, including the funding of the PIOB, should be sound and effective to ensure acceptance and wide applicability of the international auditing standards bound to become part of the EU *acquis*.

5.3.2.3. Achieve the above objectives within a reasonable period of time considering the EU and international context

The last operational objective is to achieve the above objectives within a reasonable period of time. Whereas the IFAC contribution has always be considered a good solution for the short term there is a consensus in the Monitoring Group that a diversified and stable funding for the PIOB is the only reasonable way forward.

5.4. Available Policy Options

The following four options have been considered with a view to compare how the objectives identified in section 5.3. are fulfilled and whether they constitute good value for money.

5.4.1. *Option 1: Status Quo*

First, it could be decided to keep the status quo and not take any funding action.

Under this option IFAC, representing auditors and accountants from all over the world, will continue providing most of the funds to the PIOB. While this has been considered as a successful funding method for the short term, it risks damaging the image of the PIOB. Moreover, the heavy reliance on a single contributor should always be considered more risky than funding coming from a more diversified basis.

[121] Page 5 of the First Annual Public Report of the PIOB – May 2006

5.4.2. *Option 2: Contributions from national funding schemes (public sources)*

Second, in order to avoid excessive dependence on a single contributor (IFAC), some other possible sources of funding have been discussed with Member States. In particular the possibility of having contributions from the EU national ministries (Economy, Finance, or Justice), supervisors of banks or of securities markets, and from EU national audit oversight bodies has been discussed at several meetings of the AuRC (the Audit Regulatory Committee) and of the EGAOB (the European Group of Auditors' Oversight Bodies).

Questions were raised related to the inherent difficulties to agree on the geographical distribution within the EU, and to the fact that it is too early for many auditors' supervisors recently set up, as required by the 8th Company Law Directive, to make contributions to international bodies. On the contrary, they considered that, given that the international standards are of high importance the EU as a whole and not only in specific Member States, it would make much more sense and would be much more cost-effective to have a single contribution from the EU budget.

5.4.3. *Option 3: Contributions from national funding schemes (private sources)*

Third, one could explore alternative sources of funding, and especially industry financing. This indeed could be the case where the funding in certain Member States might come from large companies or national associations of auditors or accountants. As in the case of point 5.4.2., this possibility was also discussed at several meetings of the AuRC (the Audit Regulatory Committee) and of the EGAOB (the European Group of Auditors' Oversight Bodies).

This solution may solve the question of concentration of donors, but not the perception of a possible influence from industry. Moreover, such an arrangement would be very difficult to set up and run, even assuming a reasonable co-operation from those entities. Indeed, companies or stock exchanges may legitimately argue that these standards concern the audit profession and not them and that therefore there is not any evident reason to act as a donor. Moreover, such a complex funding system would not benefit from economies of scale and can not be considered as cost-effective given the large number of individual contributions. This may also put into question, as is the case with IFAC, the operational independence of the PIOB.

5.4.4. *Option 4: Co-financing under Community budget*

Fourth, financial support for activities of the PIOB can be provided under the EU budget, within the framework of a Community funding programme.

Such support to the PIOB funding will signal to other international actors that the European Union is engaged in finding global solutions for the benefit of all parties concerned.

From a global perspective, a contribution from the Commission may also incite other institutions, and in particular those represented in the Monitoring Group, to provide a fair portion of public funding to the PIOB.

Finally, Community co-financing will improve the PIOB's operational independence by ensuring that a substantial funding comes from public sources.

5.4.5. *Comparison of options*

The matrix below is used to compare the relative merits of four competing options based on a qualitative assessment as reliable data are not available.

When it comes to PIOB the criteria are considered equally important in testing the cost-effectiveness of each option, however, some of these criteria feature more prominently. With this in mind, the criteria have been prioritized, rather than weighted.

One should consider as a **first priority** the need to **achieve the objectives** set out for the PIOB, as this is the most crucial issue at the moment (avoid reliance on voluntary funding from interested parties, boost attractiveness and acceptance of ISAs).

A **second priority** should be the criteria of **feasibility** (from a legal and or political point of view). The fact that the PIOB is an international, not-for-profit organisation in charge of the oversight of an international standard setter adds a certain degree of complexity to the discussion on feasibility. When considering a Community solution to the problems defined in section 5.2. above, it is thus a high priority that the option retained at EU level be viable from a legal and political point of view.

A **third priority** should be the **time needed for implementation** as the Monitoring Group has always considered the current funding arrangements for the PIOB as a non-durable, short term solution.

A **fourth priority** should be the **implications for the EU budget**.

The option "status quo" scenario (option 1) is used as the baseline to be compared to the other three options. The comparison is carried out based on the following criteria:

- the degree of feasibility of their implementing process;
- their implications for the Community budget
- the time needed for their implementation, and
- the degree of achievement of the objectives above-mentioned in section 5.3.

ASSESSMENT / OPTIONS	1. Achievement of objectives High (+++) Medium (+/-) Low (- - -)	2. Feasibility Straightforward (+++) Medium (+/-) Complex (- - -)	3. Time needed for implementation High (+++) Medium (+/-) Low (- - -)	4. Implication for EU budget Positive (+ to +++) Negative (- to - - -)	Overall Assessment Positive (+ to +++) Negative (- to - - -)
Option 1 **Status Quo IFAC continuous providing most of the funding**	_ _ _	+ + +	_ _ _	+ + +	_ _
Option 2 **Setting up national funding schemes (public sources)**	+/-	_ _ _	+ + +	+ + +	--
Option 3 **Setting up national funding schemes (private sources)**	---	_ _ _	+ + +	+++	--
Option 4 **Co-financing under the Community budget**	+ + +	+ + +	---	----	+ + +

The "status quo" scenario (option 1) which leaves 93% of the PIOB funding to IFAC representing the accountancy and auditing profession certainly constitutes the worst case scenario from the EU perspective as no full guarantee exists that public interest is duly taken into account by international setters.

On the contrary, the strongest benefits are to be expected from option 4. From a European perspective, a single contribution from the EU budget would make much more sense for the following main reasons:

– it would benefit from economies of scale,

- it can be achieved within a reasonable period of time (cost-effectiveness) and it is easier to put in place compared to the other options which require lengthy and difficult discussions with all the stakeholders at the political and practical levels. If the funding Decision were adopted by the co-legislators in 2009, the new Community funding programme could be launched as of 2010,
- it would be easier to handle once in place,
- it would preserve PIOB's operational independence from the audit profession by ensuring that a significant portion of its funding comes from public sources,
- it provides a more stable source of funding to the PIOB as the money comes from the public sector, in comparison for instance with numerous contributions from the industry or from IFAC,
- the Commission will be able to monitor closely and regularly the PIOB's operations and be able to intervene if problems occur,
- it enhances the European stance in international bodies and in particular in those responsible for monitoring and setting up international standards,
- it would signal to all parties concerned the Community interest in international solutions and encourage other public bodies and institutions to provide funds to the PIOB,
- it would enhance the reputation of the PIOB by international standard users, securities issuers and investors,

In summary then, in terms of the pursued public interest objectives, Community co-funding of the PIOB, via the European Commission, clearly represents the less risky solution and would yield the most positive returns.

5.4.6. Method of implementation for the selected option

As a general rule, financial support from the Community budget could be provided either (i) by contributing to the overall budget of the body (via operating grants) or (ii) by co-financing specific targeted activities of the body (via grants for action).

Concerning publicity rules, the possibility of providing a grant following a call for proposal should be excluded from the outset since the beneficiary (the PIOB) is in a situation of legal monopoly in accordance with Article 168 of the Implementing Rules to the Financial Regulation.

In view of the public policy objectives and the type of beneficiary, it is considered that a direct financial contribution from the EU budget by way of an operating grant constitutes the best solution to address the proposed funding. Indeed the choice to provide an operating grant to the PIOB seems the most appropriate because:

- Whereas some organisations work on an activity-based budgeting (ABB) system, the PIOB, given its size and mandate, operates on a cash budget basis which is not conceived for the monitoring of the implementation of specific activities;

- Unlike a grant for action, which helps to co-finance a one-off action over a given period of time, an operating grant allows co-financing of the whole institution's functioning from a much broader perspective.

Regarding the PIOB as a possible eligible beneficiary, it complies with the requirements laid down in the Financial Regulation because this organisation pursues an aim of general interest and is a non-profit organisation (legally speaking has been authorised and is regulated as a Spanish not-for-profit foundation).

5.4.7. Volume of appropriations, human resources and other administrative expenditure

At present the operating costs of the PIOB are contributed primarily by IFAC under an existing five year commitment to provide up to an annual amount of USD 1.500.000 (about EUR 942.247 at current exchange rate), adjusted for inflation and foreign currency exchange movements.

In addition to IFAC's individual contribution, PIOB is provided with a further EUR 65.774 in targeted funding received from the World Bank and the US Federal Reserve Board.

Furthermore, IFAC has recently agreed with the Monitoring Group to re-denominate its existing annual funding commitment of USD 1.500.000 into Euros and to extend it for a further five years (i.e. until 2015), provided that in the meantime other fund providers have not come up with their own commitments.

PIOB Expenses by activity	***Year***	***Year***
(In Euros)	***2007***	***2006***
Board-related operating costs		
Oversight Programme	**551.951**	**461.171**
External relations Program	**208.574**	**132.589**
Foundation Board Meetings	**57.198**	**85.900**
Other start-up and ongoing operating costs	**190.298**	**214.119**
Total Expenses	**1.008.021**	**893.779**

Source: Based on data contained in Third Public Report of the PIOB, page 28 - May 2008

Whereas some costs are fixed or highly predictable (e.g. the members' remuneration), other parts of the PIOB budget have far greater variability which cannot be fully predicted or confidently priced in advance. These concern notably:

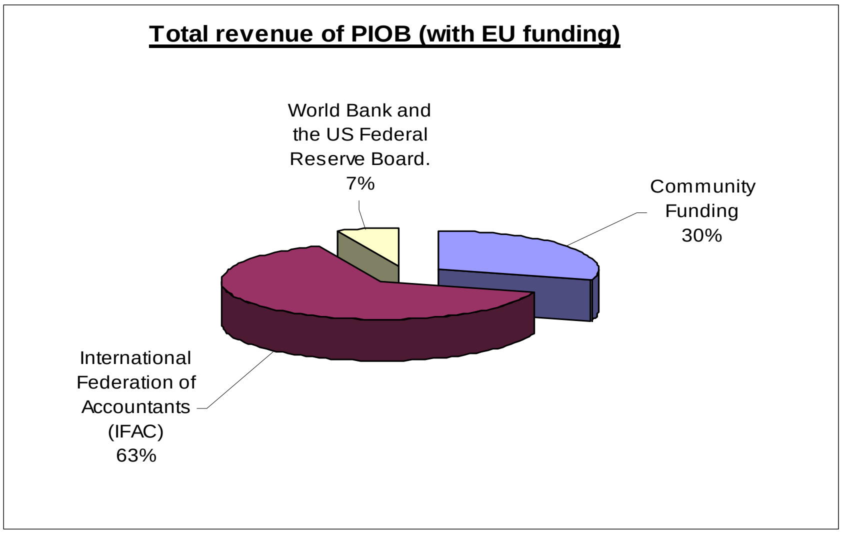
- The inflation which affects almost every budget category;
- The variability of certain categories of costs (e.g. the total travel needs are difficult to foresee) due in particular to the volatility of the Euro/United States Dollars (USD) exchange rate.

In order to determine a precise volume of the Community contribution several considerations have to be taken into account. In particular:

- The amount to be proposed has to be proportionate to the pursued objectives,
- The EU weight in international affairs has to be fairly respected (this is often measured either by its geographical weight, wealth share, share of global economy, or share of international capital markets what makes a proportion between 1/4th and 1/3rd of the total),
- The possible PIOB budget fluctuations have to be properly taken into account.

In view of the above, it is considered reasonable that the Community intervention covers up to 30% of the PIOB 2007 total expenses (the baseline year). This represents approximately a sum of €300.000 per year which would reduce accordingly, by the same amount, the IFAC contribution. Moreover, the proposed PIOB co-funding would be part of a Community programme which is intended to last for four years (2010–2013) in order to be aligned with the duration of the financial perspectives.

The main sources of PIOB financing (expressed in %), which will result from the Community intervention are illustrated in the pie chart below.



Source: Based on data contained in the Third Public Report of the PIOB, page 28 - May 2008

Whereas the proposed 30% of EU funding still leaves IFAC providing more than half of total funding, it is expected that such a level of Community commitment would encourage other public bodies and institutions to provide funds to the PIOB to the point where IFAC contribution is not so relevant.

Finally, in terms of workload implications for the European Commission services, the proposed funding will certainly entail some related administrative work, which impact is estimated under section 1.4.8. of the general section of the ex ante evaluation.

5.5. Conclusion

In view of the above and in order to increase the PIOB credibility and ensure its key role in supporting audit quality, it is considered important for the Community to contribute fairly to the funding of PIOB. Specifically, it is concluded that the best way forward is to co-finance the PIOB, and accordingly reduce the IFAC contribution. Specifically, it is proposed to provide the PIOB the sum of EUR 300.000 per year for the 2010–2013 period, making a total of EUR 1.2 million.

The Community contribution will, among other things: (i) simplify funding at EU level, (ii) demonstrate Community interest in international solutions, and (iii) incite other public bodies or institutions to provide funds to the PIOB.

5.6. Follow-Up: Arrangements For Monitoring, Reporting And Evaluation

The Commission would closely monitor the application and evaluate the impact of the proposed funding to make sure that the money has been used in accordance with the principles of economy and cost-effectiveness. To this end, the Commission will:

- Analyse the PIOB Annual Public Reports
- Evaluate the Financial Statements and the Auditor's Report
- Discuss matters with other fund providers
- Use the Monitoring Group meetings, where the Commission is a member, to discuss and clarify funding issues
- Arrange visits to the PIOB premises when deemed necessary to verify budgetary systems and controls

Finally, in line with current financial regulations and practices, the programme as a whole will be properly evaluated in order to determine its possible renewal in 2013.

5.7. Glossary of Acronyms

Basel Committee on Banking Supervision (BCBS): the international body comprised of central banks and banking supervisory authorities from certain key markets that formulates and encourages convergence towards broad supervisory standards, guidelines and statements of best practice.

Consultative Advisory Group (CAG*):* the group constituted to provide advice, including technical advice, to each of the IAASB, IAESB and IESBA. Regular interaction between each CAG and its respective standard setting board is part of the board's formal consultation processes. The PIOB oversees the work of each CAG.

Financial Stability Forum (FSF): the forum that promotes international financial stability improved functioning of markets and reduced systemic risk through information exchange, cooperation in financial supervision and surveillance, and coordination of efforts. The FSF brings together representatives of national financial authorities responsible for financial stability in significant international financial centers, international financial institutions, international regulatory and supervisory groupings, and committees of central bank experts.

International Auditing and Assurance Standards Board (IAASB): the independent standard setting board that develops international standards and other pronouncements dealing with auditing, review, other assurance, quality control and related services. The PIOB oversees the work of the IAASB.

International Association of Insurance Supervisors (IAIS): the global organization that represents insurance regulators and supervisors, issues global insurance principles, standards and guidance papers, provides training and support on related issues, and promotes effective insurance supervisory regimes.

International Accounting Education Standards Board (IAESB): the independent standard setting board that develops international standards and other pronouncements dealing with education, practical experience and tests of professional competence for accreditation, and the nature and extent of continuing professional education for professional accountants. The PIOB oversees the work of the IAESB.

International Ethics Standards Board for Accountants (IESBA): the international standard setting board that develops ethical standards and other pronouncements for use by professional accountants. The PIOB oversees the work of the IESBA.

International Federation of Accountants (IFAC): the global organization representing the accountancy profession. IFAC is committed to protecting the public interest by developing high quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world. The IAASB, IAESB and IESBA are three of IFAC´s independent standard setting boards.

IFAC Reform: the introduction in 2003 of processes for oversight and monitoring designed to strengthen IFAC international standard setting, achieve convergence to international standards and ensure that the international accountancy profession is responsive to the public interest.

International Forum of Independent Audit Regulators (IFIAR): a forum of national audit regulators from several jurisdictions that conduct inspections of auditors and audit firms. Among its objectives are the sharing of knowledge and practical experience, promotion of collaboration and consistency in regulatory activity and engagement with other organizations with an interest in audit quality.

International Organization of Securities Commissions (IOSCO): the cooperative forum for securities regulatory agencies and international standard setter for securities markets.

Monitoring Group (MG): the regulatory and international organizations responsible for monitoring the implementation of IFAC Reform. The MG nominates PIOB members and engages in dialogue with the international accountancy profession, receives operating and financial reports from the PIOB, and updates the PIOB regarding significant events in the regulatory environment. Members of the MG are the BCBS, IAIS, IOSCO, the World Bank and the European Commission. The FSF and IFIAR are observers.