



ANNUAL
REVIEW
2016

EUROPE'S
FINANCIAL
REPORTING
COMMUNITY

ABOUT EFRAG

EFRAG - European Financial Reporting Advisory Group - is a private not-for-profit association established with the encouragement of the European Commission to serve the public interest. EFRAG's member organisations are European stakeholder organisations and national organisations with an interest in financial reporting and a commitment to EFRAG's public interest mission.

MISSION STATEMENT



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A NEW ERA FOR EFRAG

Appointed in 2016, the new leadership team of Jean-Paul Gauzès and Andrew Watchman are strengthening EFRAG's influence throughout the international financial reporting standard-setting process.

What are your first impressions of EFRAG?

Jean-Paul Gauzès (JPG): EFRAG acts as a catalyst, forming European opinion on financial reporting. We then make sure that European viewpoints are heard – loud and clear – in the international debate. Through EFRAG, the public and private sectors work together to develop positions on endorsement and on the IFRS standard-setting process.

We have to be alert to the opinions of our very broad community of stakeholders. That's why our successful outreach efforts are proving to be a real highlight for me - symbolised for example by our working relationship with the European Parliament. I also value the way EFRAG has been able to deliver real insight into the European public good concept as part of the recent IFRS 16 *Leases* endorsement process.

Andrew Watchman (AW): Naturally, I knew about EFRAG's work and strong track record from my previous role. All the same, on starting at EFRAG, I was impressed with the commitment to quality. However, new challenges arise and we were soon called on to start work on our IFRS 16 endorsement advice, along with a comprehensive impact analysis. Fortunately, EFRAG was already finding innovative ways to analyse complex financial reporting challenges. One example is our 2016 goodwill study – based

on a quantitative analysis of over 300 European companies. This analyses trends in goodwill and its impairment over time and is just one way in which EFRAG has turned calls for a more evidence-based approach into reality. It's something I want to see more of.

How do you get a European view of financial reporting?

AW: We are open to all stakeholders. We actively solicit views and build our evidence base through consultation, field-testing, outreach events, surveys, expert working groups and so on.

EFRAG has become recognised internationally as the European voice in financial reporting. This is based on a track record of more than 15 years of experience in influencing the IASB, both through proactive research and in our comment letter work. Likewise, EFRAG's role in the endorsement process is now part of a tried and tested approach that has served Europe very well.

JPG: EFRAG's balanced public private sector model allows us to remain independent of vested interests. Our legitimacy, and indeed our strength, is founded upon our commitment to transparency, inclusiveness and due process. We interact with a diverse range of public and private sector organisations, political, supervisory and regulatory authorities, national



In July 2016, Jean-Paul Gauzès became the EFRAG Board President under the new EFRAG governance structure based on the Maystadt recommendations.

He was nominated by the European Commission following a consultation with the Council and the European Parliament.

French of origin and lawyer by profession, Jean-Paul Gauzès was an MEP from 2004 till 2014. Throughout this period he was a member of ECON (Committee on Economic and Monetary Affairs).



Andrew Watchman joined EFRAG as CEO and TEG Chairman in April 2016.

He was previously the Global Head of IFRS for Grant Thornton, leading a team supporting the application of IFRS across the international network and chairing the firm's global IFRS expert group. He has also served as a member of the IFRS Interpretations Committee.

standard setters, the accountancy profession, preparers and users of IFRS to fully understand specific European circumstances and concerns.

How do you evaluate the European public good?

JPG: Following the Maystadt reform, EFRAG's mandate was enlarged to include the European public good assessment. To fulfil this mandate we need to assess not just the technical aspects of new accounting standards but also their wider effects – in particular the risk of any unintended negative consequences on financial stability, economic development and competitiveness. With IFRS 16, our evaluation of the costs and benefits of changing the accounting rules for lease transactions has proven EFRAG's ability to deliver endorsement advice of the highest quality.

AW: We provided an analysis of potential changes in the behaviour of preparers, investors and lenders arising from IFRS 16 and the likely economic impact of such changes including on the leasing industry and SMEs. This is about putting the real world concerns of European stakeholders at the heart of the endorsement advice process.

What is next for EFRAG?

AW: On the endorsement side, our work on IFRS 17 *Insurance Contracts*, the major new standard on insurance, will be a top priority. We intend to conduct a thorough impact analysis to inform EFRAG's conclusions. After IFRS 17, EFRAG will have an opportunity to focus on areas of concern to European stakeholders from a longer-term perspective. This means progressing with our own proactive research agenda and providing effective input into the IASB's early-stage projects. In doing so, we will prioritise evidence-based analysis of issues and their possible solutions.

JPG: Since taking office, Andrew and I have been meeting with EFRAG's partners - member organisations, MEPs, the European Central Bank, European Supervisory Authorities, national standard setters and so on - in order to understand expectations, enhance coordination and build consensus. These meetings confirm that EFRAG plays a vital role in reinforcing cohesion between diverse and autonomous stakeholders so that, ultimately, Europe's voice is made stronger in international financial reporting standard-setting.

The post-Maystadt era has begun, EFRAG has an enlarged mandate and we have a new leadership team in place. Our mission is to bring EFRAG to the attention of an ever-wider range of stakeholders, both in Europe and internationally.

EFRAG MOVING FORWARD

To mark its 15th anniversary, EFRAG held a special event in Brussels on 6 July 2016. Gathering some 150 international and European experts in the financial reporting debate, the political and technical leaders present, including regulators, standard setters, accountants, preparers and users, reflected on EFRAG's past, present and future.

The importance of IFRS to Europe, the growing importance of impact analyses in the standard-setting and endorsement process and the merits and challenges of IFRS for small listed companies were discussed. The event was also an occasion to revisit key milestones in EFRAG's history and to consider how the organisation has evolved since it was formed in 2001.

Importance of IFRS

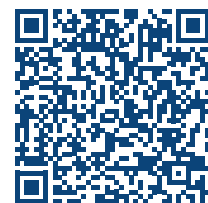
A global economy needs a global accounting language. The participants at EFRAG's 15th anniversary event noted that Europe had led by example when deciding, in 2002, to require the application of IFRS for listed companies in their consolidated accounts.

The European Commission's 2014 evaluation of the IAS Regulation found that the international standards contributed to improved transparency in financial statements, which in turn supported more accurate reporting and forecasting. The participants emphasised that the success of Europe's IFRS project is critical to the broader ambition of global standards.



"The expertise and independent judgement of EFRAG supports all of the European Institutions involved in the IFRS decision-making process. The ECON permanent IFRS team has good cooperation with EFRAG, which has been enhanced after the implementation of the Maystadt report recommendations."

Theodor Dumitru Stolojan MEP
Chair of the European Parliament's
ECON Permanent IFRS Team





MAKING EUROPE'S VOICE HEARD INTERNATIONALLY

Looking beyond its role of assessing new or revised standards for endorsement, EFRAG has evolved to make an increasingly significant contribution to the IASB's standard-setting process. The participants highlighted that EFRAG has become increasingly effective in this upstream work to ensure that the resulting IFRS are fit for use in Europe.

EFRAG exercises influence continuously and not only in the formal IASB consultation phases, thanks to a constructive working relationship developed over many years with key players in the international debate. For example, EFRAG participates actively in the IASB's Accounting Standards Advisory Forum (ASAF) –

one of the many ways in which EFRAG ensures that Europe's voice is heard. The result is that EFRAG has been able to shape standards so that they are acceptable to European stakeholders by the time they reach the endorsement stage.

EFRAG's input is not limited to new or revised standards. The discussion emphasised EFRAG's role in encouraging the IASB to increase emphasis on an evidence-based approach to the development of standards, to strengthen its approach to public consultation and to revisit many of the key underlying concepts. This included the importance of net income as the primary measure of financial performance and the significance of an

entity's activities in the measurement of assets and liabilities.

Another example involved IFRS 9 *Financial Instruments*. European insurers were concerned that as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) was also soon to be issued, they would be facing two major accounting changes with different effective dates, one of which would affect the asset side of the balance sheet and the other of which would affect liabilities. In its endorsement advice on IFRS 9, EFRAG highlighted the potential negative effect for insurance companies. The IASB responded and proposed ways to mitigate the problem.

Establishment

EFRAG is established in 2001 by the private sector to provide input into the development of IFRS issued by the IASB and to provide the European Commission (EC) with technical expertise and advice on accounting matters.

2001

Maystadt reform

In 2013, Commissioner Barnier mandates Philippe Maystadt, a former Belgian minister of finance and President of the European Investment Bank, to examine how best to enhance the influence of Europe in the development of IFRS.

2013

Mr Maystadt recommends steps ensure a fuller representation of stakeholders with an interest in financial reporting in EFRAG, including national standard setters. The EC, ECB and European Supervisory Authorities become official observers with speaking rights on the newly-formed EFRAG Board, as well as the EFRAG TEG and supporting Working Groups. To complete the reform process Jean-Paul Gauzès is appointed as the EFRAG Board President in 2016.

EFRAG Milestones

2006 - 2010

Public funding

Acknowledged as the official technical advisor to the EC in 2006, EFRAG is entrusted with the responsibility for assessing IFRS for endorsement. As from 2010 EFRAG receives an EU contribution to its funding.

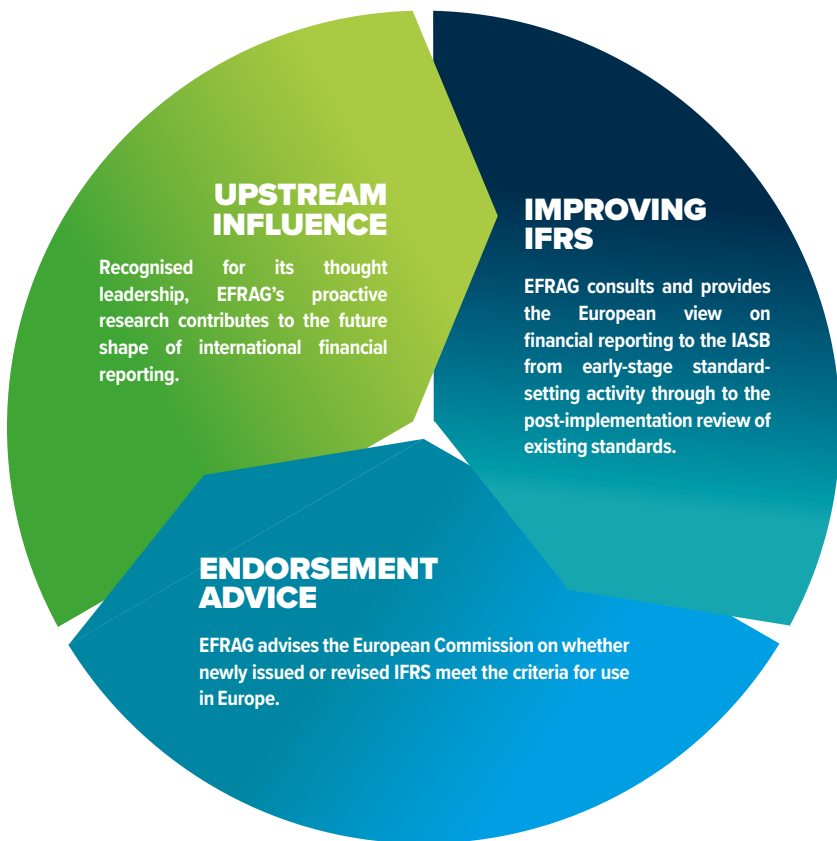
2014 - 2017

European public good mandate

In 2014, EFRAG took on responsibility for assessing whether IFRS are conducive to the European public good. This advice supplements EFRAG's technical assessment when providing endorsement advice to the EC.

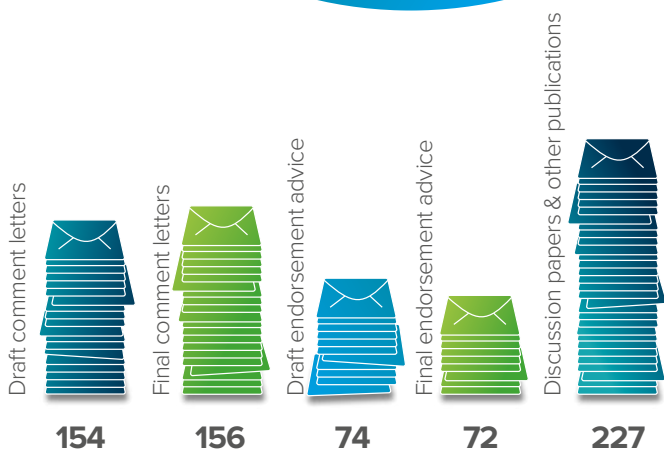
Reflecting the successful implementation of the Maystadt recommendations and EFRAG's commitment to delivering on its expanded European public good mandate, the Council and European Parliament agree to extend EFRAG's funding for the period 2017-2020.

EFRAG ACTIVITIES OVERVIEW



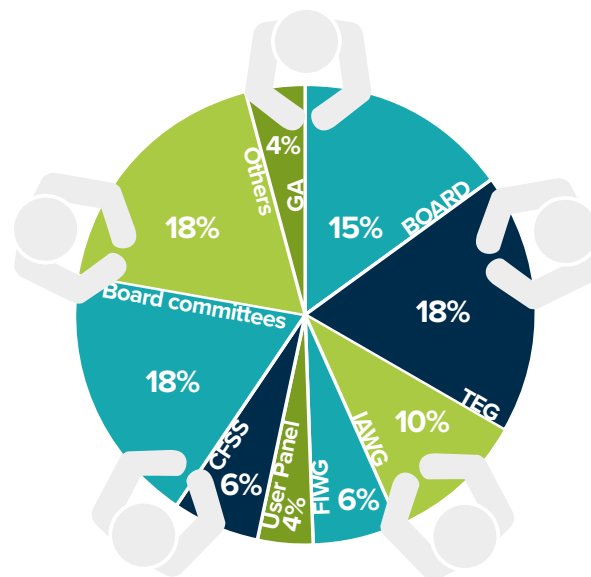
Core activities

To find out more about EFRAG's three core activities visit www.efrag.org/activities



Publications

EFRAG is highly influential in the IASB standard-setting process. Over the last 10 years it has published more than 680 documents covering evidence-based research, improvements to draft IFRS and endorsement advice.



Meetings

As part of its commitment to consult publicly with all stakeholders that have an interest in financial reporting, EFRAG held over 70 meetings during 2016 alone.

PROVIDING THOUGHT LEADERSHIP

During 2016 EFRAG made real progress in its strategy to enhance its research activity. EFRAG is not only bringing European input to the IASB's research agenda, it is also leading the debate with its own-initiative work. EFRAG's move to boost its research capacity coincides with the completion of the current set of major standards by the IASB, whose work plan is expected to prioritise financial reporting research going forwards.

In 2016, EFRAG led the way on evidence-based research with its goodwill paper. Quantitative data supports robust analysis and sharpens innovative thinking when identifying financial reporting solutions. EFRAG's Academic Panel, created early in 2017, is set to boost the organisation's ability to leverage a wider range of expertise and deepen its access to evidence.

EFRAG research consultation

In March 2016, EFRAG published the results of its public consultation regarding its proactive research work. The consultation identified topics of relevance that will guide proactive research work going forward. The EFRAG Board agreed that the future research agenda was to include projects on: subsequent treatment of goodwill, equity instruments, transactions other than exchanges of equal value; and accounting for pension plans.

LONG-TERM INVESTMENT AND ACCOUNTING FOR EQUITY INSTRUMENTS

Feedback from EFRAG's research agenda consultation indicated that accounting for equity instruments, and its possible impact on long-term investment in Europe, needs to be studied.

While IFRS 9 *Financial Instruments*, which was endorsed in November 2016, improved upon IAS 39 *Financial Instruments: Recognition and Measurement*, concerns remained over the treatment of investments in equity instruments. This was confirmed by the European Parliament's resolution, which underlined the importance of long-term investment for economic growth and expressed concerns that IFRS 9's accounting treatment of certain financial instruments held as long-term investments, in particular equity, could go against the overall aim of promoting long-term investment.

Such instruments would normally be carried at fair value with the changes in profit or loss – which creates short-term volatility in the reported performance. To avoid this, the IASB granted an option to measure these instruments at fair value with the changes in Other Comprehensive Income (OCI). However, when this option is used any gain or loss is retained in OCI, even after the investment is sold (i.e. there is no 'recycling'). Hence, investors in equities face a choice between fair value through profit or loss and consequent volatility, or an OCI option under which gains or losses never appear in profit or loss at all.

Some fear that these accounting choices could result in a disincentive to invest in equities - especially for longer-term investors. This concern goes beyond an accounting issue – it may

have an impact on the real economy, especially in a period when Europe needs significant new long-term and sustainable investment.

The IASB argues that recycling from OCI to P/L is supportable only if accompanied by a sufficiently robust impairment model. Hence EFRAG has decided to start investigating possible approaches to an impairment model.

The challenge is to achieve a balance between the necessary rigour and avoiding excessive complexity, not an easy task considering the range of instruments in play. EFRAG will progress its analysis throughout 2017.

DELIVERING EVIDENCE-BASED INSIGHT



Goodwill and impairment

The question of whether goodwill should be tested for loss in value or annually depreciated has long been discussed in accounting circles. In 2016, EFRAG brought some hard data to the table. Comprising more than 3000 data points, the EFRAG study *What do we really know about goodwill and impairment?* Examined goodwill and impairment evolution over 10 years, based on a sample of 320 major European companies, having a combined market capitalisation of €6 trillion. The study also compared European markets with the US, Australia and Japan thanks to the cooperation with the Accounting Standards Board of Japan (ASBJ).

Some key findings of the study:

- The total goodwill recognised increased from €935 billion to €1,341 billion, an increase of 43%, from 2005 to 2014.
- The ratio of goodwill to total assets has remained fairly stable over the years at approximately 3.7%.
- The same ratio, excluding the banking and insurance industries, is significantly higher, although it decreased gradually from 19.5% in 2009 to 16.6% in 2014.
- The ratio of goodwill to net assets has been decreasing since 2008, but it is still significant in 2014 (29%).
- Absolute and relative levels of goodwill and impairment losses vary significantly across industries.

The goodwill study gained good media and academic coverage. EFRAG and the ASBJ were invited to present their findings in a public meeting of the IASB Board in May 2016. The study demonstrates how empirical data can contribute to thinking around complex accounting issues. It will inform EFRAG's future research as well as impact assessment work for new standards.

HYBRID PENSION PLAN ACCOUNTING

During the IASB agenda consultation, questions were raised about the application of IAS 19 *Employee Benefits* to 'hybrid' pension plans, i.e. ones that share characteristics of both defined contribution and defined benefit plans. Such plans are increasingly common in many European jurisdictions.

Where the pension benefits promised are linked to the return of the plan assets, IAS 19 requires the benefits to be projected using the expected rate of return and then discounted back using a high quality corporate bond rate. This

is perceived to create an accounting mismatch. Others note that when an entity provides a minimum return guarantee that is below the historical level of returns on the plan assets, IAS 19 still requires application of defined benefit accounting and they challenge this.

The low level of interest rates in recent years has amplified these concerns. However, the IASB has found it difficult to define an appropriate scope for the issue of hybrids. Furthermore, the completion date for the IASB's feasibility

project on their research programme is not yet known.

EFRAG is in the early phase of a research project that will consider a viable solution for plans with a return-based promise, without compromising the relevance of information on pension obligations. To ensure that the project addresses real-life plans and receives good quality input from expert practitioners, EFRAG set up a Pension Plans Advisory Panel in February 2017.

IMPROVING FINANCIAL REPORTING STANDARDS

EFRAG interacts with political, supervisory and regulatory authorities, national standard setters, accountants, preparers and users of IFRS to develop a convergent European view, which it contributes to the international standard-setting process - starting from early-stage standard-setting activity through to the post-implementation review. The quality of EFRAG's due process, underpinned by its commitment to consultation, enables it to speak convincingly, clearly and consistently, and be recognised as the European voice in financial reporting.

Insurance was top of the standard-setting agenda in 2016. EFRAG undertook significant work to investigate, evaluate and influence the shape of the insurance standard IFRS 17 *Insurance Contracts*.

IFRS 17

The new standard on insurance, (IFRS 17), was the most significant project on the IASB's agenda to which EFRAG contributed in 2016. The EFRAG TEG and the EFRAG Insurance Accounting Working Group provided significant input to the international discussion. EFRAG modelled the proposed new accounting treatment to understand the potential real-world impact the new standard could have on insurance reporting. The IASB staff appreciated the value of this approach, which subsequently guided their thinking around the practical aspects of the standard.

Conceptual Framework

The IASB's revised Conceptual Framework for financial reporting will shape the next generation of financial reporting standards. During 2016, EFRAG continued to be closely engaged, representing European views, notably on the distinction between Profit or Loss (P/L) and Other Comprehensive Income (OCI).

In March 2016, EFRAG presented papers to the IASB's Accounting Standards Advisory Forum (ASAF) that identified ways in which the European concerns about the correct basis for measurement in financial reporting could be addressed.

EFRAG wrote to the IASB in December 2016 welcoming the IASB's tentative decisions on the treatment of asymmetry in the Conceptual Framework, which reflected the EFRAG view on the importance of asymmetry and how it should be considered in the development of accounting standards. However, EFRAG noted that there is insufficient guidance to make consistent financial reporting decisions under the proposals and it considers that the Conceptual Framework should provide some direction as to the circumstances in which asymmetry may and may not play a part.

Input to the IASB

EFRAG considers all IASB active projects from the outset – in order to provide input, identify issues and



ensure European influence is exercised at a sufficiently early stage. The topics considered at IASB Board meetings, and the subsequent outputs, are considered by EFRAG TEG and all of the relevant working groups, before positions are recommended to the EFRAG Board.

In analysing early-stage IASB developments, particular attention was paid to the Financial Instruments with Characteristics of Equity (FICE) project, which is examining aspects related to IAS 32, and to the Rate-Regulated Activities project for which a second IASB discussion paper is under development.

By engaging early in the process, EFRAG is able to ensure that specific European circumstances are properly considered before key decisions are taken. EFRAG encouraged the IASB to retain the existing treatment for member's shares in cooperative entities (under IFRIC 2), which was an issue raised by the cooperative banking sector.

EVIDENCE-BASED INPUT

Banking and dynamic risk management

During 2016, EFRAG spoke to 15 banks about their practices for managing their interest rate margins, publishing the results in January 2017. The purpose of the outreach was to identify banks' interest rate risk management practices and to help the IASB to make progress in its project on dynamic risk management.

The outreach was a targeted fact-finding exercise focused on gaining a better understanding of how banks model own equity and demand deposits in connection with their

management of interest rate risk. The research confirmed that interest rate risk management was generally either to reduce volatility despite market movements in interest rates or to take a position that the bank expects to be profitable.

The outreach identified that banks' practices vary. For example, most of the banks consulted modelled core demand deposits (that part of a demand deposit that is likely to stay on the balance sheet for the longer term). However, the practices varied significantly in the identification and modelling of the core component of demand deposits.

Whereas most of the banks contacted modelled core demand deposits, only half of them modelled equity. Again, practices varied significantly between banks. In particular, banks generally used an internal definition of equity for the purpose of dynamic risk management rather than relying on equity as defined in the financial statements. The EFRAG paper was presented at the March 2017 meetings of the International Forum of Accounting Standard Setters (IFASS) and the Accounting Standards Advisory Forum (ASAF).



NATIONAL INSIGHT

The EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) is a vital communications channel gathering all National Standard Setters in the European Economic Area. Meeting quarterly, it allows EFRAG to stay abreast of the impact of IFRS at national level and informs EFRAG's contributions to the ASAF.



GETTING THE INVESTOR PERSPECTIVE

Investor and analyst opinion on financial reporting is a vital component of the European voice on IFRS. Throughout the year, EFRAG's outreach has successfully targeted users of financial statements.

In addition to targeted outreach events, EFRAG's dialogue with the user community is centred on the EFRAG User Panel, which brings together banking (sell-side) analysts, institutional investors (buy-side), academics, corporate analysts and representatives of retail shareholders.

When the IASB published IFRS 16 *Leases* in January 2016, it introduced a new accounting model that eliminated the classification of leases as either finance or operating, requiring lessees to recognise the rights and obligations created by leases as assets and liabilities on the balance sheet. The new standard will result in more transparency and comparability for users and is expected that analysts will make less adjustments

of the financial figures compared to the previous standard IAS 17 *Leases*.

A joint outreach event held on 5 July 2016 in Brussels by EFRAG, in cooperation with EFFAS (European Federation of Financial Analysts Societies) and BVFA/ABAF (Belgian association of financial analysts), served to inform users about the main changes introduced by IFRS 16 and the differences between it and the US GAAP equivalent standard, as well as to obtain input from users prior to the development of EFRAG's endorsement advice on IFRS 16.

Early in November, EFRAG issued a specially developed questionnaire designed to allow users of financial statements to contribute their views more easily to EFRAG's public consultation on its IFRS 16 endorsement advice to the European Commission. The Corporate Reporting Users' Forum (CRUF) and users EFRAG met at the CAGE (Consumer Analyst Group

of Europe) conference have been instrumental in encouraging completion of the questionnaire.

On 29 November 2016, EFRAG together with the AIAF (Italian association of financial analysts and consultants), EFFAS and the OIC (Italian standard setter) gathered the investor and analyst community in Milan to consider the likely impact of changes to accounting for leases and to exchange opinions on the amendments to IFRS 4 *Insurance Contracts*.

Investors, their advisors and other capital providers are primary users of financial statements. The outreach efforts not only provide information for users, they are an opportunity to deepen understanding of European user expectation and to inform EFRAG's position as it influences the development of IFRS at the international level.



DELIVERING ENDORSEMENT ADVICE

EFRAG advises the European Commission on whether new or revised IFRS meet the IAS Regulation technical endorsement criteria - which involves assessing whether a standard provides relevant, reliable, comparable and understandable information. In addition, EFRAG considers whether application of the standard would be conducive to the European public good.

IFRS 16 Leases

The objective of IFRS 16 is to improve the accounting for leases, with the most notable change being the removal of the distinction between operating and finance leases in the financial statements of lessees, leading to the recognition of assets and liabilities arising from contracts formerly classified as operating leases, in addition to the current recognition of assets and liabilities under finance leases.

In 2016, EFRAG expanded its impact analysis for major standards by developing a comprehensive evaluation of IFRS 16. For the first time EFRAG ventured into assessing the economic and behavioural impact of a new standard.

The final endorsement advice was delivered in the first quarter of 2017. A similar level of analysis can be expected of EFRAG in providing future endorsement advice on major standards.

Amendments to IFRS 4

A second major project was EFRAG's endorsement advice regarding the amendments to the interim insurance standard Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*. EFRAG had been one of the leading voices calling on the IASB to defer the application of IFRS 9 for insurance companies so that the problems caused by the misalignment of the effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17) will not create significant costs

for insurers and multiple changes in the reporting for investors. The endorsement advice was delivered very quickly as the insurance industry needed certainty on the acceptability of this amending standard in Europe.

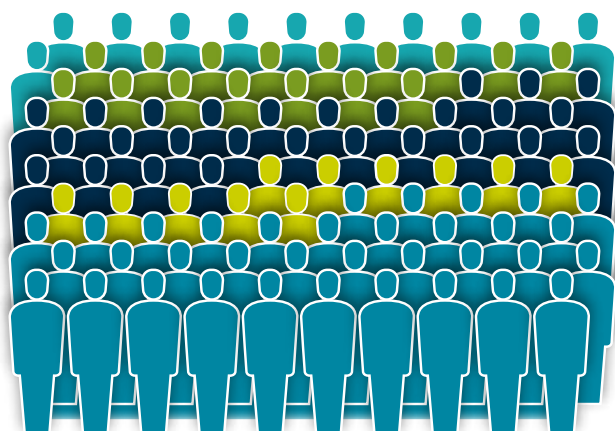
Other endorsement activity

As well as providing advice on the endorsement of IFRS 16 and the Amendments to IFRS 4, EFRAG provided advice on the endorsement of four amending standards: Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12); Classification and Measurement of Share-based Payment Transactions (amendments to IFRS 2); Amendments to IAS 7: Disclosure Initiative; and Clarifications to IFRS 15. These involved the preparation of a draft advice and consideration of the views expressed by Europe's financial reporting community before reaching a final position.



COMMITTED TO CONSULTATION

EFRAG's work on IFRS 16 *Leases* illustrates the organisation's strong commitment to public consultation, involving over 800 interaction points, from exposure draft through to endorsement advice.



No.	Interaction
95	Comment letters received
132	Outreach event participants
221	Completed questionnaires received
85	User event participants
286	Economic impact survey participants

819 Total interactions

IFRS AND THE EUROPEAN PUBLIC GOOD

In its endorsement advice request, the European Commission asked EFRAG if IFRS 16 Leases would meet the technical criteria for endorsement and whether IFRS 16 would be conducive to the European public good.

EFRAG assessed that IFRS 16 would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and not be contrary to the true and fair view principle.

In considering the wider aspects contained in the European public good assessment, EFRAG commissioned an economic study to provide

evidence-based insight into the potential impact on lessees, users of financial statements, lessors and other lenders. The study provided additional input into EFRAG's analysis of potential changes in the behaviour of preparers, investors and lenders and the impact of any such changes on the European economy, including the potential impact of IFRS 16 on the leasing industry and the costs and benefits that would arise if the standard were to be endorsed.

EFRAG also considered the input provided by the European Central Bank and the European Banking Authority on the effects of IFRS 16 on financial stability and the interaction of IFRS 16 with prudential requirements of banks.

EFRAG ultimately concluded that IFRS 16 would improve financial reporting and would reach a cost-benefit trade-off that is acceptable. Accordingly, EFRAG assessed that endorsing IFRS 16 is conducive to the European public good.

Future European public good analyses can be expected to be tailored to the standard under review, and will typically include an impact analysis that considers the potential effects on the European economy, including financial stability, economic growth and competitiveness, as well as the potential effects on the stakeholders directly concerned by the standard and on SMEs. A cost-benefit analysis is also part of the process.

GOVERNANCE AND TRANSPARENCY

Institutional support for EFRAG

In June 2016 EFRAG and the European Commission finalised their new Working Arrangements. The arrangements set out the protocols for working together. Following progress made in 2016 to amend the 2014-2020 Finance Regulation, in 2017 the trilogue between the European Parliament (EP), the Council of Ministers and the European Commission (EC) reached an agreement to enable the EU's contribution to EFRAG's funding to be continued for 2017–2020. EFRAG greatly appreciates this expression of confidence in its work and acknowledgement of our successful implementation of the Maystadt reform¹.

Enhanced contact with the European Parliament

As a former MEP, Jean-Paul Gauzès in his role as EFRAG Board President has given a high priority to contacts with the EP. EFRAG was invited to the ECON Permanent IFRS Team meeting to discuss the so-called Stolojan Report and EFRAG's IFRS 9 *Financial Instruments* endorsement advice.

EFRAG is taking action to involve the EP early in the standard-setting and endorsement process, such as by meeting the ECON Permanent IFRS team to discuss the ongoing endorsement advice on IFRS 16 *Leases*.

Strategy 2017-2020

The EFRAG Board approved EFRAG's strategy for the 2017-2020 period. It sets out a pathway to further enhance EFRAG's ability to exercise influence over international standard-setting developments in service of the European public interest.

The strategy recognises the growing importance of EFRAG's proactive research activities as a means to find internationally-acceptable solutions in areas that are important to European stakeholders. It also targets enhanced communications in order to strengthen awareness of EFRAG's work beyond the technical accounting community.

The EFRAG Board also undertook its second performance and effectiveness review and reported the related actions

and recommendations to the EFRAG General Assembly.

TEG transparency

The EFRAG Board decided that the supporting documents for the EFRAG TEG meetings would be made public as from 1 January 2017, further enhancing EFRAG's transparency.

Looking ahead

The first rotation of the membership of the EFRAG Board is to take place in autumn 2017. EFRAG member organisations have the right to nominate candidates and all existing EFRAG Board members are eligible for reappointment.

In March 2017, EFRAG published a call for expressions of interest in EFRAG membership. EFRAG depends on its member organisations to fulfil its public interest mission of developing and promoting European views in the IASB standard-setting process and ensuring that new IFRS are suitable for Europe.

¹ See Regulation EU 2017/827 of 17 May 2017.



ACKNOWLEDGEMENTS

In 2016, almost two years after the implementation of the Maystadt recommendations, Jean-Paul Gauzès was appointed EFRAG Board President and Andreas Barckow was appointed EFRAG Board Vice-President. During this period Roger Marshall served as Acting EFRAG Board President. EFRAG owes a large debt of gratitude to Roger for his exceptional leadership during this transitional period - in which all of the EFRAG Board's decisions were reached by consensus. Claes Norberg served as Acting EFRAG Board Vice-President during this time and EFRAG equally thanks him for his valuable contribution. Roger and Claes both continue to serve as EFRAG Board members and respectively as Chairman of the EFRAG Board Nominating Committee and the EFRAG Board Audit and Budget Committee.



Françoise Flores made an immense contribution to EFRAG over a 12 year period. She became an EFRAG TEG member in 2004 and EFRAG TEG Vice-Chairman in 2008. She led EFRAG from 2010 first as EFRAG Chairman and, following the Maystadt reform, as EFRAG TEG Chairman and CEO.

Beyond the many financial reporting, endorsement and research milestones achieved under her leadership, Françoise Flores helped EFRAG become a much more important and influential player on the international stage. EFRAG expresses its warm thanks to Françoise and wishes her continued success in her new role as IASB Board member.



EFRAG BOARD

The EFRAG Board is responsible for all decisions made and positions taken at EFRAG. It makes its decisions to the extent possible on the basis of consensus with the objective of Europe speaking with one voice. It is also responsible for the general oversight over the organisation and reports to the EFRAG General Assembly.



Jean-Paul Gauzès
EFRAG Board President



Andreas Barckow
EFRAG Board Vice-President,
Chairman ASCG (Germany)



Hans Buysse
nominated by EFFAS



Patrick de Cambourg
Chairman ANC (France)



Angelo Casò
Chairman OIC (Italy)



Karin Dohm¹
nominated by EACB, EBF
and ESBG



Stig Enevoldsen
Member DASC (Denmark)



Benoit Jaspar
nominated by
Insurance Europe



Alphonse Kugeler
Chairman CNC (Luxembourg)



Jorge Gil Lozano
nominated by EACB, EBF
and ESBG



Roger Marshall²
member of the FRC Board



Patrice Marteau
nominated by
BUSINESSEUROPE



Claes Norberg³
nominated by
BUSINESSEUROPE



Laurence Rivat
nominated by
Accountancy Europe



Peter Sampers
Chairman DASB (Netherlands)



Anders Ullberg
Chairman SFRB (Sweden)



Mark Vaessen
nominated by
Accountancy Europe

The European Commission, the European Central Bank and the European Supervisory Authorities (EBA, EIOPA and ESMA) are observers with speaking rights on the EFRAG Board, EFRAG TEG and supporting working groups and advisory panels

¹ In April 2016, Karin Dohm succeeded Gérard Gil as a member of the EFRAG Board nominated by EACB, EBF and ESBG

² Until July 2016, Roger Marshall was the Acting EFRAG Board President

³ Claes Norberg was the Acting EFRAG Board Vice-President until September 2016

EFRAG TECHNICAL EXPERT GROUP

The EFRAG Technical Expert Group (EFRAG TEG) is responsible for providing the EFRAG Board with expert advice in financial reporting matters. Its advice takes the form of recommended positions, either in draft form to support public consultation or in final form after having duly considered all input received through EFRAG's due process.



Andrew Watchman
EFRAG TEG Chairman (UK)



Nicklas Grip
EFRAG TEG Vice-Chairman
Senior Vice-President
Handelsbanken (Sweden)



Phil Aspin
Group Controller and
member of the Group
Executive of United
Utilities Group PLC (UK)



Christian Chiarasini
former Partner EY (France)



Geert Ewalts
Head of Group Accounting
Policies Aegon (Netherlands)



Günther Gebhardt
Professor Emeritus of Goethe
Universität Frankfurt-am-Main
(Germany)



Heinz Hense
Head of Accounting Excellence at
ThyssenKrupp (Germany)



Søren Kok Olsen
Partner EY (Denmark)



Nicolas de Paillet
Director of Accounting
Principles Orange (France)



Serge Pattyn,
Independent Financial
Analyst (Belgium)



Andrew Spooner
Technical IFRS Partner
Deloitte (UK)



Ambrogio Virgilio
Assurance Partner EY (Italy)

Country Liaisons



Anthony Appleton
Technical Director, FRC
(UK)



Tommaso Fabi
Technical Director, OIC
(Italy)



Sven Morich
Technical Director, ASCG
(Germany)



Cédric Tonnerre
Technical Director, ANC
(France)

EFRAG Financial Instruments Working Group

The Financial Instruments Working Group (EFRAG FIWG) provides support to EFRAG TEG on financial instrument reporting issues. Members of the group have considerable expertise in financial instrument reporting matters and more generally in IFRS issues and practice.

Andrew Spooner, Chairman, EFRAG TEG member • **Jens Berger**, Deloitte Germany • **Jannis Bischof**, University of Mannheim • **Lisa Bomba**, Deutsche Bank • **David Bradbery**, Barclays • **Alan Chapman**, Grant Thornton UK • **Pierre-Henri Damotte**, Société Générale • **Karin Eisenhut**, DZ Bank AG • **Fabio Goia**, Intesa Sanpaolo S.p.A. • **Laure Guegan**, EY France • **Vincent Guillard**, Mazars France • **Rastislav Kováčik**, Banca Comerciala Romana • **Selma Marte**, BNP Paribas • **Colin Martin**, KPMG UK • **Riccardo Bua Odetti**, PwC Italy • **Chiara Del Prete**, Mazars Italy • **Raoul Vogel**, PwC Austria

The European Commission, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Investment Bank (EIB) and the International Swaps and Derivatives Association (ISDA), have been granted observer status.

EFRAG Insurance Accounting Working Group

The Insurance Accounting Working Group (EFRAG IAWG) provides support to EFRAG TEG on insurance related financial reporting issues. Members of the group have considerable expertise in insurance accounting and more generally in IFRS issues and practice.



Ambrogio Virgilio, Chairman, EFRAG TEG member • **Sébastien Arnault**, Mazars France • **Alexander Dollhopf**, Cavendi Management Consulting • **Luca D'Onofrio**, Bip Group • **Hugh Francis**, Aviva • **Joachim Kölschbach**, KPMG Germany • **Jasper Kolsters**, EY Netherlands • **Malin Löfbom**, Skandia • **Sophie Massol**, AXA • **Richard Olswang**, Prudential • **Jean-Michel Pinton**, CNP Assurances • **Sabrina Pucci**, University of Rome • **Thomas Ringsted**, Deloitte Denmark • **Roman Sauer**, Allianz • **Massimo Tosoni**, Generali • **Gail Tucker**, PwC UK • **Carsten Zielke**, EFRAG User Panel vice-Chair

The European Commission and the European Insurance and Occupational Pensions Authority (EIOPA), the International Credit Insurance & Surety Association (ICISA), the European Securities and Markets Authority (ESMA), Insurance Europe, the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), and the reinsurance industry have been granted observer status.

EFRAG Rate-Regulated Activities Working Group

The EFRAG Rate-Regulated Activities Working Group advises and provides input to EFRAG TEG discussions aiming at developing positions on rate-regulated activities financial reporting issues.



Bill Hicks, Chairman (former EFRAG TEG Member) • **Anne Azzola** Morgan Stanley • **Nicola Bruno**, Atlantia SpA • **Thomas Carlier**, Deloitte Belgium (corresponding Member) **Cosimo Guarini**, Terna Spa • **Thierry James**, Centrica Plc (British Gas) • **Lieve Kerckhof**, Elia Group • **Katja van der Kuij**, PwC Netherlands • **Laura López**, Sotomayor Ferrovial SA **Markus Lotz**, 50Hertz Transmission GmbH • **Pascale Mourvillier**, PAM Expertise • **Javier Parada**, Deloitte Spain • **Christophe Patrier**, Deloitte France (corresponding Member) **Thomas Possert**, Energie Steiermark AG • **Michael Reuther**, PwC Germany • **Gerard van Santen**, EY Netherlands • **Per Timmermann**, PwC Denmark • **Magali Viandier**, EDF • **Javier Pastor Zuazaga**, Iberdrola SA

The European Commission has been granted observer status.

EFRAG User Panel

The EFRAG User Panel provides input, from a user perspective, on important and topical accounting issues that EFRAG's Technical Expert Group is considering.



Andrew Watchman, Chairman • **Andrea Bellucci**, University of Perugia • **Martijn Bos**, Eumedion **Luca D'Onofrio**, Bip Group • **Hilary Eastman**, CRUF Coordinator • **Javier de Frutos**, Chairman EFFAS FAC • **Jacques de Greling**, SFAS FAC, EFFAS FAC • **Sue Harding**, Harding Analysis • **Sam Holland**, Standard & Poor's • **Dennis Jullens**, University of Rotterdam • **Thomas Justinussen**, Danskebank • **Peter Malmqvist**, Malmqvist EQR AB • **Felipe Herranz Martin**, UAM, Board Member (AECA) • **Vincent Papa**, CFA Institute • **Serge Pattyn**, EFRAG TEG Member • **Marie-Pascale Peltre**, Independent Financial Analyst • **Ian Sealy**, Neptune IM • **Norbert Seeger**, PensionsEurope • **Jerome Vial**, CPM Advisory • **Jed Wrigley**, Fidelity International • **Carsten Zielke**, EFRAG User Panel Vice-Chairman.

The European Commission and the IASB have been granted observer status.

EFRAG Consultative Forum of Standard Setters

Meetings with the Consultative Forum of Standard Setters (EFRAG CFSS) address current financial reporting issues (including topics on the ASAF agenda), major proposed changes to IFRS and EFRAG's proactive work in the presence of IASB representatives. These discussions allow EFRAG TEG to have a better understanding of the impact of the proposed amendments on national business practice and national accounting standards.



AFRAC - Austrian Standard Setter • **ANC** - French Standard Setter • **ASCG** - German Standard Setter
CFRSB - Croatian Standard Setter • **CMF** - Czech Ministry of Finance • **CNC** - Portuguese Standard Setter
CNC / CBN - Belgian Standard Setter • **CNC LU** - Luxembourgish Standard Setter • **DASB** - Dutch Standard Setter • **DASC** - Danish Standard Setter • **EASB** - Estonian Standard Setter • **FAB/ KILA** - Finnish Standard Setter • **GMEF** - Greek Ministry of Economy and Finance • **HASB** - Hungarian Accounting Standard Setter • **ICAC** - Spanish Standard Setter • **ICPAC** - Cyprus Standard Setter
LMF - Latvian Ministry of Finance • **LMoF** - Lithuanian Ministry of Finance • **MFSR** - Slovak Ministry of Finance • **MIA** - Maltese Standard Setter • **MOFB** - Bulgarian Standard Setter • **MOPF** - Romanian Ministry of Public Finance • **NASB** - Norwegian Standard Setter • **OIC** - Italian Standard Setter
PASC - Polish Standard Setter • **SFRB** - Swedish Standard Setter • **SIR** - Slovenian Standard Setter
State Administration of Liechtenstein • **UK FRC** - United Kingdom Standard Setter

Observers: **FER** - Swiss Standard Setter • **TASB** - Turkish Standard Setter

THANK YOU

Participants in EFRAG bodies including the EFRAG Board, the EFRAG Technical Expert Group and its working groups and advisory panels give their time voluntarily to EFRAG.

EFRAG Secretariat

The EFRAG Secretariat supports and coordinates all activities of EFRAG under the responsibility of the EFRAG TEG Chairman and CEO. The secretariat's IFRS knowledge and insight is recognised by and shared with the EFRAG community.



Andrew Watchman EFRAG TEG Chairman and CEO • **Patricia McBride** Technical Director • **Filippo Poli** Research Director • **Saskia Slomp** Governance & Admin Director • **Didier Andries** Senior Technical Manager • **Isabel Batista** Senior Technical Manager • **Hocine Kebli** Senior Technical Manager • **Rasmus Sommer** Senior Technical Manager • **Filipe Alves** Advanced Technical Manager • **Vincent van Caloen** Technical Manager (seconded by EY Belgium) • **Ioanna Chatzieffraimidou** Technical Manager • **Bruno Gomes** Technical Manager • **Sapna Heeralall** Technical Manager • **Joachim Jacobs** Technical Manager • **Ioana Kiss** Technical Manager • **Joseba Estomba Lecuona** Technical Manager (seconded by Deloitte Spain) • **Priscilla Anne Rebelo Vianna** Technical Manager • **Neha Mehra** EFRAG HR & Executive Support Officer • **Sara García Álvarez** EFRAG Office Administrator

MEMBER ORGANISATIONS

As of 31 December 2016

EUROPEAN STAKEHOLDER ORGANISATIONS

Accountancy Europe
www.accountancyeurope.eu



BUSINESSEUROPE
www.businesseurope.eu



European Association of
Co-operative Banks (EACB)
www.eacb.coop



European Banking Federation (EBF)
www.ebf.eu



European Federation of Accountants
and Auditors for SMEs (EFAA)
www.efaa.com



European Federation
of Financial Analysts
Societies (EFFAS)
www.effas.net



European Savings and
Retail Banking Group (ESBG)
www.wsbi-esbg.org



Insurance Europe
www.insuranceeurope.eu



NATIONAL ORGANISATIONS



Grouping of five Danish
organisations
cbj@fsr.dk



Autorité des normes comptables (ANC) -
France
www.anc.gouv.fr



Accounting Standards Committee
of Germany (ASCG)
www.drsc.de



Organismo Italiano di Contabilità (OIC) -
Italy
www.fondazioneoic.eu



Commission des normes comptables (CNC) -
Luxembourg
www.cnc.lu



Dutch Accounting
Standards Board (DASB)
www.rjnet.nl



The Association for Generally
Accepted Principles in
the Securities Market - Sweden
www.godsedpavpmarknaden.se



Financial Reporting Council (FRC) - UK
www.frc.org.uk

FINANCIAL SUMMARY

ABBREVIATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

INCOME STATEMENT	2016 000 EUR	2015 000 EUR
Contributions		
<i>European Stakeholder Organisations</i>	765	765
<i>National Organisations</i>	1,555	1,550
<i>European Commission</i>	2,432	2,386
<i>Contributions in kind</i>	1,028	1,381
TOTAL CONTRIBUTIONS	5,780	6,082
Operating expenses		
<i>Human resources</i>	-3,210	-3,255
<i>Building</i>	-361	-342
<i>Travel</i>	-28	-36
<i>Special events</i>	-38	0
<i>Publications</i>	-30	-17
<i>Outsourcing (economic agency)</i>	-200	0
<i>Meetings</i>	-49	-40
<i>Other costs</i>	-256	-353
<i>Expenses in kind</i>	-1,028	-1,381
TOTAL OPERATING EXPENSES	-5,110	-5,424
<i>Operating profit or loss</i>	670	658
<i>Financial Result</i>	-5	0
<i>Adjustments on prior years</i>	0	74
NET SURPLUS	665	732

BALANCE SHEET	2016 000 EUR	2015 000 EUR
<i>Tangible assets</i>	50	60
<i>Office guarantee</i>	118	115
Total fixed assets	168	175
<i>Accounts receivable</i>	0	1
<i>Current investments</i>	370	375
<i>Cash</i>	4,071	3,272
<i>Deferred charges & accrued income</i>	14	8
Total current assets	4,455	3,656
TOTAL ASSETS	4,623	3,831
<i>Equity: Accumulated surplus</i>	3,531	2,866
<i>Liabilities</i>		
• <i>Leasing Debt</i>	8	2
• <i>Accounts Payable</i>	413	425
• <i>Taxes, Remuneration and Social Security</i>	495	437
• <i>Provision for pension guarantees</i>	63	20
• <i>Rent Accrual</i>	27	53
• <i>Deferred contributions</i>	86	0
• <i>Other accruals</i>	0	28
TOTAL EQUITY & LIABILITIES	4,623	3,831

The financial highlights are based on statutory financial statements audited by BDO, Belgium, who issued an unqualified audit report on those statements on 8 March 2017.

Contributions and expenses in kind

CONTRIBUTIONS IN KIND 2016		000 EUR
Time and travel contributions		
<i>EFRAG Board</i>		183
<i>EFRAG Technical Expert Group</i>		600
<i>Other groups and panels</i>		245
TOTAL CONTRIBUTIONS IN KIND		1,028

Notes

Change in the guaranteed return on EFRAG's pension fund

The Belgian law has required that contributions paid on behalf of employees by their employers be guaranteed a minimum return of 3.25% until 31st December 2015 (reduced to 1.75% from 1 January 2016 onwards). Until 31st December 2012, Delta Lloyd was providing this level of guarantee on all contributions paid by EFRAG on behalf of its employees. However, pension funds in Belgium indicated that the current market conditions did not allow the maintenance of this level of guaranteed return. Delta Lloyd has provided a reduced guarantee of 2% on contributions paid in 2013, a further reduced guarantee of 1,5% in 2014 and 2015 and 1%

in 2016. This makes EFRAG's liability towards its employees certain for the years 2013-2016, and will increase that liability further in 2017 and beyond as Delta Lloyd has announced that the minimum guarantee in the pension fund would be once again decreased in 2017 down to 0%. Consequently, EFRAG has accrued a further liability of 43.2k€ as of the end of December 2016, on the basis of an actuarial estimate of amounts due by the end of December 2016, without taking into account any contributions into the future. The total provision as per 31 December 2016 amounts to 63.2k€.

FINANCIAL STRUCTURE OF EFRAG

In the governance reform implementing the Maystadt Recommendations in 2014, EFRAG remained a combined publicly and privately funded organisation working in the European public interest. The public sector funding by the European Commission was designed to match private sector contributions by EFRAG member organisations.

EFRAG member organisations comprise European Stakeholder Organisations and National Organisations. The National Organisations have various structures in different countries, meeting their national requirements and best fitting national circumstances. Their contribution is expected to be based on the country GDP. Supported by the European Commission, the Council and the European Parliament, EFRAG continues seeking to broaden its membership base. Also the Maystadt report called for a broadening of the national funding basis to make EFRAG more representative of the European countries.

EFRAG's financial structure hence combines private and public funding and gives EFRAG the appropriate credibility and standing without impairing its independence.

In addition to cash funding, EFRAG receives contributions in kind provided by the members of EFRAG TEG (with exception of the Chairman), the EFRAG Board, the Working Groups and Advisory Panels.

CONTRIBUTIONS		000 EUR	
	2016	2015	
European Stakeholder Organisations			
<i>Accountancy Europe</i>	300	300	
<i>BUSINESSEUROPE</i>	125	125	
<i>EACB</i>	75	75	
<i>EBF</i>	75	75	
<i>ESBG</i>	75	75	
<i>Insurance Europe</i>	75	75	
<i>EFAA</i>	25	25	
<i>EFFAS</i>	15	15	
TOTAL	765	765	
National Organisations			
<i>France</i>	350	350	
<i>Germany</i>	350	350	
<i>UK</i>	350	350	
<i>Italy</i>	290	290	
<i>Sweden</i>	100	100	
<i>Denmark</i>	50	45	
<i>Netherlands</i>	50	50	
<i>Luxembourg</i>	15	15	
TOTAL	1,555	1,550	
European Commission	2,432	2,386	
TOTAL CONTRIBUTIONS	4,752	4,701	



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

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