



European Financial Reporting Advisory Group ■

**STRENGTHENING THE EUROPEAN CONTRIBUTION TO
THE INTERNATIONAL STANDARD-SETTING PROCESS
PROPOSALS FOR PUBLIC CONSULTATION**

COMMENT DEADLINE 22 SEPTEMBER 2008

To all stakeholders with an interest in financial reporting

Dear Sir or Madam,

Re: Enhancement of EFRAG – Proposals for Public Consultation

The European Financial Reporting Advisory Group (EFRAG) was established in 2001 by ten European organisations representing preparers, users and the accountancy profession.¹ EFRAG's objectives are to provide input to the International Accounting Standards Board (IASB) standard setting process and to advise the European Commission (EC) on the endorsement of International Financial Reporting Standards (IFRS).

As more and more jurisdictions, some of which are able to mobilise significant resources and financial reporting technical expertise, are moving towards IFRS, it is necessary for Europe to provide its input and advice to the IASB, in particular through stronger upstream input to the IASB's agenda-setting process. This process should be based on balanced participation by all relevant stakeholders, greater involvement of National Standard Setters (NSS), and public accountability to EU institutions. It will require the mobilisation of additional human and financial resources.

Discussions aimed at enhancing the contribution of Europe to the development of IFRS have been ongoing since late 2007. They have taken the current EFRAG structure as the starting point given the short time-frame within which the enhancement needs to occur. The proposals set out below are evolutionary in nature and reflect a practical way forward that has the support of all stakeholders.

On 17 June 2008 agreement was reached on the main features of an enhanced EFRAG structure in a meeting in which the EC, EFRAG's Enhancement Task Force, NSS and National Funding Mechanisms (NFM) from Germany, France, Italy and UK participated. The attached proposals describe the main features of this agreement.

It is envisaged that the new structure will be put in place during the first half of 2009.

Proposals for Public Consultation

EFRAG publishes for public consultation its proposals for an enhanced governance and operational structure with increased resources. More particularly, EFRAG seeks input on:

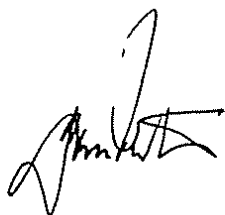
- enhancing the EU's pro-active input to the IASB by building on EFRAG's structures and experience;
- further involvement of National Standard Setters and coordination of European resources and the creation of a Planning and Resource Committee
- enhanced governance, transparency of EFRAG and accountability to European organisations and institutions;
- balanced involvement of European stakeholders in EFRAG;
- a significant increase in EFRAG's human and financial resources.

Respondents are asked to submit their observations in writing **by 22 September 2008 to Göran Tidström, Chairman of the EFRAG Supervisory Board at the email address (info@efrag.org)**. Responses will be posted to EFRAG's website unless the respondent requests confidentiality.

¹ Further details about EFRAG's work and activities can be found on the EFRAG website (<http://www.efrag.org/>), which also contains EFRAG's Annual Report for 2007.

In addition to these proposals, draft internal rules for the new governance structure including an annex to the statutes on votes in the General Assembly (GA), nomination of the Supervisory Board (SB) and voting rules in the SB, have been prepared. These internal rules are to be approved by the GA on basis of recommendations (for changes) by the SB. Further details of estimated costs and funding requirements have also been prepared. These documents and also the statutes of EFRAG can be reviewed by submitting a request to Henri Olivier, Secretary to the EFRAG Supervisory Board (info@efrag.org).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Göran Tidström', with a large, stylized flourish extending upwards and to the right.

Göran Tidström
Chairman of the EFRAG Supervisory Board

PROPOSALS FOR PUBLIC CONSULTATION

Strengthening the European contribution to the international standard setting process

Challenges for Europe of a Changed International Financial Reporting Environment

1 Introduction

As a result of recent developments, the environment in which International Financial Reporting Standards (IFRS) are set is undergoing significant change. With more and more jurisdictions moving towards IFRS, and some able to mobilise significant resources and expertise, European input to the International Accounting Standards Board (IASB) standard setting process needs to be strengthened. The requirements of European Union (EU) stakeholders need to be articulated and their interests represented effectively. In order to speak with one voice, Europe needs to reflect on its processes for providing input and advice to the IASB on financial reporting matters. Strengthening the European voice regarding financial reporting standards is therefore a key issue for the EU institutions.

In order to respond quickly and effectively to the changed environment, existing structures for articulating Europe's requirements and representing European interests, notably the European Financial Reporting Advisory Group (EFRAG), need to be built upon. EFRAG's main objective was originally to influence the international standard setting process and to advise the European Commission (EC) on endorsement of IFRS for use in Europe. Over the years it has gained considerable recognition within Europe and around the world for the quality of its work. However, due to limited resources, EFRAG has focussed less on proactively influencing future standard setting developments. The proactive work has been performed in cooperation with National Standard Setters (NSS) as part of the Pro-Active Accounting Activities in Europe (PAAinE), which was initiated by EFRAG three years ago.

EFRAG must therefore be strengthened in order to be capable of providing timely and effective proactive input in the early phase of the IASB process. Co-operation with NSS must also be reinforced, with the latter playing a more active role in shaping Europe's proactive input to the IASB. Discussions have been taking place since the end of 2007 on the potential enhancement of EFRAG by increasing its resources, broadening its remit and cooperating more closely and efficiently with those NSS that have the resources and expertise to contribute actively to the work of EFRAG. The EC has referred publicly to this enhancement as "EFRAG Plus". The discussions have taken the current EFRAG structure as the starting point rather than designing a new organisation from scratch, since this latter would be a lengthy process, and the need for timely and effective proactive European input to the IASB is urgent.

The proposals put forward in this paper should be seen in light of these developments. There is a clear and urgent need, as expressed by the European Parliament² (EP) and in the conclusions of the ECOFIN Council of 8 July 2008, to strengthen the European financial reporting voice.

² See esp. paragraphs 53 and 26 of the own-initiative report of Mr. Alexander RADWAN MEP, available at <http://tinyurl.com/6ddah5>.

2 Objectives and activities of EFRAG

It is generally accepted that the principal objective of EFRAG should continue to be to ensure that European views on the development of financial reporting are properly and clearly articulated in the international standard setting process. It is also important that appropriate importance is attached to those views by the International Accounting Standards Committee Foundation (IASCF)/IASB.

EFRAG's work has been concentrated on responding to proposals issued by the International Accounting Standards Board (IASB), such as discussion papers and exposure drafts of new standards, and on advising the EC whether to endorse new financial reporting standards and interpretations. In order to exercise greater influence over the future direction of financial reporting, however, EFRAG needs to place more emphasis on developing its own research and discussion papers at an early stage of the IASB's consideration of the topics concerned, and also to monitor the ongoing IASB activities in order to give feedback to the IASB on a continuing basis.

More specifically, the main functions/activities of EFRAG should include:

- Proactive work providing input to the IASB on topics on its work programme and related priorities and for example by the preparation of discussion papers
- Commenting on IASB/International Financial Reporting Interpretations Committee (IFRIC)/IASCF consultation papers (discussion papers and exposure drafts)
- Impact assessments and effect studies on IASB standards and IFRIC interpretations at the request of the EC
- Endorsement advice to the EC

It is anticipated that the work of EFRAG on impact assessment and effect studies regarding newly issued standards and IFRIC interpretations will be phased out gradually as the IASB is expected to carry out impact assessments at an early stage of the standard setting process in the future.

In order to achieve the objective set out above it is essential that members of the SB, of the proposed Planning and Resource Committee (PRC) and of the Technical Expert Group (TEG) are independent and are committed to acting in the European public interest, thereby ensuring that EFRAG views are not unduly influenced by any interest group or constituency. At the same time, it is essential that EFRAG maintains an open dialogue with the various stakeholder groups through a transparent consultation process.

The recent activities of EFRAG are described in the 2007 EFRAG Annual Review (enclosed).

3 Public oversight, accountability, relationship with the European Commission

Increased public accountability will be achieved by the changes to EFRAG's governance structure discussed below, by regular liaison with the EC at relevant levels and by opening meetings of the SB and PRC to the public, as is the case today for TEG meetings. In addition, nomination processes will be open and wider consultations will be held than in the past. There will also be greater transparency in the reporting process: the SB and the PRC will publish regular reports of their activities in the form of summary minutes and in the annual report currently published by EFRAG, and EFRAG will continue to report in coordination with the EC to the Accounting Regulatory Committee and also to relevant EU institutions.

EC approval of the budget and submission of audited financial statements will be required when, as is envisaged and as discussed in section 5 below, the EC contributes to the funding of EFRAG. As described in section 4.2 below, the reformed composition and procedures of the SB

incorporate features to ensure that EFRAG operates in the European public interest and in a manner that supports the EU accounting legislation process.

4 Structure of the new EFRAG

EFRAG needs to represent all financial reporting stakeholders and not only its founding European organisations. The following proposals seek to establish a balanced structure that can represent effectively all European stakeholders in IFRS.

A key element of the proposals is the setting up of the PRC and the enhanced role of the NSS that are committed to contributing significant resources and expertise to proactive projects.

The proposed governance structure of EFRAG is shown in the chart in Annex I.

4.1 General Assembly (GA) and Governance and Nominating Committee

The EFRAG GA will consist of representatives of the European organisations that founded EFRAG or that will join EFRAG. The responsibilities of the GA are set out in the EFRAG statutes and include approving EFRAG's annual accounts, approving EFRAG's budget, approving EFRAG's internal rules and, most importantly, appointing SB members.

The GA will establish a Governance and Nominating Committee to make recommendations to the GA on the appointment of SB members (two-thirds of the members of the Committee will be appointed from amongst GA members and one third from amongst the National Funding Mechanisms (NFM)³. The Committee will evaluate after a two year period – in dialogue with the EC and NFM – the size and the composition of the SB based on its efficiency and effectiveness whereby it will in particular focus on a balanced representation of all European stakeholders. The Committee will make in this respect recommendations to the GA.

The composition of the SB and the process for nominating and appointing SB members is explained in more detail in section 4.2 below.

The GA will meet at least once a year to assess the performance of EFRAG by considering and, if it so decides, approving the EFRAG annual report.

The concept of “associate member” of EFRAG may be introduced to enable other European organisations to play a limited role in EFRAG in return for a lower contribution to the funding of EFRAG than the organisations that founded EFRAG. In this way it is hoped to attract stakeholder organisations representing professions and sectors that currently are not represented or are insufficiently represented in EFRAG. Associate members would be entitled to attend the GA but would have no voting rights (further details can be found in the amendments to the EFRAG statutes).

4.2 Supervisory Board (SB) and its Committees

Role of the SB

The SB will have the following principal responsibilities:

³ NFM are the bodies established in some Member States to organise the private sector funding contributions to EFRAG, some of which also contribute to the funding of the IASCF by the same means.

- appointing TEG and PRC members
- fund-raising, including liaison with NFM
- approving the overall strategy of EFRAG
- recommending approval of budgets to the GA
- monitoring independence, efficiency of organisation and quality of consultative and other due processes of TEG
- monitoring the progress of the work of TEG and PRC,
- reviewing internal rules and recommending any changes to the GA
- liaising with the EC (and EP)
- liaising with IASCF Trustees
- monitoring cooperation with NSS

The SB is accountable to the GA and reports to the GA on the discharge of the SB's responsibilities.

Composition of the SB

The SB will consist of high level persons with an interest in the global development of financial reporting and with an appropriate balance of professional backgrounds, including users, preparers, and accountants. All SB members will act in a personal capacity and will be required to commit themselves formally to acting in the European public interest, independently from their professional or sector affiliation. The SB will no longer be composed of representatives of the European organisations that founded EFRAG and the current direct link between funding, voting and seats on the SB will cease.

The SB will include four members whose background will be based on experience of public policy, either at national or at European level. These persons could be drawn from public authorities or other relevant public bodies, as well as from academia. Their role will be to ensure that appropriate account is taken of public policy in the deliberations and decisions of the SB. The EC will continue to participate in the SB as an observer in order to enhance the public accountability of EFRAG as a whole and to monitor the SB's performance of its oversight role.

The initial composition of the SB will include persons with the following backgrounds:

Preparers	5 (industry, commerce and financial institutions)
SMEs	1
Users	4 (including 2 from financial institutions)
Accountants	3
<u>Public policy members</u>	<u>4</u>
Total	17
EC (observer)	1

In the event that sufficient high quality candidates with a particular background cannot be found at any time, temporary minor deviations from the above composition would be allowed.

Appointment of SB members

The GA will appoint SB members upon a recommendation from the Governance and Nominating Committee (see section 4.1) and following consultations with the EC. Candidates for the SB will need to meet a number of pre-established criteria as set out in EFRAG's internal rules and will be sought by means of a public call for candidates. All stakeholders including European organisations and NFM will have the opportunity to nominate candidates.

The members with a public policy background will be nominated by the EC in consultation with the Governance and Nominating Committee of the GA. The EC will organise appropriate consultations with Member States, as well as with relevant EU institutions and bodies.

Decision-making and rules of procedure

The SB will aim to reach decisions by consensus. However, each member of the SB will have one vote in a simple majority voting system and will have the right to request a particular issue to be added to the agenda of the SB. The EC, despite being an observer, will also have the right to request the Chair of the SB to add an item to the agenda should a situation arise in which, in the view of the EC, EFRAG is failing to carry out its work in accordance with its due process or governance rules.

SB meetings will be open to the public (with the exception of certain issues such as nominations and funding). Reports on the SB meetings in the form of summary minutes will be made available on the EFRAG website. The SB will, as from the 2008 report, include a separate section within the EFRAG annual report on its oversight role and related achievements, and on the funding and resources of EFRAG.

The SB will review the internal rules for the SB, TEG and PRC on a regular basis and make recommendations for any changes to the GA.

4.3. Planning and Resource Committee (PRC)

Proactive work – contributing to and influencing early thinking on significant financial reporting issues – is a crucial element of the work of EFRAG and the NSS. It constitutes the main and most appropriate means of influencing the agenda and thinking of the IASB.

EFRAG and NSS that are able and willing to commit significant resources to proactive work will coordinate their efforts through the PRC in order to increase significantly the extent and to enhance the quality of proactive work that is carried out in Europe.

Role of the PRC:

The role of the PRC will be to set the agenda for proactive work that results in the issuance of discussion papers and position papers, and potentially for other proactive issues. The PRC will provide guidance on the allocation of resources from EFRAG and the NSS to proactive projects and will monitor the progress of the work concerned. In addition, the PRC will have the following tasks:

- Coordinating surveys of financial reporting to see whether the practical experience calls for agenda items to recommend the IASB to add to its agenda.
- Commenting on the IASB agenda following the normal EFRAG public consultation procedures (due process) including consultation with the boards of the NSS and with TEG.
- Recommending who should represent EFRAG and/or the NSS on IASB working groups and advisory groups. The representatives will be nominated following more specific procedures than hitherto.
- Organising meetings of the new Consultative Group.
- Possibly organising the practical work of NSS to provide input to impact assessment reports coordinated by EFRAG.

The PRC should ensure that the long term proactive agenda reflects the most important accounting issues seen from a European point of view.

Composition of the PRC:

The PRC will be composed of nine members appointed by the SB as follows:

- four senior NSS representatives (normally the Chairs of the NSS) will be members,
- two members from the SB and two additional members (who may have other professional backgrounds or alternatively could be members of the SB).
- the TEG Chair.

All members should be of high professional standing who have recent experience of financial reporting (but who are not necessarily technical accounting experts) and insight into the major reporting issues and objectives of European stakeholders.

The Chair of the PRC will be the Vice Chair of the SB. He will report on the work of the PRC at every SB meeting.

Appointment of PRC members

The PRC will be appointed by the SB after a call for candidates for the four representatives of the NSS and for the two additional members.

Decision-making and rules of procedure

The PRC will aim to reach decisions by consensus. However, if consensus cannot be reached, each member of the PRC will have one vote in a simple majority voting system.

PRC meetings will be open to the public (with certain exceptions).

All technical papers, including the proactive papers, will need to be approved by the TEG for issue by it and are subject to the EFRAG public consultation process.

4.4. Technical Expert Group (TEG)

No major changes are proposed to the current work of TEG (further details can be found in EFRAG's internal rules). Participation by three of the NSS continues and is focused on high quality technical contributions to the discussions in TEG.

Role of the TEG

The key objectives of EFRAG TEG include:

- to provide high quality input to the IASB and IFRIC on their discussion papers, proposed standards and draft interpretations
- on the basis of the priorities identified by the PRC, to develop proactive discussion papers in order to influence the IASB's agenda-setting process and the early phases of the standard-setting process. Such discussion papers should also enhance the debate and understanding in Europe in order to provide high quality, widely supported input to the IASB
- to monitor ongoing IASB activities in order to give feed back to the IASB on a continuing basis
- to issue endorsement advice to the EC on final pronouncements issued by the IASB,
- to issue effect study reports (until such time as the IASB includes such work in its own due process)

Composition of the TEG

The TEG will have nine to twelve voting members drawn from throughout Europe and from a variety of backgrounds (details are specified in EFRAG's internal rules) and up to three non-voting members being in principle the chairs of the NSS. In addition, there are observers from the IASB, EC and the Committee of European Securities Regulators (CESR). Members of TEG

will be required to commit themselves formally to act in the European public interest, independently from their professional or sector affiliation. Moreover, the membership of TEG will ensure that no group or country has a majority or can determine TEG's views, thereby ensuring that TEG's conclusions are not unduly influenced by any interest group or constituency.

Appointment of TEG members

As at present, the members of TEG will be appointed by the SB, with the assistance of a Nominating Committee, following an open call for candidates.

The SB may appoint in principle chairs of up to three NSS to be non-voting members of the TEG.

The quarterly meetings with the NSS to which all bodies in Member States are invited will continue and the members of the PRC are encouraged to participate in these meetings.

The Chair of the Technical Expert Group is responsible for external communication for EFRAG on conceptual and technical financial reporting issues.

4.5. Consultative Group

A high level Consultative Group will be established in order to provide strategic input into the work of EFRAG. The Group will operate on an invitation basis under the coordination of the PRC and should meet at least once a year. The Group will focus on conceptual and policy issues. Members of the group might be drawn from CFOs of major European commercial, industrial and financial services enterprises, and high level representatives from the accountancy profession, users and the academic world.

The Group will be an advisory body to the PRC and the TEG and might also be used by the SB, when appropriate.

The Consultative Group will replace the present Advisory Forum.

5. Involvement of NSS and NFM

5.1. NSS

The proposed enhancement of the EFRAG structure is also driven by a closer partnership with NSS. EFRAG and NSS interact at two levels: participation in proactive work by those NSS that have the appropriate resources to do so, and through the Consultative Forum of Standard Setters (CFSS), which meets quarterly and to which all European NSS are invited.

Under the enhancement proposals, four NSS will participate in the PRC, setting the agenda of EFRAG's proactive work. Up to three representatives of NSS will continue to be non-voting members of TEG.

There will be continued consultation processes with all NSS. All NSS have the opportunity to make significant contributions to the impact assessment work coordinated by EFRAG. NSS have an important role to play, both when providing feedback to EFRAG about national issues and in the other direction, by providing feedback to their national constituencies on developments at European level, including the work of EFRAG.

5.2. NFM

EFRAG's governance is primarily built on European organisations representing stakeholders throughout Europe. National Funding Mechanisms (NFM) have been or are in the process of being created in Member States with the objective of supporting EFRAG's funding. The EC will seek to encourage the creation of NFM in Member States where such bodies not yet are in place. For the future, NFM are expected to contribute to the funding of EFRAG, together with the European organisations and the EC, and as a consequence will have the following involvement in the EFRAG structure:

- representation in the Governance and Nominating Committee for the SB;
- members of NFM can be appointed members of the SB (e.g. as public policy members),
- annual liaison meetings between the EFRAG SB and NFM,
- close liaison between the EFRAG SB and NFM regarding changes in EFRAG's funding requirements.

6. Funding of EFRAG

This enhancement proposal is conditional on the receipt of adequate funding by EFRAG. It is envisaged that a three-tier funding model will be applied, as follows:

- Base funding from European organisations
- National funding mechanisms
- EC funding

In addition, it should be noted that members of TEG are not paid and that some of the staff are seconded at subsidised cost.

The funding requirements discussed below are based on estimates prepared for 2009 and 2010.

6.1. Base funding from European organisations

In the short term (2009), until the engagement of additional stakeholder representative organisations has been achieved, the proposed base funding of EFRAG is 1 million euros from European member organisations.

In order to broaden the group of relevant stakeholder representative organisations, associate membership will be established. Associate members will not be full members of the GA and will pay a smaller contribution.

6.2. *National Funding Mechanisms (NFM)*

NFM are expected to contribute a total of 2 million euros annually.

6.3. *Long-term funding*

The cash budget as from 2010 is envisaged to be approximately 6 million euros depending on the speed of build up of resources. In addition to the base funding from European member organisations, 1 million euros and requested contributions from NFM, 2 million euros, the EC⁴ has

⁴ Commissioner McCreevy, in his address to the EP on 24 April 2008, stated "we should build on the European Financial Reporting Advisory Group and I am ready to pursue this as a matter or

indicated its willingness to consider contributing up to 50% of the budget of EFRAG, provided that the reforms in EFRAG's governance set out in this paper are adopted, and that a legal basis for this funding contribution can be established. Any funding from the EC would be available at the earliest in 2010.

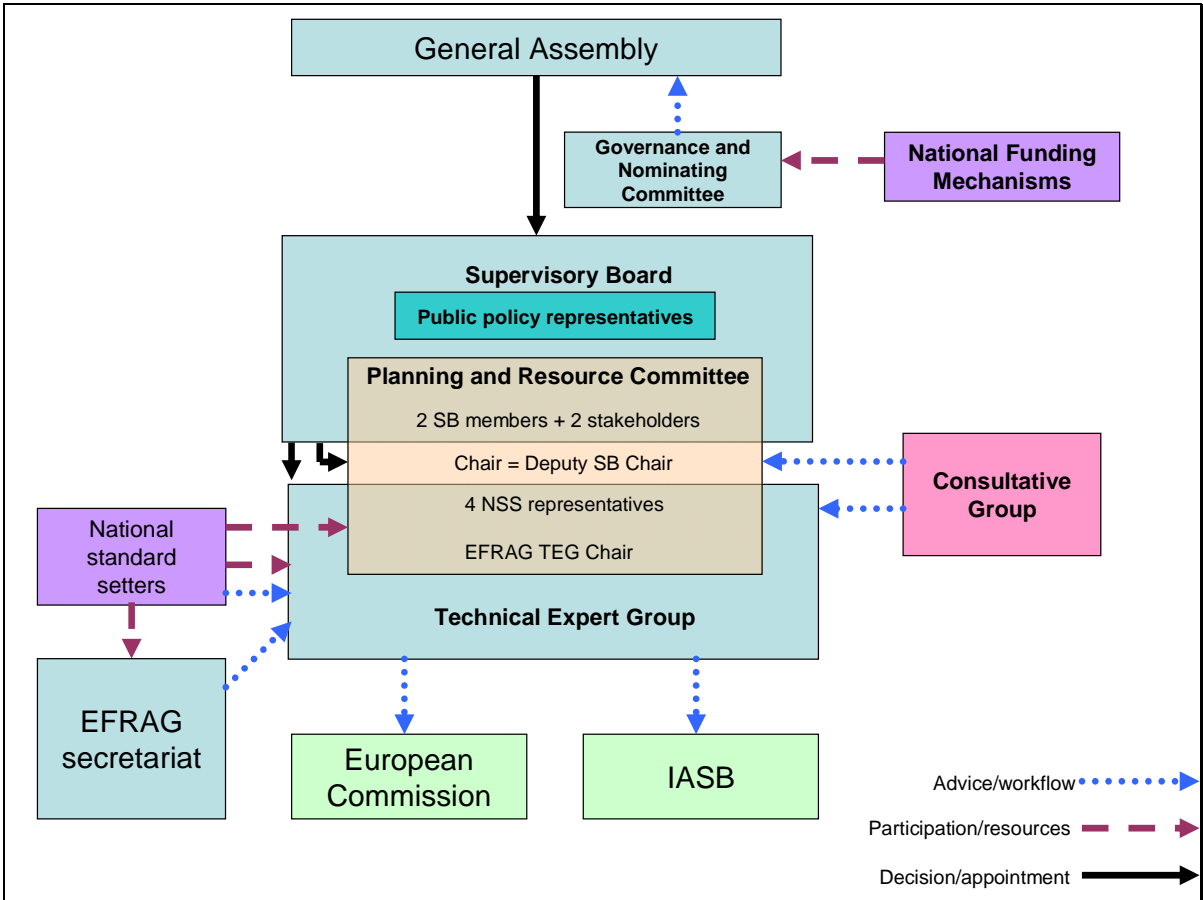
The contributions in kind consist of TEG members contributing their time without a charge and of staff seconded by European organisations or their members and are at present at the level of 1.5 million euros annually. As from 2010, it is expected that the TEG Chairman and all technical staff in the EFRAG Secretariat will be paid fully and therefore the contributions in kind are expected to be approximately 1 million euros. In the future, the possibilities to change to a model where all resources are paid will be evaluated.

This budget will allow the EFRAG secretariat to be gradually increased from 8 to 20 technical and 5 administrative staff and will enable the Chair of TEG to be paid by EFRAG. It will also include a full time person to support the SB and its committees as well as a communication manager and resources to support the Consultative Group. Since the present level of cash expenditure is around 2 million euros and recruitment of additional people is likely to take time, it may not be possible to increase staffing to the desired level until the second half of 2010. If this will be the case, the full amount of 6 million euros in cash may not be used for 2010 but the target when the enlarged organisation has settled is at the level of 6 million euros in cash. However, in the longer term activities such as field testing, work on feedback statements, and public hearings may require additional resources but not leading to a total exceeding 7,5 million euros.

EFRAG is not a standard setter but the participation in proactive work on forthcoming issues and standards require resources to be a credible voice. If one compares EFRAG's situation with the resources of the FASB in the US and with the IASB itself, the FASB has total revenues/contributions of some 37 million USD (+/- 25 million euros), and the IASCF has total revenues of some 17 million GBP (+/- 22.5 million euros) and employs some 90 staff, including IASB members.

urgency, including the possibility of using funding from the Community budget to support such a structure”

ANNEX I: EFRAG Governance Structure



BACKGROUND

Explanation and Justification

1. Enhanced governance, transparency and accountability to European organisations and institutions

Building a stronger European capability requires reconsideration of the current governance and operational structure, transparency and resources of the European Financial Reporting Advisory Group (EFRAG), so that EFRAG can serve the wider European public interest and fairly represent Europe. It is essential that the enhanced structure meets best practice in corporate governance, taking into account the particularities and uniqueness of EFRAG as a private organisation. The structure is also intended to meet the highest possible quality of transparency by opening meetings to the public, publishing drafts of comment letters and reports for public comment and public reporting of the activities of the Supervisory Board (SB), Technical Expert Group (TEG) and Planning and Resource Committee (PRC).

Increased public accountability will be achieved through the enhancement of EFRAG's governance structure, the European Commission (EC) acting as an observer in and public policy members of the SB. In addition, EFRAG is accountable to the European organisations through the General Assembly (GA): the SB will report to the GA on the discharge of its principal responsibilities.

2. An independent Supervisory Board of EFRAG

The SB will no longer be composed of representatives of European organisations and the direct link between funding, voting and seats on the SB will be removed. Balanced representation of all stakeholder backgrounds, notably of users, can be better achieved through appointment of individuals with particular backgrounds rather than through persons directly representing particular organisations. Furthermore, the appointment of individuals based on their particular backgrounds should enable candidates with greater direct experience of financial reporting issues and the standard-setting environment to be attracted. It is essential that members of the SB are independent and objective; this is easier to achieve if they are not acting as representatives of particular organisations or groups.

Whilst respecting their independence it is essential that each SB member has access to and can liaise with a network, particularly of people with a similar professional background to his own.

3. Public oversight

EFRAG needs to operate in the European public interest and to be accountable to European organisations to National Funding Mechanisms (NFM) and, as a consequence of EC funding in due course, to European institutions, notably the EC. In order to achieve this objective there must be proper public oversight. These proposals respond to the demand for enhanced public oversight while keeping the structure as simple as possible, by not including additional bodies or layers in the structure in the form of a separate oversight mechanism, so as to maximise

transparency and to enable EFRAG to operate in an efficient and effective manner. Public Policy members will be involved in the SB as full members and the EC will have an observer role. The involvement of the EC in the SB will enable it to obtain sufficient insight in the work plans and strategies of EFRAG to monitor EFRAG's compliance with its due process and governance rules.

The public policy members will be nominated by the EC in consultation with the Governance and Nominating Committee of the GA. The role of public policy members will be to ensure that appropriate account is taken of public policy interests in the deliberations and decisions of the SB. In accordance with EC rules, the EC contribution to the funding will require some form of oversight and at a minimum the audited financial statements and budgets will need to be reviewed by the EC.

EFRAG will discharge its accountability to NFM through annual liaison meetings between the EFRAG SB and NFM, including in particular close liaison between the EFRAG SB and NFM concerning any changes in EFRAG's funding requirements. NFM will be involved in the oversight of EFRAG through representation in the Governance and Nominating Committee for the SB. In addition, members of NFM can be appointed as public policy members of the SB.

4. Involvement of National Standard Setters (NSS) and coordination of European resources and the creation of the Planning and Resource Committee (PRC)

EFRAG currently works with the NSS, in the PAAinE project and through quarterly European NSS meetings (Consultative Forum of Standards Setters (CFSS)), while the chairs of the three largest NSS (France, Germany and the UK) are non-voting members in TEG. NSS are key contributors to the financial reporting debate at national and in some cases also at the international level and are significant stakeholders in IFRS. However, with the increasingly widespread use of International Financial Reporting Standards (IFRS) outside Europe there is an increasing need to coordinate the available resources and expertise in Europe in the standard setting arena to develop high quality proactive conceptual and technical discussion and position papers that will be influential internationally in discussions and decisions about the future of IFRS. The PRC will be established to set the agenda for the proactive work of EFRAG in order to ensure that the accounting issues regarded as most important in Europe are addressed in a timely and effective manner.

NSS have an important role to play as two way ambassadors: they are expected to provide feedback to EFRAG on practical issues of significance in their national jurisdictions. In addition, they will provide feedback to their constituencies on European developments, including EFRAG activities. NSS have an important role to play through their communication networks. NSS also have the opportunity to make important contributions to the impact assessment work coordinated by EFRAG, in which involvement of national constituencies is essential.

The PRC will involve not only senior representatives of four NSS and the TEG Chair but also two SB members and two additional members in order to obtain a proper balance of financial reporting backgrounds. There is a need for two additional members amongst the nine members of the PRC in order to avoid the perception that the PRC is merely an extension of the SB, which would be inappropriate from a corporate governance point of view as one of the principal roles of the SB is to monitor the performance of the EFRAG groups including the PRC. In addition it might well prove difficult to attract high calibre people to serve on the SB if many SB members were also required to serve on the PRC. Moreover, the additional members make it possible to involve professionals who are able to contribute to discussions and decisions about the future direction of financial reporting standards but who might not wish to be members of the SB. This approach should provide sufficient flexibility to enable EFRAG to ensure that the PRC will be an effective body.

5. Continued involvement of European organisations in EFRAG is essential so as to underpin EFRAG's mission to represent all European financial reporting stakeholders

Liaison with stakeholder representative groups is a key element in the activities of EFRAG. EFRAG was set up as the result of an initiative by ten European organisations representing preparers, users and the accountancy profession. These European organisations form the basis of EFRAG as they are able to represent the positions of their various stakeholder groups at European level and to ascertain the views of each of those stakeholder groups in Member States. The European organisations represent the same professional backgrounds as the ultimate stakeholders in the NSS and to a certain extent the NFM, depending on the way in which the NFM for a particular country is organised.

The ten European organisations that together founded represent a wide range of stakeholders in financial reporting. However, EFRAG needs to represent all financial reporting stakeholders. EFRAG therefore invites additional European organisations with an interest in financial reporting to become members of EFRAG in the enhanced structure, and in particular calls on more organisations representing users to become involved in EFRAG. In order to broaden the group of relevant stakeholder representative organisations, associate membership will be established requiring a smaller financial contribution than is paid by the organisations that founded EFRAG.

6. Significant increase in the size of EFRAG's staff

In order for Europe to exercise greater influence over the direction of future standard-setting it is necessary to increase significantly the effort devoted to developing discussion papers on and possible solutions to financial reporting standards that are regarded in Europe as being in need of re-examination and possible revision. Building a stronger European capability requires a substantial increase of resources since only with sufficient scale and scope of operation can EFRAG be an influential and credible player in the changed standard-setting environment.

Over time EFRAG will increase its resources to at least 20 technical staff. In addition, the NSS will provide technical resources for the proactive work identified by the PRC of 10 persons in total.

7. A three tier funding model

In order to achieve the appropriate level of European influence at the international financial reporting level and more particularly with the IASB, the resources of EFRAG need to be increased very significantly. The proposed enhancement of EFRAG's governance and operational structure assumes that EFRAG will obtain such increased resources. This cannot be achieved without a substantial increase in EFRAG's level of funding. The funding model envisaged for EFRAG combines private and public funding in a manner that will give EFRAG appropriate credibility and standing without impairing its independence. As a matter of principle, all EU Member States and EEA countries should contribute to the funding of EFRAG. It is envisaged that this private funding will be collected at two levels: base funding by the European organisations and funding through NFM.

Following resolutions of ECOFIN Council meetings in 2006 and 2007, initiatives have been taken in a number of Member States to organise private sector contributions to the funding of IASB. The 2008 ECOFIN Council conclusions underline the need to secure appropriate funding for both the International Accounting Standards Committee Foundation (IASCF) and EFRAG, indicating that both are urgently needed. However, in a significant number of countries such mechanisms have yet to be established. In most Member States where funding mechanisms have been put into place it has been concluded that a mechanism similar to that used to provide funding to the IASB should be used to provide funding to EFRAG. The EC will seek to encourage the creation of NFM in all Member States and their contribution to the funding of EFRAG.

The public funding, of a maximum of 50 % of the total EFRAG budget, is expected to be provided by the EC. EC funding is conditional on identifying a process and legal basis for this expenditure and adoption by the EP and by the Council of Ministers.

Further information about the funding of EFRAG is available on request.

