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Furore over tax evasion opens door to new EU proposal on corporate tax

EU leaders responding to the public outcry over tax evasion by multinational companies have triggered a quest for pan-European solutions to tax fraud, but the debate has also enabled the European Commission to return to a controversial proposal for a Common Consolidated Corporate Tax Base (CCCTB).

As the financial crisis rumbled on, multinational technology behemoths such as Apple, Google or Amazon found themselves under the spotlight, accused of dodging taxes, provoking the fury of hard-pressed taxpayers.

The international community, member states and the EU Commission have all vied to respond with a variety of proposals to tighten tax loopholes and rake in uncollected revenues.

"This increased media attention and the inherent challenge of dealing comprehensively with such a complex subject has encouraged the perception that the rules for the taxation of cross-border activities are regularly broken and that taxes are paid only by the naïve," according to Pascal Saint-Amans, the director of the centre for tax policy at the Organisation for Economic Co-operation and Development (OECD).

In February this year, the OECD published a report, 'Addressing Base Erosion and Profit Shifting (BEPS)', which analysed the root causes of BEPS, a term which refers to the gaps exploited by companies who avoid taxation in their home countries by shifting their activities abroad to low or no tax jurisdictions.

This resulted in an agreement by the G20 group of industrialised nations in Moscow this October to launch an action plan on BEPs providing comprehensive, coordinated strategies for the countries concerned, with the goal of encouraging its member countries to implement the plan over the next couple of years.

EU Commission busy on tax portfolio

Having discussed the tax issue broadly at a Brussels summit in May this year, EU leaders have agreed that the issue will top the agenda of their December European Council.

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"I believe it is very likely that large corporates and corporate groups operating cross-border within the EU will find they are required to report more information regarding taxes, transfer pricing arrangements and perhaps aggressive tax planning undertaken over the coming years," according to Kevin Doyle, a Dublin-based partner with auditing and consultancy firm BDO.

This is taking place against an already active anti tax-fraud agenda at the EU executive. This autumn (19 September), an EU survey recorded uncollected VAT receipts totalling €193 billion across the European Union during 2011, or 1.5% of the bloc's GDP.

"The amount of VAT that is slipping through the net is unacceptable; particularly given the impact such sums could have in bolstering public finances," said Algirdas Šemeta, the EU's taxation and anti-fraud commissioner, simultaneously launching further measures to counter the problem.

A large upswing in carousel fraud – which sees swindlers import goods VAT-free, sell to domestic buyers charging VAT, then disappear without paying the tax – is also responsible, according to the EU executive.

Ongoing problems over savings tax directive proposal

Šemeta said that the EU's VAT Quick Reaction Mechanism, adopted in July 2013, would allow member states to react more swiftly to sudden, large-scale cases of VAT fraud.

Meanwhile, Šemeta is continuing to fight for an extended savings accord by the end of this year, against opposition from Austria and Luxembourg.

Luxembourg Finance Minister Luc Frieden claimed to be surprised that the savings-tax proposal came up for discussion at a meeting of EU finance chiefs in Brussels last week (15 November).

No decisions can be taken on extending the scope of the existing law until the EU's executive arm has completed talks on the issue with Switzerland, Liechtenstein, Andorra, San Marino and Monaco, Frieden said.

Šemeta was unrepentant, however, telling ministers the draft law must be agreed by the end of the year. "The world is already moving and the EU must not be left behind," he said.

The proposal aims to set standards for how EU member states can collect information on income that their residents earn from savings held in other countries, extending a current agreement to cover income from trusts, foundations, funds and other financial products. It will also require all EU nations to take part in information exchanges after a transition period.

Commission to propose new digital taxation working group

A new working group examining taxation in the digital economy will be proposed by the tax commissioner next week, EurActiv has learned.

The group will meet for the first time before the end of the year and will return to the Commission with firm proposals next spring, before the current European Parliament's term expires. The proposal will aim to address public indignation surrounding the seemingly low levels of tax paid within the EU by large US internet companies such as Google and Amazon.

The digital tax working group will be bring to the table next spring another highly contentious tax issue, which has found itself back in favour as a result of the tax evasion debate, the common consolidated corporate tax base (CCCTB).

The concept of CCCTB would require member states to develop common rules for determining the tax base of companies with operations in several EU countries. The Commission unveiled a draft CCCTB proposal in March 2011, insisting that the idea is not about harmonising corporate tax rates and that it would reduce administrative burdens and boost cross-border ventures.

It proved highly controversial with member states, however, who fiercely guard their independence from the EU executive in respect of tax issues.

A well-placed Commission source confirmed to EurActiv that "technical discussions" had been under way for some time, with the hope that a new proposal may be ready to tabled during the Greek EU presidency, in the first half of 2014.

"The CCCTB has been raised again and again amongst ministers recently, because originally it was considered as a measure designed to make life easier for business within the EU, but now the attractions of the transparency that it would encourage have given it more legs," according to the Commission source.

"Certainly I expect the work on the CCCTB to be taken forward under the Greek presidency, we might also see an [EU financial ministers] discussion for the first time on the dossier," one EU diplomat told EurActiv on condition of anonymity.

Such a move would certainly see strong protest, even if the backdrop of tax evasion were used as a justification for a new CCCTB proposal. Austria and Luxembourg have already demonstrated in relation to the proposal for a savings tax directive how such proposals can be mired in dispute, in a sector which EU rules say requires unanimous agreement between the member states.

The Commission is conscious that any move to harmonise taxation is likely to run into opposition. Britain, for instance, does not want to participate in the regime, which would remain optional. And Ireland has succesfully resisted a push on the CCCTB even when it came under pressure by Germany and France, who had only just agreed to its bailout programme.

"That being said, the use of an enhanced co-operation approach to the Financial Transaction Tax (FTT) means one can never say that we will not see the introduction of CCCTB through similar means, or perhaps a watered-down agreement in relation to the Common Corporation Tax Base over the coming years," said BDO's Doyle.

The beginning of 2014 will see tax issues once again dominating the European debate, just as the politically sensitive period of European electioneering kicks off. This is no coincidence, given that public indignation has been key to the issue soaring up the policy agenda.

Member states backtrack on corporate reporting pledge

A pledge made by heads of state and government this summer to beef up corporate social responsibility reporting for European companies is set to be ditched because too few member states are prepared to support it, EurActiv has learned.

This spring (16 April), the Commission launched new corporate social responsibility (CSR) rules to require larger companies to report non-financial information, such as their diversity and environmental policies, and to explain why they have not progressed in these areas, if necessary.

According to the Commission, fewer than 10% of the largest EU companies regularly produce sustainability reports.

The proposal would require listed companies to disclose information on environmental matters, social and employee-related affairs, respect for human rights and anti-corruption and bribery issues. They would also have to disclose details about the diversity on their board of directors.

Around 18,000 companies would be affected by the new rules, compared to the 2,500 organisations that now disclose environmental and social information.

Meeting for a summit in Brussels on 22 May, European heads of state and government proposed to take the CSR reporting obligations further, concluding that the proposal be examined "with a view to ensuring country-by-country reporting by large companies and groups."

Leaders pledged to widen reporting obligations

The pledge would see larger companies reporting non-financial information in respect of each country in which they operate, rather than issuing one report for all their European operations.

Country-by-country reporting makes it easier to compare how member states measure up against one another in terms of their CSR standards.

The European Parliament has been considering the proposal but is likely to drop country-by-country reporting as a condition within its recommendations, EurActiv understands.

Raffaele Baldassarre, an Italian centre-right MEP and rapporteur on the legal affairs committee for the proposal, has suggested delaying a review of the reporting obligations to 2018, at which point country-by-country reporting could be introduced.

Other MEPs would like to see country-by-country reporting introduced with the first version of new rules, which should come into force in 2015. UK MEP Sharon Bowles (Alliance of Liberals & Democrats for Europe) has prepared a report for the economic and monetary affairs committee calling for country-by-country reporting to be included from the beginning.

Baldassarre is hoping his committee can agree to a final report when it meets on 16 December.

Leaders may have stayed up too late

But sources in the Parliament told EurActiv that support for country-by-country reporting has dissolved amongst the member states. "Only Spain and France are supporting it, and with some member states – notably Germany – increasingly against introducing any proposal at all, the Parliament will not push the issue for fear that it will destroy the chances of the entire proposal," said one source familiar with the issue.

"It is strange that they have pulled back on what leaders agreed so recently," said another source on condition of anonymity. "There is some suggestion that it was very late at night [at the summit] when the leaders made their pledge, and not all of them understood what they were agreeing to!" the source continued.

Germany's opposition reflects strong opinions from the country's industry. A spokesperson for the Federation of German Industries (BDI), which represents more than 100,000 enterprises, said the group advocates the withdrawal of the Commission's proposal as is "problematic, because it would impose additional burden and disproportionate requirements on numerous companies, particularly small and medium-sized enterprises."

The Commission estimates that its proposal would cost companies on average less than €5,000. BDI considers the estimate "far too low", given that the numbers fail to take into account the cost of collecting the necessary data or the external auditing of the additional information in the management report, amongst others.

Estimates endorsed by BusinessEurope, the European employers' umbrella organisation, put the real costs at between

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€155,000 and €604,000 per year.

"These additional financial burdens would put European companies at a serious disadvantage with regards to their international competitiveness, and should therefore be avoided on all accounts," said the BDI spokesperson.

Business fears obligations would be costly, uncompetitive

The argument that European companies would be put at a competitive disadvantage by such reporting obligations was rebutted by Henning Drager, a Ukraine-based partner of auditing and consultancy firm BDO.

He believes that countries such as the Ukraine look to the standards set by Europe as a bellwether. "One reason that the Ukraine finds it difficult to attract foreign investment is the lack of transparency, so the business community would welcome introducing more European standards of rules. Perhaps that would result in higher labour costs, but it would be better for innovation, and help the country to sort some of its environmental problems with dioxin pollution and radioactive waste," Drager said.

For him, the Commission's proposal could be stronger. "It would be much more effective if companies were obliged to require disclosures from down their chains of supply. Because requiring only the larger companies to disclose means that three-quarters of industrial interests will remain unseen, that seems to be the elephant in the room," he added.

Calls for reporting obligations to be extended down chains of supply are indeed popular amongst MEPs, who are expected to endorse the idea, however much it may be resisted by smaller companies.

Rolling reporting obligations down the supply chain

"The Commission states that 'Transparency is part of the solution, not part of the problem', but Chambers believe that the associated reporting obligations are firmly part of the problem, especially for smaller businesses," according to Guendalina Cominotti, a spokesperson for Eurochambres, the association of European Chambers of Commerce and Industry.

"It's therefore crucial that co-legislators introduce effective mechanisms to avoid that non-financial and diversity reporting obligations are transferred to SMEs all along the supply chain," she added.

If business appears resistant to the march of non-financial reporting it may find itself swimming against the tide. There are increasing calls in the US and Europe for so-called "integrated reporting", which would mean applying the CSR standards to each separate part of the company accounts, rather than writing one report and including this as an annex to the accounts, as the Commission's proposal suggests.

Judging by the apparent U-turn by member states on country-by-country reporting, it seems unlikely that integrated reporting is in the EU regulatory pipeline. Once the concept of obligatory CSR reporting beds down, however, non-financial elements of company reporting are likely to spread further.

EU-US trade deal offers hope on reporting convergence

EU trade negotiators are optimistic that they can secure a place for financial services regulation within key trade talks next week (27 November), offering some hope that this will help spur the US towards more convergence in international corporate reporting.

Europe and the US launched negotiations on the so-called Transatlantic Trade and Investment Partnership (see background) earlier this year with Europe hopeful that the deal would include financial regulation and markets-related activity, since the EU and US account for 80% of global financial transactions.

But there were doubts on the US side about whether financial regulation could be incorporated.

The multitude of powerful regulatory bodies affecting financial services in the US, from the Commodity Futures Trading Commission to the Securities and Exchange Commission (SEC), not to mention the US Treasury, make it more complicated.

Over the summer (15 July), the commissioner for the internal market and services Michel Barnier pressed US Treasury Secretary Jacob Lew on financial services at a meeting in Washington, insisting that including rulemaking for banks and markets in the TTIP negotiations would be an opportunity to better align standards.

EU has been applying pressure on financial services

As part of his lobbying effort, Barnier urged progress in aligning US and international accounting standards, warning that some in the EU were questioning the future of the International Accounting Standards Board if headway was not made soon. The IASB sets accounting rules applied in over 100 countries including within the EU.

Europe adopted International Financial Reporting Standards (IFRS) – the IASB standards – in 2005, but in July 2012, the US SEC issued a report on the relation of the IFRS to the US reporting standards, which included no decision as to whether IFRS should be incorporated into the US financial reporting system, or how such incorporation should occur.

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The European Commission is set to issue by the end of this year new regulations on accounting standards, overhauling its current standards body and meeting European Parliament concerns that Europe has become a lackey for US influence in the sector.

Nadia Calvino, the EU executive's deputy director-general for internal market and services, has called for "serious discussions on financial regulation within the TTIP, setting up the necessary instruments to make our regulatory systems work together by agreeing on a common approach to equivalence and substitutive compliance."

In this context Calvino also linked TTIP discussion of financial services with convergence in accounting standards.

"This has a direct impact on the current convergence process. There is a real risk that the IASB and [US standards bodies] fail to agree on a converged standard on impairment of financial instruments – a crucial norm for financial institutions and markets. .. we need a robust standard on impairment before the end of this year," Calvino said.

Karel Lannoo, the chief executive of think tank the Centre for European Policy Studies, said the fact that neither bloc had agreed on a globally acceptable accounting standard meant that bank accounts on either side of the Atlantic were not comparable.

Glimmer of hope on financial services

The second round of TTIP negotiations took place on 11-15 November. While there were no discussions on financial services regulation, the EU and US TTIP chief negotiators, Ignacio Garcia-Bercero and Dan Mullaney, made clear afterwards that regulatory cooperation in financial services would be discussed next week (27 November).

Mullaney said that the EU side had requested conversations and the US side was "ready to engage". He added that all US trade agreements included provisions on such matters as regulatory transparency in financial services.

Inclusion of financial services within the TTIP talks would not open the door directly to the convergence of reporting standards, since these were unlikely to be a direct topic of discussion. The US is believed to fear that discussions of financial services could be used as a back door for the Europeans to apply pressure for the introduction of IFRS.

"The US have made it clear that TTIP is not to be used as a Trojan horse for IFRS to be slipped in through the back door," said one industry commentator, who preferred to remain anonymous.

Nicholas Veron, a fellow with Brussel-based think tank Bruegel, agreed with that analysis. "There is no direct impact of the trade talks on accounting standards," he said.

However, he believed that the inclusion of financial services in the talks could provide a nudge at a crucial moment.

TTIP could provide a nudge

"I sense more possibility of the US moving towards convergence, not just as a result of TTIP but because of a change of atmosphere," he explained.

"Convergence is a decision that would be taken by the SEC, and my impression is that the new chairman – Mary Jo White – has a more open mind to IFRS, and offers more leadership [than her predecessor Mary Schapiro]," Veron said.

"The SEC could also go for optional use of the IFRS by US companies, or the gradual adoption of IFRS. I have a feeling there will be more of a response than during the period that Mary Schapiro was chairman, during which time there has been nothing done on IFRS," he added.

While this goal of creating a single global set of high-quality accounting standards appears to be currently broader than the scope of the TTIP, "we believe that it would produce significant benefits for transatlantic trade and investment," said BDO global head of regulatory & public policy affairs, Noel Clehane.

"If TTIP is successfully negotiated, the increased integration of the transatlantic economies will shine a light on the benefits of further convergence of accounting standards between the US and the EU," he added.

EU director: Commission remains vigilant on content, timing of audit reforms

The Commission sees the creation of a 'black list' of prohibited non-audit services and the rotation of audit firms as essential to restore investor trust and is pushing for these rules - and changes to EU auditing standards oversight - to be agreed before the end of the European Parliament's term next spring, says Ugo Bassi.

Ugo Bassi is the director of capital and companies within the EU executive's directorate-general responsible for the internal market. The interview was conducted by EurActiv's Jeremy Fleming.

On the Commission's proposals to amendment to existing accounting legislation in order to improve the transparency of certain large companies on social and environmental matters. What is the state of play? Is it likely the amendments will go through before the end of this Parliament?

The Commission adopted on 16 April a proposal for a directive amending the existing legislation as regards disclosure of non-financial and diversity information by certain large companies and groups.

Under the proposal, large companies with more than 500 employees would be required to disclose in their annual reports relevant and material information on policies, results and risks concerning environmental aspects, social and employee-related matters, respect for human rights, anti-corruption and bribery issues, and diversity on the board of directors. Small and medium-sized companies would not be subject to any new requirement.

Currently, around 2,500 large EU companies disclose environmental and social information regularly. It is estimated that around 18,000 large companies would come within the scope of application of the proposal.

The lead in the European Parliament is with the Legal Affairs Committee. Mr Raffaele Baldassarre is the rapporteur (EPP, IT). The rapporteur is targeting a timetable consistent with adopting the proposal by the end of the legislature.

In the Council the dossier is followed by the Competitiveness Council. The proposal has been discussed in a number of expert Council Working Group meetings. Views are overall favorable to enhanced transparency, although some aspects such as scope, country by country reporting, or the nature of the reporting requirement are still being debated.

Transparency should contribute to better long-term performance, sustainable economic growth and employment. The Commission's proposal allows for significant flexibility and avoids undue administrative burden. We aim at adopting this legislation by the end of this legislature.

Do you envisage more scope for so-called integrated reporting, rather than merely 'comply or explain' for the larger companies? If so what areas of corporate social responsibility might be included as a priority?

Different stakeholders have different views on how "comply or explain" legislation should look like. Jurisdictions claiming that they have a "comply or explain" approach to transparency often have very different legislation.

To be clear, this proposal sets out a requirement. But companies are left with significant flexibility. Companies will not be required to disclose information that is not relevant or not necessary for an understanding of a company's development, performance or position. This is no box-checking exercise.

As regards key areas, the Commission proposes that large companies with more than 500 employees should disclose relevant information relating to environmental aspects, social and employee-related matters, respect for human rights, anti-corruption and bribery issues, and diversity on the board of directors.

The proposal focuses on disclosure of certain non-financial information. Integrated reporting is a step ahead. This directive does not require companies to comply with integrated reporting. The Commission is monitoring with great interest the evolution of the integrated reporting concept, and, in particular, the work of the International Integrated Reporting Council.

Is there a danger that no common position can be reached on the audit reform proposals before the Parliament runs out of time in Spring next year?

The Lithuanian Presidency and the European Parliament are engaged in negotiations to come to an agreement on this ambitious reform, and the European Commission is an active participant in these discussions. Negotiations are progressing well, in a constructive spirit. Difficult

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discussions cannot be excluded as talks develop, but we are hopeful that a positive political agreement can be reached before the end of the current mandate.

How are the compromise positions looking, in terms especially of the rotation time periods for auditors and the so-called 'grey list' of non-audit services?

The main objective of the reform is that auditors truly perform their societal role, restoring investor trust and serving the real economy. To fulfil such a mission, auditors have to enjoy the highest conditions of independence, particularly when auditing entities that present a risk for financial stability. With this in mind, a strict 'black list' of prohibited non-audit services and rotation of audit firms are essential. These key measures have been endorsed by both the Council and the Parliament, although through different approaches. The Commission remains vigilant that any compromise will strengthen the independence of auditors.

The Maystadt proposals issued last week touch on several IFRS related issues. What types of new rules might be required to implement these?

In essence, the report looks at how best to strengthen the EU`s voice in the IFRS setting process as well as the system of endorsement of standards in the EU. The objective, when drafting the report, was to put forward recommendations which could be implemented quickly, and if possible without legislative proposals by the Commission, given the time pressure (major IFRS to be endorsed in the coming months, elections in the EP in 2014 and the future change of Commission). The report presents, on purpose, recommendations that are quite high-level.

The report focuses on the recommendation of transforming EFRAG. It will be the responsibility of EFRAG management to work out the operational details regarding their practical implementation.

Is ESMA the right body to take control of this process, would it not need new EFRAG-trained staff to deal with the issues?

The report looks at the possibility of transferring the responsibilities of EFRAG to ESMA. It would rationalise the resources, integrate the endorsement and enforcement processes, endow the EU with a structure more similar to the SEC and gather functions of representation of the EU in the field of international accounting standards in a public entity. However this option encountered a massive opposition from stakeholders for a number of reasons, as detailed in the report. The option recommended in the report is the transformation of EFRAG with the aim to reinforce its structure and to maintain its mixed composition covering both public and private interests at the European level.

Maystadt refers to the creation of a new EU agency, why might this be necessary and what form could it take?

Again, the creation of a new EU agency is another option considered in the report. This new EU agency would be an independent legal entity separate from the institutions of the EU and set-up on a similar basis of the existing EU agencies. This option would ensure full control of the process by public authorities and reinforce communication and cooperation between Member States, European Union and European stakeholders. However, given the current budgetary context and the legal and practical implementation formalities, the option was deemed possible only in the longer term.

Will the flexibility inherent in Maystadt's proposal answer criticisms that the EU, despite complying with the IFRS, seems to do so more than the US and other global players, despite the composition of the IFRS standards setters emanating from these countries?

It was not the objective of the report to answer that alleged criticism. The report focuses on enhancing EU`s role in developing high quality international standards.

However, we clearly hope that the work of Mr Maystadt will allow the EU to better organise itself to ensure that the needs of its markets are fully taken into account in the international accounting debate, very much focussed these last few years on the objective of convergence with the US accounting standards (the US GAAP).

Generally is there a danger that in reforming reporting standards the EU may be conforming woth standards that – whilst they are ahead of the pack – put EU companies at a competitive disadvantage in global markets?

The report is very cautious about the possibility of introducing more flexibility in the endorsement of standards in the EU as this would risk giving a negative signal to the rest of the world and hindering actions that are underway for achieving the objective of using global standards ensuring the comparability of financial statements.

In his report, Mr Maystadt insists on the need to better assess, over the endorsement process, whether the new standards or amendments do not "hinder the economic development of the Union". This aspect should be better taken in account in the future work of EFRAG.

Commission to overhaul reporting standards body by end of year

The European Commission is set to issue by the end of the year new regulations on accounting standards, overhauling the current standards body and meeting European Parliament concerns that Europe has become a lackey for US influence in the sector.

Europe adopted International Financial Reporting Standards (IFRS) in 2005, which were designed to be a common benchmark for business affairs so that company accounts could be compared across international boundaries.

The European Financial Reporting Advisory Group (EFRAG) was established in 2001 to provide input into the development of IFRS and to provide the European Commission with technical expertise and advice on accounting matters, but Parliament believes the EU is failing to make its voice heard on the global stage.

MEPs believe that the International Accounting Standards Board (IASB) – a global body that writes the IFRS – does not adequately reflect Europe's voice in the global standards. Lawmakers are also irked that the US, which retains a strong influence on the IASB, has not itself adopted the IFRS.

US has gone its own way on audit standards

The US Securities and Exchange Commission (SEC) released a proposed roadmap in November 2008 and reaffirmed its commitment to one global set of accounting standards in a statement released in February 2010.

But in July 2012 the SEC issued a final report on the relation of the IFRS to the US reporting standards, which included no decision as to whether IFRS should be incorporated into the US financial reporting system, or how such incorporation should occur.

The report did not say whether a transition to IFRS was in the best interests of US capital markets and US investors.

"It seems ridiculous that the US is funding and creating the standards they do not use themselves," said one parliamentary source on condition of anonymity.

In March 2013, Michel Barnier, the commissioner for internal market and services, mandated Philippe Maystadt – a former Belgian finance minister – to examine ways of reinforcing the EU's contribution to IFRS.

Maystadt published his report last week (11 November) and this will now feed into a proposed amendment of the EU regulation applying the IFRS, scheduled to be published at the end of the year.

Maystadt report points the way forward

The report identified three options for strengthening the European Union's influence in international accounting standard-setting: reorganising the current EFRAG to increase its legitimacy and representativeness; transferring the tasks handled by EFRAG to the European Securities and Markets Authority (ESMA) or creating a new agency of the European Union.

For various reasons including speedy implementation, Maystadt favoured the first option.

Barnier said that implementing the report would allow the EU to better organise itself to ensure that the needs of its markets were fully taken into account in the international accounting debate, admitting that these have "excessively focussed these last few years on the objective of convergence with the US accounting standards."

The Commission is likely to back Maystadt and amend the structure of EFRAG, since the other options – including the creation of a new agency – seem unrealistic.

"This option [a new agency] would ensure full control of the process by public authorities and reinforce communication and cooperation between Member States, European Union and European stakeholders. However, given the current budgetary context and the legal and practical implementation formalities, the option was deemed possible only in the longer term," Ugo Bassi – the Commission's

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director of capital and companies – told EurActiv in an interview.

"I hope that much of what he has recommended will be implemented as quickly as possible to ensure that the European interest is properly protected," said British MEP Syed Kamall (European Conservatives and Reformists), who threatened in May to amend the instruments through which the IASB and EFRAG were funded by the 2014-2020 budget if MEPs demands over changes to the system were not met.

Kamall sounded a word of warning, however, adding: "That said, his review does not look at the content of some specific standards, and that is why I will continue to urge the Commission to look at whether specific IFRS need to be overhauled."

Who will control future EFRAG?

The devil of the Maystadt report lies in the details over how precisely EFRAG might be reformed. Andrew Buchanan, the global head of IFRS with auditing and consultancy firm BDO, said it is crucial that technical expertise remains to the fore.

"Under the Maystadt proposals an advisory board which currently makes final decisions would be changed and a newly appointed general assembly would appoint a supervisory board with decision-making powers," Buchanan explained.

"It is not yet clear whether the idea is that the new board would be a political body, or whether technical expertise would be a key criteria. I would favour the latter," he added.

"Some of his suggestions to strengthen EFRAG's influence over IFRS will require more elaboration of the detail," said Richard Martin, head of Corporate reporting at ACCA, the Association of Chartered Certified Accountants.

Any changes would be closely watched in the banking sector, where accounts are under close scrutiny at the moment, amidst suggestions that banks are failing to reflect the true position of their exposure to bad loans.

EU ministers and MEPs in logjam over auditor rotation

Plans to force companies to change accountants regularly are causing a logjam in negotiations between the European Parliament and Council, threatening to delay reforms that the Commission has insisted it wants agreed by the end of its mandate.

Following its Green Paper on audit policy – called 'Lessons from the Crisis' – the EU executive pushed through proposals to force listed companies to employ at least one auditing firm, imposing mandatory rotation of auditors.

The move to reform book-keeping practices came after auditors were widely criticised for giving banks a clean bill of health just before they needed to be rescued with taxpayers' money in the financial crisis.

MEPs have backed the plan to allow companies to keep the same accountant for up to 25 years, significantly diluting original proposals from the Commission calling for a switch every six years.

The six-year proposal ran into a barrage of criticism from companies and investors claiming that such a provision would cost companies in time and manpower involved in the re-tendering process.

Member states represented by the Lithuanian presidency are now calling for a much more complicated system of rotation, in which differently sized companies would be subject to different rotation requirements, and companies which use joint auditors would also be subject to a different rotation regime.

The Council proposal would see rotation periods ranging from 15 to 20 years.

Lithuanian proposal on behalf of member states is complicated

In a second round of trilogue negotiations which took place this week (19 November) in Strasbourg, MEPs resisted the Council's suggested changes on the grounds that they were too complicated, EurActiv understands from sources close to the negotiations.

Another impasse in negotiations concerns attempts to boost auditors' independence by banning them from giving tax and other advice to the same client.

The European Commission originally planned for a list of "white" or permitted advisory services but this has since been scrapped in favour of a "black list" of banned services.

What should appear on the blacklist remains contentious. Some member states, notably Germany, are opposed to banning auditors from offering tax advice to their clients, because this is a service traditionally offered in their territories.

Meanwhile many MEPs want to preserve a black list – including banning the provision of tax advice to audit clients – but they also want to apply an ethics test to the prohibition, enabling auditors to apply practical ethics standards to the decision about what advice they provide clients.

Regulation coming to resemble a directive

The trilogue ended with little agreement on the most contentious issues, although "there is now a consensus that the reforms should be ushered in using a regulation and a directive," the source told EurActiv.

Originally some member states – including the UK – had been calling for the use of a directive alone, which would have left scope for flexible implementation of the reforms in each member state.

Although reforms affecting rotation will almost definitely now appear in a regulation, a source close to the negotiations told EurActiv that so many exceptions and

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exemptions are beginning to appear in the draft wording of the regulation that it could appear as weak as a directive when it is finally agreed.

The next trilogue discussions will take place on December 4th, leaving little time to agree the final package before the end of this year.

Ugo Bassi, the director of capital and companies within the EU executive's directorate-general responsible for the internal market, told EurActiv in an interview that he remained optimistic that the reforms could be achieved on time.

Auditor concerns over global competition

"Negotiations are progressing well, in a constructive spirit. Difficult discussions cannot be excluded as talks develop, but we are hopeful that a positive political agreement can be reached before the end of the current mandate [of the Commission]," Bassi said.

Auditors and their representatives remain concerned that the reforms might place European business at a competitive disadvantage, however.

"We believe that it is important to recognise that businesses – especially public interest businesses – and their auditors typically work on a global basis and so the final outcome needs to be practical within the global economy," said Sue Almond, the technical director at the Association of Chartered Certified Accountants (ACCA).

"We do hope that the outcome of the EU reform process is not to differentiate the audit environment in Europe so much from the rest of the world that it puts European companies at a competitive disadvantage or makes global audits even more complex to manage," said BDO global head of regulatory & public policy affairs, Noel Clehane.

"It is a good thing that Europe is seeking to lead but there is a delicate balance between leading and removing yourself from the rest of the pack entirely," Clehane added.

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