The Financial Reporting Standards Setting Committee

Terms of Reference of the Financial Reporting Standards Setting Committee

Introduction

1. These terms of reference define/regulate the functioning of the Financial Reporting Standards Setting Committee (FRSC), which was established by way of a decision of the ICPAC Council, to act as the competent authority as per the Determination of Financial Reporting Standards Law of 2026 (1(I)/2026) [περί Καθορισμού Προτύπων Χρηματοοικονομικής Πληροφόρησης Νόμος του 2026 [L.1(I)/2026] in compliance with the said Law 1(I)/2026.

Objectives of the FRSC

2. FRSC's objective is to exercise the competence and responsibilities as defined under Law 1(I)/2026, including the establishment of the "Financial Reporting Standard for Small-sized Entities" — "FRS for SEs") to be followed by those entities that meet the definition of a small-sized entity as provided in the Companies law, Cap. 113.

Competence and Responsibilities of the FRSC

3. The FRSC reports and communicates with the ICPAC as per the Terms of Operation of ICPAC's Committees, as amended.

4. In accordance with the Terms of Operation of ICPAC's Committees, as amended, any official written or oral communication of FRSC with State and/or institutional high ranking officials, including the Ministry of Finance, as provided below, as well as any representation at meetings and/or sessions in various official bodies and organizations shall be made by the Chair of the FRSC and/or by another member of the Committee appointed by the Chair.

5. Below are the key responsibilities of the FRSC:

   - Develops high-quality, clear, applicable, and acceptable financial reporting standards ('FRS for SEs') based on clearly defined principles;

   - Establishes the FRS for SEs to be applied in the preparation of financial statements, ensuring its compliance with applicable European and national law and submits them to the Minister of Finance for approval;

- Reviews the existing FRS for SEs, evaluates the effectiveness of its application, and recommends to the Minister of Finance its amendment or the introduction of new FRS for SEs where deemed necessary;

- Consults with the professional bodies of the Republic and other relevant stakeholders in the development of the FRS for SEs;

- Cooperates with other national and international authorities, European Union bodies, organizations and committees;

- Monitors and evaluates developments in International Financial Reporting Standards ('IFRS Accounting Standards') and the International Financial Reporting Standard for Small and Medium-sized Entities ('IFRS SMEs');

- Evaluates proposals for the development of new standards and for the revision of existing IFRS Accounting Standards and the IFRS SMEs;

- Monitors the process of the European Financial Reporting Advisory Group for the endorsement of IFRS Accounting Standards;

- Maintains a record of the minutes of its meetings, decisions, and publications;

- Issues Guiding Orders/Guiding Rules on matters related to the exercise of the FRSC's responsibilities as per Law 1(I)/2026;

- Promotes the objectives of the FRSC's responsibilities in accordance with Law 1(I)/2026 and the applicable legislation.

- Monitors developments and amendments to the EU Accounting Directive 2013/34/EU, evaluates their potential impact to the FRS for SEs, and recommends appropriate updates to local financial reporting standards to ensure continued alignment with applicable European law.

- Operates and implements a robust standard-setting process.

- Submission of yearly Report by the 31rst of March to the Minister of Finance on its activities (refer to point 31 below).

Membership and Governance

6. The FRSC shall consist of a Chair, a Vice-Chair, a Secretary, and one additional member, all of whom shall be members of ICPAC, together with two members of the ICPAC Council.

7. The Chair and the Vice Chair and other members shall be appointed by the ICPAC Council.

8. The first appointment of the Members of FRSC shall be made directly by the ICPAC, in accordance with Rules 52 and 70 (2) (α) (ιβ) of the ICPAC Statute and in particular for the purpose of complying immediately with the obligations deriving under Law 1(I)/2026, which has entered into force on 06.02.2026. For every appointment thereafter the Terms of Operation of ICPAC's Committees, as these are periodically amended, shall apply.

9. The ICPAC Council shall define and periodically review the required mix of competencies and experience to ensure balance and relevance.

10. Appointed ICPAC members (including the Chair and Vice-Chair) shall serve for an initial term of approximately one year, after which their term will automatically be renewed to align with the renewal cycle of ICPAC committees (approximately three years of initial term). Subsequently, the membership is renewable twice in line with the ICPAC committees' cycle (approximately two years), subject to satisfactory performance and continued compliance with required competencies.

11. Appointed ICPAC Council members shall serve for an initial term until the expiry of their term on Council. The membership is renewable twice in line with the Council's term (approximately three years), subject to satisfactory performance and continued compliance with required competencies.

12. All members shall complete the Declaration of Conflict-of-Interest guidelines. Members are required to disclose any relevant interests and recuse themselves from decisions in which they have a personal or professional or other conflict.

13. The FRSC shall make the FRSC's composition publicly available.

14. Membership changes (appointments, reappointments, resignations, removals) must be documented and publicly disclosed (e.g., via ICPAC website).

15. The FRSC shall meet at least 3 times per year and shall take place at ICPAC's offices.

16. If the Chair is not present at any meeting within fifteen minutes of the scheduled time, then, if the Vice-Chair is present, they shall preside; otherwise, the members present may elect one of their number to act as Chair of the meeting.

17. By decision of the Chair or Vice-Chair of the FRSC, members of the FRSC may, in the event of being abroad, if their physical presence is impractical, or if any other impediment

prevents one or more, or all, members from attending, participate in a meeting of the FRSC via teleconference.

18. Any meeting conducted via teleconference shall be deemed valid meeting of the FRSC and each member participating in such meeting shall be considered as present in person, entitled to vote and count for the purpose of determining a quorum.

19. The FRSC normally conducts its meetings privately but may, at its discretion, invite non-members to attend and participate in its discussions.

20. The FRSC shall be considered to have a quorum when four (4) members are present.

21. The notice of the meeting shall be in writing and addressed to all members of the FRSC. It shall be sent at least seven (7) days prior to the scheduled date of the meeting.

22. Decisions taken in a meeting where quorum is met are valid and binding. Each member of the FRSC, including the Chair, has one vote. Decisions shall be taken by a simple majority of all members. The Chair has an additional vote if required to break a tie.

23. The Chair shall:
    a. Be responsible for presiding over FRSC meetings and coordinating communications among members between meetings, as needed.
    b. Act as the principal spokesperson of the FRSC in Cyprus — towards the public, media, stakeholders, and other organizations.
    c. Represent the FRSC in meetings, consultations or collaborations with other parties relevant to financial reporting in Cyprus or internationally.
    d. Submit to the ICPAC Council the FRSC's yearly report to the Minister of Finance.

24. The Secretary shall provide the ICPAC Council with monthly updates on the activities of the FRSC.

25. The Chair may delegate all or some of the above responsibilities to the Vice-Chair or other member; the Vice-Chair or other member acts on behalf of the Chair when requested or in the Chair's absence.

26. Any member of the FRSC who either:
    a. fails to attend more than two meetings of the FRSC in succession; or
    b. fails to attend, in any 12-month period, at least 50 per cent of all meetings of the FRSC

    in the absence of extenuating circumstances, will cease to be a member of the FRSC as of the end of the meeting at which they were in default. The Chair makes a recommendation to the ICPAC Council concerning any extenuating circumstances and the latter decides whether the defaulting member may continue as a member. A member is deemed to be absent from a meeting of the FRSC unless they are in attendance for substantially all of it.

27. If a member of the FRSC vacates their position before the expiration of their term, another person shall be appointed by the ICPAC Council to fill the vacancy for the remainder of the term of the outgoing member.

28. The vacancy of a FRSC membership or a defect in the appointment of a FRSC member shall not affect the validity of any acts or proceedings of the FRSC and shall not affect its lawful constitution.

29. The appointment of an FRSC member may be revoked by the ICPAC Council in the following cases:
    - In the event of conviction for an indictable offence or an offence involving moral turpitude, which constitutes a disqualification for appointment to the public service, or in the event of the imposition of a custodial sentence for the commission of any offence;
    - In the event that, due to mental or physical incapacity, disability, or illness, the member becomes unable to perform their duties either permanently or for such a period that the continuation of their service becomes impracticable;
    - If the member acquires a financial or other interest capable of affecting the impartiality of their judgment and/or creating a conflict of interest and fails to submit their resignation;
    - If the member has misused their position in such a manner that, should they continue their term, it would be detrimental to the public interest.

30. Membership on the FRSC shall become vacant in the event of:

    - the death of the member;
    - the resignation of the member, which shall be submitted in writing to the ICPAC Council; or
      the revocation of the member's appointment by ICPAC Council.

Report to the Minister of Finance

31. Each year, by 31 March, the FRSC submits to the Minister of Finance, a report on its activities during the immediately preceding year, including information on its work and policy.

Periodic Review

32. The ICPAC Council will review the FRSC Terms of Reference and Due-Process Handbook at least once every three years to ensure they remain appropriate and effective.

Other Terms

33. In respect of any matters not expressly addressed in these Terms of Reference, the Terms of Operation of ICPAC's Committees 2025–2026, as amended from time to time, shall apply. In the event of any conflict or inconsistency, the provisions set forth in these Terms of Reference shall prevail.