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Our ref : RJ-IASB 463 C  
Date : Amsterdam, 30 November 2015  
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0302  
Re : Request for Views “Trustees’ Review of Structure and Effectiveness: Issues for Review”

Dear Michel,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to the Trustees’ Review of Structure and Effectiveness (the RfV).

EFRAG has issued a draft response addressing questions 1 to 6 in the RfV, which is attached as an appendix. We generally concur with the comments made by EFRAG; unlike EFRAG, we will address all questions in this letter in order to provide you with a comprehensive DASB contribution to the RfV.

DASB believes the IFRS Foundation/IASB should not extend the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector since such activities would require substantial additional resources as well as different knowledge, expertise and capacity.

Furthermore DASB is of the view that, although IASB’s primary focus should remain on financial reporting, it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate.

DASB acknowledges the importance of the IFRS Foundation itself continuing to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the “IFRS” brand name. DASB is supportive of the Trustees’ statement that Taxonomy considerations should not dictate the standard-setting process. DASB also welcomes the IASB’s shift to focus more on the taxonomy itself instead of the technological solution (e.g. XBRL) that is implemented.

Also, DASB calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. A due process oversight addressing also the substance of the complaints will be a major step forward in building the buy-in of the various jurisdictions around the world.

According to DASB the Foundation will be further able to strengthen efforts to encourage consistent application notably by enhancing due process oversight and quality control in the

IASB standard setting process. Also impact analysis by the IASB and follow-up on the results of Post-Implementation Reviews warrant further attention.

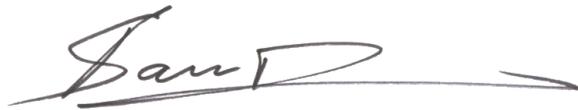
With respect to the governance of the Foundation and its' bodies DASB notes that more focus on representation of jurisdictions that adopted IFRS and have clearly demonstrated their intention to apply IFRS is justified. In the long-run members of the Monitoring Board being appointed as representatives of the jurisdictions and stakeholder organizations that endorse and support the work of the IASB could be more appropriate. The oversight bodies of the IASB should also monitor the IASB's agenda setting, notably to limit the frequency and speed of change.

With respect to the geographical and professional backgrounds of Trustees we note that independence, high level individual capabilities and understanding of the jurisdictions in which IFRS are applied are key considerations.

DASB does not support the proposed reduction of the IASB to 13 members because such a reduction is not in accordance with the demanding tasks that are being placed on board members and the need to have a balanced composition of the IASB.

Our main suggestions and observations are further detailed in the appendix to this letter. If you would like to discuss our comments further, or if we can assist in any other way, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Sampers', with a long horizontal flourish extending to the right.

prof. dr. Peter Sampers  
Chairman Dutch Accounting Standards Board

Appendix 1: Answers to individual questions  
Appendix 2: Draft comment letter EFRAG

## Appendix 1

### **Q1 Request for Views: Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?**

- 1 DASB strongly believes that given its restrictions in resources and tight budget, the IASB should not extent the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector. Entering into these domains would require substantial additional resources, as well as knowledge, expertise and capacity not currently available within the IASB nor staff.
- 2 In terms of public accountability and governance, we recognise that there may be a need for international reporting standards for the not-for-profit sector. However, the number of not-for-profit entities that operate cross borders on a worldwide scale and which are potentially in need of international reporting standards appears to be limited. So, the absence of international standard setter for the not-for-profit sector is, in our view, not a convincing argument for the IASB to take on this activity. Developing international not-for-profit entities financial reporting is, in our view, therefore not a priority, neither for the IFRS Foundation.
- 3 DASB agrees with the Trustees that the IASB should not address public sector accounting standards and leave this to the IPSASB.

### **Q2 Request for Views: Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?**

- 4 DASB believes that the IASB's primary focus should remain (on developing principles for) financial reporting. However DASB is of the view that monitoring corporate reporting developments is essential to the work of the IASB, as financial reporting needs to fit well in the larger context of corporate governance and transparency on corporate issues.
- 5 Integrated reporting, and corporate reporting in the wider sense, are topics that are increasingly referred to in financial reporting discussions. Users of financial statements increasingly take Key Performance Indicators on a wide range of issues including non-financial performance measures into account in their considerations and assessments. We appreciate that the IFRS Foundation has played a role in the development of the <IR> Framework and is involved in the various International Integrated Reporting Council (IIRC) bodies and in the CRD (Corporate Reporting Dialogue). Through these cooperations, the IFRS Foundation is actively monitoring the developments in the corporate reporting field.
- 6 DASB believes that it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and that it can take further steps, if and when appropriate, to maintain the relevance of IFRS within corporate reporting debate. The IASB should therefore continue to closely monitor the developments and continue to be involved in all relevant bodies - IIRC and beyond - to ensure that IFRSs evolve in a way that they remain at the forefront of all reporting developments.

**Q3 Request for Views: Do you agree with the IFRS Foundation’s strategy with regard to the IFRS Taxonomy?**

**Q4 Request for Views: How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?**

7 The IASB’s standards are developed on the basis that entities are required to prepare a general purpose financial report whether that report is printed or in electronic format, ranging from a PDF version to one that is ‘tagged’ (in a computer-readable code that identifies specific items) using a structured data format. DASB appreciates that one of the reasons the IASB produces the IFRS Taxonomy is to assist with the accurate digital representation of IFRS in a structured format and to facilitate electronic filing.

8 DASB agrees that it is important that the IFRS Foundation itself continues to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the “IFRS” brand name. This should allow the IASB to avoid that the technology sets limitations on the ability to file IFRS compliant financial statements in electronic format. However, developing the IFRS Taxonomy in house should be considered in the context of budgetary restrictions and balanced against other priorities.

9 DASB has the view that the development of the IFRS Taxonomy should not be integrated in the IASB standard-setting process in view of the risk of moving this process away from a principle-based approach. Standards being developed by the IASB should be sufficiently clear to allow the development of a relevant IFRS Taxonomy. The IFRS Taxonomy development could in this respect assist to improve the clarity of the definitions and when appropriate disclosure requirements, but it should not direct the standard setting process. DASB therefore welcomes the Trustees statement in the RfV that Taxonomy considerations should not dictate the standard-setting process.

10 DASB welcomes the IASB’s shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/software to somebody else. The regulators could then decide which computer language should be endorsed in their jurisdictions. DASB supports that the IFRS Foundation’s goal is now focused on having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report, rather than on the development of a computer language.

11 DASB believes that the IASB should not have a role in the approval of the IFRS Taxonomy since this seems for most members to be outside their scope of competence. We believe that approval should take place at competent senior staff level.

**Q5 Request for Views: Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?**

12 DASB agrees that the IASB should be open minded on relevant technological developments and monitor them closely. Technology is changing continuously and is driving and affecting the way financial information is handled in practice and how information is communicated. In this respect DASB thinks a network of experts can assist the IASB on how to monitor and adapt to changing technology. However,

establishing an interdependent structure within the governance of the IASB Foundation should not be a core priority.

**Q6 Request for Views: What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?**

- 13 DASB is of the opinion that in principle Standards should articulate clear principles and be written in a way that makes them capable of being applied in practice without the need for extensive further interpretations or guidance or excessive additional work by those using them.
- 14 In general we are of the opinion that consistent application is an important goal that cannot be achieved, and therefore should not be pursued in all circumstances. There are circumstances where inconsistencies are inherent to the design and purposes of IFRS. This is the case when:
- (a) management is required to exercise judgement, e.g. when evaluating whether or not to set up a provision and, if so, for which amount. As we see it, it will more often than not be the case that two entities with comparable or identical fact patterns would arrive at different outcomes by exercising judgement, and there is no yardstick against which one could argue that the exercise of judgement of one entity was inferior to the other's (let alone erroneous). We would have significant concerns were the Foundation trying to promote a kind of consistency that would require everyone applying IFRSs to come to exactly the same answer in any given situation, as this would confuse consistency with uniformity. We believe that allowing for judgement is an inevitable cost of having a principles-based system, some-thing we value highly and which we feel very strongly should be preserved.
  - (b) another area where different accounting outcomes are likely to occur are situations in which there is a gap in the current literature. In this instance, entities are required to develop an accounting policy based on the principles contained in other standards or the Conceptual Framework that would lead to a faithful presentation of the economics. Again, two entities with similar or identical fact patterns might rely on different principles and concepts for developing and arriving at an accounting policy, leading to different accounting outcomes, and as in the previous case, one cannot necessarily judge one treatment to be more appropriate than the other.
- 15 Although the primary responsibility for consistent application rests in particular with preparers, auditors and regulators, it is the IASB that bears a risk if IFRS is not consistently implemented. Standards capable of being applied in practice require a proper due process and due process oversight.

*Due process oversight*

- 16 DASB acknowledges that the IASB has an extensive due process that takes considerable time and that, at this stage, it would be counterproductive to seek improvement of the IASB due process. We already find the IASB due process very detailed and cumbersome in practice, so we do not propose further burdens in order to finish the standard-setting process within a reasonable timeframe.

- 17 However, DASB calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. This oversight process is at present limited by the Trustees' Due Process Oversight Committee to compliance with the due process procedures and steps as laid down in the IASB and IFRS Interpretations Committee Due Process Handbook. The Trustees' Due Process Oversight Committee does, however, not consider the technical contents of the complaints submitted by the IASB's constituents. We believe that a due process oversight addressing not only the undertaking of the necessary due process steps but also the substance of the complaints will be a major step forward in building the buy-in of the various jurisdictions around the world. This would give additional credibility to the standard-setting process.

#### *Quality control system*

- 18 DASB believes that greater consistency in application and implementation is of high priority. We are persuaded that having a rigid system of quality control in the finalisation of standards before publication is the best way to achieve this objective and reduces the need for subsequent amendments and clarifications.
- 19 In the opinion of DASB field tests, effect analyses and quality control are essential elements of the standard-setting process that should be carried out during the standard-setting process. These are important to ensure that final standards are less open to interpretations and divergence in practice.

#### *Effects Analysis*

- 20 The EC Report on the Evaluation of the IAS Regulation of June 2015 urges the IASB to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.
- 21 We understand that the 2015 Request for Views is not discussing effects analysis since the IASB is currently working on implementing the recommendations of the Effects Analysis Consultative Group so as to further embed field testing and effects analyses in the IASB's due process. DASB is of the opinion that effects analyses and impact assessments are an essential part of the standard-setting process. Therefore DASB will closely monitor the implementation by the IASB of the effects analysis methodology as supported by the Trustees in 2014.

#### *Education Initiative*

- 22 The 2015 Request for Views states that the IFRS Foundation has an Education Initiative with as objective to reinforce the organisation's goal of promoting the adoption and consistent application of IFRS. To achieve its objective, the Education Initiative makes available an appropriate range of high-quality, understandable and up-to-date materials and services about standard setting and IFRS, all of which is available on the IFRS Foundation's website. It is also organising IFRS events. In the section on finance, the Trustees refer to the need to maintain an appropriate balance between raising revenue from self-generated resources and the IFRS Foundation's public interest mission. We wonder whether the objective of the Education Initiative of generating revenue is compatible with the public interest mission of fostering consistent application.
- 23 DASB wonders to what extent education material is of help in implementation efforts, in particular when it is not publicly available. Preparers and users may not invest in examining education material. In practice, auditors are often the first source of assistance for preparers in implementing new or amended IFRS rather than education

material.

### *Post-Implementation Reviews*

- 24 DASB welcomes that the Trustees will undertake a review of the process in relation to Post-Implementation Reviews (PIR) when the IASB has gained further experience of conducting a number of PIRs. DASB is of the opinion that a period of two years of implementation of a Standard is often too short for both preparers and users to be fully familiar with a Standard and would recommend to extend the period to at least three years or longer depending on the nature and complexity of a Standard or an amendment to a Standard. Although there is no presumption that a PIR will lead to any changes in a Standard, it may nevertheless result in amending a Standard. Both preparers and users call for stable standards.
- 25 DASB is of the opinion that the findings of Post-Implementation Reviews should provide input in the standard-setting agenda. Constituents use time and resources to provide their input to these reviews and it is important that the IASB shows to be responsive and address promptly the concerns raised and how they are dealt with in the work programme. The feedback statement that is published should include the IASB action plan and clearly indicate the IASB's decisions of what the next steps are: *start research activities, work on amendments or do nothing.*
- 26 The IASB may also wish to consider undertaking Post-Implementation Reviews on older existing standards on which several interpretation issues are raised and that are candidates for a complete overhaul. We believe that the IASB could consult on which of the older existing standards should be subject to a Post-Implementation Review and what should be the priority on the more recent standards for Post-Implementation Reviews in the Agenda Consultation.

### **Q7 Request for Views: Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?**

- 27 DASB notes that the Trustees believe that independence within the framework of public accountability remains a fundamental strength of the IFRS Foundation and the IASB, giving credibility to Standards.
- 28 In general we support a three-tier structure. However, we are concerned about many members of the Monitoring Board not directly being committed to IFRS in their home jurisdiction and we wonder whether there is an appropriate balance of all stakeholders of the world's capital markets. We would prefer a composition of the Monitoring Board that consists of members who are committed to the use of IFRS for its domestic issuers and members that also participate in the funding of the IFRS Foundation.
- 29 The DASB believes that an important step could be set by changing the governance model of the Foundation into a representation model: Members of the Monitoring Board should be appointed as representatives of jurisdictions contributing to the funding and of stakeholder organisations in a similar way as the DASB and EFRAG. This would allow jurisdictions and stakeholder organisations to put forward nominations for membership that have the support of their jurisdiction or their organisation. Furthermore it would ensure a direct liaison and communication with those jurisdictions and stakeholder organisations in an almost automatic way.

- 30 The DASB advises to re-consider the responsibilities of the Trustees in light of the above. The Monitoring Board or the Trustees should have oversight over the IASB's agenda setting, Post-implementation Reviews and the due process oversight process both in form and in substance.
- 31 The EC report on the Evaluation of the IFRS Regulation requests in the practical steps that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB. This is supported by DASB.
- 32 The DASB agrees that the focus should be on the needs of jurisdictions that have already adopted IFRS and jurisdictions that have clearly demonstrated their intention to apply IFRS. Involving those jurisdictions within the IASB process ensures fostering consistent application and implementation on a global basis. However, although the DASB agrees that the use of IFRS and the existence of permanent financial contributions are important factors to be considered in the membership of one of the governance bodies, it believes that in particular for the technical oriented governance bodies relevant experience with the use and application IFRS, in particular global experience, should be the most important factor rather than nationality.
- 33 The DASB believes that experience with the application of IFRS in practice is essential for the activities of the IFRS Interpretation Committee. Therefore relevant experience with the use and application of IFRS in practice should be the primary criterion for membership of the IFRS Interpretation Committee. Members would normally originate from jurisdictions where IFRS are widely used in practice.

**Q8 Request for Views: What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of 'at large' Trustee appointments from two to five?**

- 34 Although the DASB is of the opinion that all parts of the world should have a possibility to be represented on the Trustees, the DASB agrees that the focus should be on the needs of jurisdictions that have already adopted IFRS and have clearly demonstrated their intention to apply IFRS. Moreover, the DASB agrees that Trustees in principle should come from jurisdictions that provide a permanent financial contribution to the IFRS Foundation whilst ensuring at the same time a proper stakeholder representation.
- 35 Given our preference for a representation model for the Monitoring Board and for the prominence of jurisdictions using IFRS, the DASB is strongly opposed to increasing the "at large" Trustees from two to five. In case the Trustees would nevertheless decide to increase the number of "at large" Trustees, the DASB is strongly against the reduction of the number of European seats and believes that the reduction could come from regions where IFRS are not allowed to be applied in important countries for domestic issuers.

**Q9 Request for Views: What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?**

- 36 The DASB agrees that no specific quota should be set for professional backgrounds but that the composition of the Trustees should be balanced and reflect the wide variety of

professional backgrounds and experience. Any efforts that can be undertaken to improve the gender balance are welcome. Stimulating user candidates is an essential part of any call for nominations. Moving to a representation model like the DASB is suggesting is another way to ensure that all relevant stakeholders organisations and all stakeholders professional backgrounds are represented.

**Q10 Request for Views: Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?**

37 The DASB agrees that in future strategy and effectiveness reviews should be undertaken at the latest five years after the previous review has been completed. In exceptional circumstances the Monitoring Board can always call on the Trustees to undertake an earlier review.

**Q11 Request for Views: Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?**

38 It is difficult to determine the optimum size of the IASB. The DASB understands the reasoning for bringing down the current number of 16 members is driven by cost considerations. We question whether reducing the number of Board members to 13 - being less than the current number of 14 members and the number of 16 as set out in the Constitution - would still allow for a balanced composition in terms of nationality, professional background, knowledge, skills and experience. Moreover we question, observing the current demanding tasks of each of the 14 IASB members in terms of outreach and conferences all over the world, preparation of meeting and participation in meeting etc., whether it is realistic to further reduce the current number of IASB members. We therefore disagree with a reduction of the size to 13 IASB members and believe 14 is the minimum number acceptable.

39 In case the Trustees would nevertheless decide to reduce the number of Board members, DASB disagrees with any reduction on European members given the mandatory application of IFRS in the EEA for listed companies in their consolidated accounts and the European contribution to the international standard-setting process. We therefore urge you to keep four EAA seats in the IASB.

40 The Trustees may also wish to consider involving additional part-time members to ensure sufficient diversity in professional background and nationality whilst meeting the cost constraint.

**Q12 Request for Views: Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB?**

41 The DASB understands the proposed change encompasses the removal of the reference to recent practical experience from the selection criteria. Such a change is not supported. Recent practical experience is important when IASB members are recruited.

42 We question the addition of "financial regulators" to the professional backgrounds of (potential) IASB members. Instead we suggest to include as a criterion "standard-setting background and having standard-setting experience".

43 The current composition of the IASB of 14 members includes 4 members with a market or financial regulatory background. Regardless of the ultimate size of the IASB agreed

on, DASB believes that there should not be any further increase in members with a regulatory background as this would disrupt the appropriate and balanced mix of professional backgrounds.

- 44 We observe that it is not always easy to classify a specific (prospective) member since he or she may have developed different professional backgrounds over time and mainly have worked in a country different from his or her nationality. The constituency a person has been affiliated with in the recent past and the jurisdiction of the main professional activity should be the most important factors. We also consider professional background, technical expertise and communications skills to be more important than geographical background.

**Q13 Request for Views: Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined above?**

- 45 The DASB is of the opinion that the maximum length of service of IASB members should remain eight years and ten years for the Chairman and the Vice Chairman. The length of the term upon initial appointment and the term of reappointment for IASB members should be left to the discretion of the Trustees to allow flexibility and staggered terms. Furthermore the DASB believes that there should be only one extension possible of the term of reappointment.

**Q14 Request for Views Do you have any comments on the Foundation's funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?**

- 46 The DASB is of the opinion that in the longer run it is important for the IFRS Foundation to strive for an independent financing to secure a stable funding mechanism allowing the IASB to function independently and not being perceived as entering into conflicts of interest.
- 47 The DASB agrees that a funding model based on national finance regimes, proportional to a country's relative GDP which would establish a levy on companies or provide an element of publicly supported financing should be pursued as long-term sustainable model. Until this model is obtained the current model is to be continued, with in addition to publicly supported financing, private sector contributions, notably from the accounting firms and self-generated income. The fact that some 25% of the present IFRS Foundation's financing stems from the accounting firms should be carefully monitored as this could be perceived as impairing the IFRS Foundation's accountability and the IASB's credibility.

## **DRAFT LETTER TO THE IFRS Foundation**

EFRAG's deadline for comments is **30 November 2015** and comments are to be submitted to [commentletters@efrag.org](mailto:commentletters@efrag.org)

Michel Prada  
Chairman  
IFRS Foundation  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

Dear Michel,

**Re: Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am responding to the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* (RfV) of July 2015. We welcome the opportunity to share our suggestions and observations on the structure and effectiveness of the Foundation.

Our letter is addressing the issues in relation to the primary strategic goals 1 to 3: development of a single set of standards; global adoption of standards and consistency of application and implementation (Questions 1 to 6 in the Request for Views). We do not deal with governance and financing issues which are covered by questions 7 to 14 as these issues have already been considered by the European Commission in its report on the Evaluation of the IAS Regulation of June 2015.

EFRAG believes the IFRS Foundation/IASB should not extend the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector since such activities would require substantial additional resources as well as different knowledge, expertise and capacity.

Furthermore EFRAG is of the view that, although IASB's primary focus should remain financial reporting, it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate.

EFRAG acknowledges the importance of the IFRS Foundation itself continuing to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the "IFRS" brand name. However EFRAG is very much supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. EFRAG also

*EFRAG Draft letter to the IFRS Foundation*

welcomes the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/software to somebody else.

EFRAG also calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. A due process oversight addressing also the substance of the complaints will be a major step forward in building the buy-in of the various jurisdictions around the world.

We would also like to emphasize that in EFRAG's view, Post-implementation Reviews should now be regarded as a useful tool in IASB's Research activities, helping identify what works and what is in need for improvement in current practice, regardless of the date at which a standard has been issued. Standards with many interpretation or clarification requests tend to qualify as candidates for Post-Implementation Reviews. At the time a Post-Implementation Review is completed, the IASB should communicate on its action plan to provide improvement where needed and discuss the level of priority the related standard setting efforts should receive.

EFRAG appreciates that the IFRS Foundation has undertaken an internal Operational Review and that, in addition, the Trustees commissioned an external review of operational expenditure and cost-management effectiveness. The results of this external review has not been made public. EFRAG recommends that the IFRS Foundation, in addition to the operational and cost effectiveness reviews, commissions an independent review of the effectiveness of its standard-setting process including the due process oversight since the funders of the IASB rely on the IASB's effectiveness.

Our main suggestions and observations are further detailed in the appendix to this letter.

If you would like to discuss our comments further, or if we can assist in any other way, please do not hesitate to contact Saskia Slomp or me.

Yours sincerely,

Roger Marshall  
Acting President  
EFRAG Board

## Appendix

### **Relevance of IFRS**

Should the IASB extend its remit beyond the current focus of the organisation, either in terms of the types of entity covered or the types of reporting?

**Q1 Request for Views: Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?**

- 1 EFRAG strongly believes that given its restrictions in resources and tight budget, the IASB should not extent the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector. Entering in these domains would require substantial additional resources, as well as knowledge, expertise and capacity not currently present within the IASB Board nor staff.
- 2 In terms of public accountability and governance, we recognise that there may be a need for international reporting standards for the not-for-profit sector. However, the absence of international standard setter for the not-for-profit sector is, in our view, not a convincing argument for the IASB to take on this activity. Moreover, the number of not-for-profit entities that operate cross borders on a worldwide scale and which are potentially in need of international reporting standards is relatively limited. Developing international not-for-profit entities financial reporting is, in our view, therefore not a priority for the IFRS Foundation.
- 3 In conclusion, EFRAG agrees with the Trustees that the IASB should not address public sector accounting standards and leave this to the IPSASB. However, EFRAG is strongly of the opinion that the IFRS Foundation's mandate should not be expanded to encompass not-for-profit bodies.

**Q2 Request for Views: Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?**

- 4 EFRAG believes that the IASB's primary focus should remain financial reporting. However EFRAG is of the view that monitoring corporate reporting developments is essential to the work of the IASB, as financial reporting needs to fit well in the larger context of corporate reporting.
- 5 EFRAG underlines also the importance of the IASB addressing non-IFRS information, in particular alternative performance measures as part of the Disclosure Initiative project. Recent surveys that EFRAG has undertaken with analysts, investors and other users show the importance of alternative performance indicators in their analyses and decisions.
- 6 Integrated reporting, and corporate reporting in the wider sense, are topics that are increasingly referred to in financial reporting discussions. Users of financial statements increasingly take Key Performance Indicators on a wide range of issues including non-financial performance measures into account in their considerations and assessments. We appreciate that the IFRS Foundation has played a role in the development of the <IR> Framework and is involved in the various IIRC bodies and in the CRD (Corporate Reporting Dialogue). Through these cooperations, the IFRS Foundation is actively monitoring the developments in the corporate reporting field.
- 7 EFRAG believes that it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within corporate reporting debate. The IASB should therefore continue to closely monitor the developments and continue to be

involved in all relevant bodies - IIRC and beyond - to ensure that financial reporting evolves so that it remains at the forefront of all reporting developments.

**Question to constituents:**

- 9 What forms of monitoring or other activities the IASB should have to ensure that financial reporting is always kept at the forefront of all reporting developments?

Seeking views on the Foundation's strategy for the IFRS Taxonomy;

**Q3 Request for Views: Do you agree with the IFRS Foundation's strategy with regard to the IFRS Taxonomy?**

**Q4 Request for Views: How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?**

- 9 The IASB's standards are developed on the basis that entities are required to prepare a general purpose financial report whether that report is printed or in electronic format, ranging from a PDF version to one that is 'tagged' (in a computer-readable code that identifies specific items) using a structured data format. EFRAG appreciates that one of the reasons the IASB produces the IFRS Taxonomy is to assist with the accurate digital representation of IFRS in a structured format and to facilitate electronic filing.
- 10 EFRAG agrees that it is important that the IFRS Foundation itself continues to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the "IFRS" brand name. This is the only way the IASB can avoid that the technology sets limitations on the IFRS filing in electronic format. However, developing the IFRS Taxonomy in house should be considered in the context of budgetary restrictions and balanced against other priorities.
- 11 EFRAG has expressed on several occasions<sup>1</sup> the view that the development of the IFRS taxonomy should not be integrated in the IASB standard-setting process because it risked moving away from a principle-based approach, in particular in the area of disclosures. Standards being developed by the IASB should be sufficiently clear to allow the development of a relevant IFRS Taxonomy. The IFRS Taxonomy development could in this respect help to improve the clarity of the definitions and disclosure requirements but should not direct the standard setting process. EFRAG therefore welcomes the Trustees statement in the RfV that Taxonomy considerations should not dictate the standard-setting process.
- 12 EFRAG welcomes the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/software to somebody else. The regulators could then decide which computer language should be followed in their jurisdictions. EFRAG supports that the IFRS Foundation's goal is now focused on having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report, rather than on the development of a computer language. The IFRS Taxonomy should continue being developed in close cooperation between technical accounting teams and taxonomy teams so that the standard-setting process can benefit from the questions posed on the

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<sup>1</sup> EFRAG letter of 5 August 2011 on report on the Trustees Strategy Review

draft standard in the taxonomy process without the taxonomy process driving the standard-setting process.

- 13 EFRAG believes that the IASB Board should not have a role in the approval of the IFRS Taxonomy since this is for most members outside their scope of competence. We believe that approval should take place at competent senior staff level.

**Q5 Request for Views: Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?**

- 14 The IASB should be open minded and monitor closely technological developments. Technology is changing continuously and is driving and affecting the way financial information is handled in practice and how information is communicated. EFRAG welcomes the Trustees' suggestion to establish a network of experts to help and provide advice on how to monitor and assess changing technology and how the Foundation and/or the IASB should respond to, and where appropriate exploit, those changes.

***Consistent application of IFRS***

Considering whether the IFRS Foundation is doing the right things to support the consistent application of IFRS and whether there is anything more it could and should be doing in this area

**Q6 Request for Views: What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?**

- 15 EFRAG is of the opinion that Standards should articulate clear principles and be written in a way that makes them capable of being applied in practice without the need for extensive further interpretations or guidance or excessive additional work by those using them. Although the primary responsibility for consistent application rests in particular with preparers, auditors and regulators, it is the IASB that bears a risk if IFRS is not consistently implemented. Standards capable of being applied in practice require a proper due process and due process oversight.

*Due process oversight*

- 16 EFRAG acknowledges that the IASB has an extensive due process that takes considerable time and that, at this stage, it would be counterproductive to seek improvement to the definition of the IASB due process.
- 17 However, EFRAG calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. This oversight process is at present limited by the Trustees' Due Process Oversight Committee to compliance with the due process procedures and steps as laid down in the IASB and IFRS Interpretations Committee Due Process Handbook. The Committee does, however, not consider the technical contents of the complaints submitted by the IASB's constituents. We believe that a due process oversight addressing not only the undertaking of the necessary due process steps but also the substance of the complaints will be a major step forward in building the buy-in of the various jurisdictions around the world. This would give additional credibility to the standard setting process.
- 18 EFRAG recommends that the IFRS Foundation commissions an independent review of the effectiveness of its standard-setting process, including the due process oversight process but also the evaluation of the project work on the main standards (see our input

to the 2015 IASB Agenda Consultation [here](#)). In this way ameliorations to the process could possibly be identified resulting in a more accountable due process oversight.

*Quality control system*

- 19 EFRAG believes that greater consistency in application and implementation is of high priority. We are persuaded that having a strong system of quality control in the finalisation of standards before publication is the best way to achieve this objective and reduces the need for subsequent amendments and clarifications. EFRAG has asked the IASB at several occasions to improve its system of quality control and has stressed the importance of public reviews and field testing. EFRAG has made several suggestions including a public fatal flaw review and publication of a staff document of the nearly final standard.
- 20 Quality control including field testing and effect analyses before finalisation of a standard is essential to ensure that the resulting standard is stable and less open for divergence in practice. EFRAG would see field tests, effect analyses and quality control as essential elements of the standard-setting process that should be carried out during the standard-setting process, thereby ensuring that final standards are less open to interpretations and divergence in practice. EFRAG believes that this should be mentioned in the secondary strategic goals listed under the primary strategic goal 1, development of a single set of standards.

*Effects Analysis*

- 21 The EC Report on the Evaluation of the IAS Regulation of June 2015 urges the IASB to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.
- 22 EFRAG is of the opinion that effects analyses and impact assessments are an essential part of the standard-setting process. We understand that the RfV is not discussing effects analysis since the IASB is currently working on implementing the recommendations of the Effects Analysis Consultative Group so as to further embed field testing and effects analyses in the IASB's due process. EFRAG will closely monitor the implementation by the IASB of the effects analysis methodology as supported by the Trustees in 2014.

*Education Initiative*

- 23 The 2015 Request for Views states that the IFRS Foundation has an Education Initiative with as objective to reinforce the organisation's goal of promoting the adoption and consistent application of IFRS. To achieve its objective, the Education Initiative makes available an appropriate range of high-quality, understandable and up-to-date material and services about standard setting and IFRS, all of which is available on the IFRS Foundation's website. It is also organising IFRS events. In the section on finance, the Trustees refer to the need to maintain an appropriate balance between raising revenue from self-generated resources and the IFRS Foundation's public interest mission. We wonder whether the objective of the Education Initiative of generating revenue is compatible with the public interest mission of fostering consistent application.
- 24 EFRAG wonders to what extent education material is of help in implementation efforts, in particular when it is not publicly available. Preparers and users may not invest in examining education material. In practice, auditors are often the first source of assistance for preparers in implementing new or amended IFRS rather than education material. EFRAG believes that IFRS Foundation education material should be available to ease implementation of standards in practice.

*Post-Implementation Reviews*

- 25 EFRAG welcomes that the Trustees will undertake a review of the process in relation to Post-Implementation Reviews (PIR) when the IASB has gained further experience of conducting a number of PIRs. EFRAG is of the opinion that a period of two years of full

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implementation of a Standard is often too short for both preparers and users to be fully familiar with a Standard and would recommend to extend the period to at least three years or longer depending on the nature and complexity of the Standard or the major amendment to the Standard. Although there is no presumption that a PIR will lead to any changes in a Standard, it may nevertheless result in amending a Standard. Both preparers and users call for stable standards. Over time, PIRs will become more effective and result where appropriate in more meaningful amendments.

- 26 EFRAG is of the opinion that the findings of Post-Implementation Reviews should provide direct input in the standard-setting agenda. Constituents use time and resources to provide their input to these reviews and it is important that the IASB shows to be responsive and address promptly the concerns raised and how they are dealt with in the work programme. The feedback statement that is published should include the IASB action plan and clearly indicate the IASB's decisions of what the next steps are: *start Research activities, work on amendments, do nothing*, so that constituents know what to expect. Currently constituents find out, at least in the case of the Post-Implementation Review on IFRS 8, eventually after the fact, the only communication tool in use being the IASB Update.
- 27 The IASB may also wish to consider undertaking Post-Implementation reviews on older existing standards on which several interpretation issues are raised and that are candidates for a complete overhaul. We believe that the IASB could consult on which of the older existing standards should be subject to a Post-Implementation Review and what should be the priority on the more recent standards for Post-Implementation Reviews in the Agenda Consultation (we refer also to our response on the 2015 IASB Agenda Consultation).
- 28 Finally EFRAG believes that Post-Implementation Reviews are useful ways of gathering evidence for its evidence based standard setting activity and constitute a powerful approach to Research activity. EFRAG therefore recommends that Post-Implementation Reviews are identified as such instead of being considered as a due process obligation.