

IFRS Foundation's Request for Views *Trustees' Review of Structure and Effectiveness: Issues for Review*

Feedback to constituents – EFRAG Final Comment Letter

December 2015

Summary of contents

Summary of contents.....	2
Introduction	2
Objective of this feedback statement	2
Background to the Request for View.....	2
EFRAG's draft comment letter	2
Comments received from constituents	3
EFRAG's final comment letter.....	3
Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter	4
Relevance of IFRS (Question 1)	4
IASB involvement in corporate reporting developments (Question 2).....	5
IFRS Taxonomy and technological developments (Questions 3, 4, and 5)	7
Consistency of Application and Implementation (Question 6).....	10
Appendix 1 List of respondents	15

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IFRS Foundation's Request for Views *Trustees' Review of Structure and Effectiveness: Issues for Review* (the 'Request for Views') on 17 December 2015. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its discussions leading to the publication of EFRAG's final comment letter.

Background to the Request for Views

The IFRS Foundation's Constitution requires the Trustees to undertake a review of the structure and effectiveness of the organisation every five years. Previous reviews, published in 2005, 2010 and 2012, recommended significant enhancements to the governance, accountability and operational efficiency of the IFRS Foundation and the IASB, while a Governance Review by the IFRS Foundation Monitoring Board was completed in 2012. The 2015 Request for Views indicates that the outcomes of these reviews have led to significant enhancements and improvements in the IFRS Foundation's governance and effectiveness.

The IFRS Foundation issued the Request for Views on 7 July with a deadline for comment of 30 November. The Request for Views addresses three main areas: relevance of IFRS; consistent application of IFRS; and governance and financing of the IFRS Foundation.

Further details are available on the EFRAG [website](#).

EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 5 October 2015. In the draft comment letter, EFRAG addressed 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 View). Questions 7 to 14 have been addressed by the European Commission in its letter to the IFRS Foundation of 1 December.

EFRAG's main observations in its draft letter are:

- the IFRS Foundation/ IASB should not enter into the domain of public sector or not-for-profit sector standard setting;

- the IASB should be 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.
- the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/ software to a different entity is welcomed.
- Post-Implementation Reviews should now be regarded as a useful tool in the IASB's research activities, helping to identify what works and what is in need of improvement in current practice, regardless of the date at which a standard has been issued.
- the Trustees should examine and reconsider the effectiveness of the IASB's due process oversight.

EFRAG sought comments by 30 November 2015.

Comments received from constituents

Twenty comment letters were received from constituents and considered by EFRAG in its discussions. These comment letters are available on the EFRAG [website](#).

The comment letters received came from National Standard Setters, business associations, professional organisations, user organisations, and EU authorities.

Constituents broadly supported messages in the EFRAG draft comment letter. However, the majority made additional comments regarding:

- relevance of IFRS as financial reporting standards in the wider context of corporate reporting may require more than “awareness”

of development, rather being at the forefront in terms of vision and consistency of all reporting developments;

- the need for consistent application in the context of the strategic goals set out in the Request for Views of developing a single set of high-quality, globally accepted accounting principles should not lead to diversity being taken as an excuse to regulate each and every standard, as this undermines principles-based standard setting;
- the use of Transition Resource Groups; and
- the role of the IFRS Interpretations Committee.

EFRAG's final comment letter

EFRAG Board discussed comments from constituents at its 16 December 2015 meeting and approved the final comment letter that was published on 21 December 2015. The EFRAG comment letter, as submitted to the IFRS Foundation, is available on the EFRAG [website](#).

In that letter, given the support received from respondents, EFRAG broadly maintained its initial views on the topics in the Request for Views, but enhanced its letter with a number of observations received from respondents.

Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

EFRAG's response to constituents' comments

Relevance of IFRS (Question 1)

Proposals in the Request for Views

The IFRS Foundation asked for feedback on whether the IASB should extend its remit beyond the current focus of the organisation on for-profit entities, by developing internationally consistent standards for the public sector and the not- for-profit sectors.

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?

EFRAG's tentative position

In its draft comment letter, EFRAG believed that the IFRS Foundation/IASB should not enter into the domain of public sector or not-for-profit sector standard setting.

Constituents' comments

A large majority of respondents supported EFRAG's initial position. While a few respondents supported the extension, or at least the examination by the Trustees of the extension, of the IASB's remit for the not-for-profit sector, they also recognised this as a longer-term goal and underlined that whatever decisions were taken about the remit, they should not distract the IASB from its focus on setting standards for the for-profit sector. One respondent advised the Trustees to monitor the developments in the not-for-profit reporting area.

EFRAG final position

Considering the feedback received, EFRAG maintained the positions expressed in the draft comment letter, given the IASB's restrictions in resources and a tight budget, and the need to focus on the for-profit sector.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

IASB involvement in corporate reporting developments (Question 2)

Proposals in the Request for Views

The Request for Views discusses the boundaries of financial performance and the opportunity for the IASB to be more involved in the wider corporate reporting developments, such as those related to the reporting of non-IFRS information and, in particular, the reporting of what some refer to as alternative performance measures (APMs).

Furthermore, the Request for Views sets out the Trustees' view that the IFRS Foundation and the IASB should participate in the developments in the wider corporate reporting environment, but the Trustees continue to view the organisation's existing forms of co-operation as a more appropriate approach than the IASB broadening the scope of its work into areas outside the traditional boundaries of financial reporting. It should be ensured that the IASB remains fully aware of developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS

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?

EFRAG's tentative position

In its draft comment letter, EFRAG holds the view that the IASB, although its primary focus should remain financial reporting, should be fully aware of the developments across the whole range of corporate reporting so that it can take steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate.

EFRAG's response to constituents' comments

EFRAG final position

EFRAG maintained the positions expressed in the draft comment letter, given the general support it received for the positions expressed. The recommendation was added in EFRAG's final letter that the IASB examines the reasons why entities consider their presentation of non-IFRS information necessary and identify lessons to be drawn in dealing with performance reporting.

In addition, in its final letter EFRAG recommended that, whilst financial reporting should remain the focus of the IFRS Foundation, its strategy should place the IFRS Foundation at the forefront in terms of vision and consistency of all reporting developments in order to maintain the relevance of IFRS in the wider corporate reporting arena.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Constituents' comments

The large majority of respondents supported the messages in EFRAG's draft comment letter.

A few respondents were of the opinion that the IASB should play a more active and leading role in the wider corporate reporting agenda.

One respondent stated that, as long as the outcome of all the initiatives undertaken in the broad context of integrated reporting impact on financial reporting, the IASB should venture into such territories; whereas in initiatives that do not directly affect financial reporting, the IASB should continue to monitor such cases. A similar view was expressed by another respondent, who recommended that the IASB further develop a long-term vision on the developments in corporate reporting, to maintain the relevance of financial reporting in the context of technological developments. One respondent believed that the IASB should ensure that corporate reporting developments do not overlap with the Disclosure Initiative project activities and result in similar and consistent concepts.

Some respondents commented on the importance of ensuring transparency on the use of alternative performance measures (APMs) and other non-IFRS information. It was recommended that the reasons entities consider the presentation of APMs necessary should be examined.

EFRAG's response to constituents' comments

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

IFRS Taxonomy and technological developments (Questions 3, 4, and 5)

Proposals in the Request for Views

The Request for Views discussed the IFRS Foundation's strategy for the IFRS Taxonomy and sought input on whether the impact of developments in technology should be considered on maintaining the relevance of IFRS.

The IFRS Foundation believes that it is important that the organisation itself develops and maintains an IFRS Taxonomy in support of its mission in a digital world. The IFRS Foundation's goal is focused on having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report. The Trustees stressed the importance of the fact that Taxonomy considerations should not dictate the standard-setting process.

The IFRS Foundation considered the establishment of a network of experts to help provide advice on how to monitor and assess changing technology. The IFRS Foundation also planned to undertake some research about how technology is changing.

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?

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

EFRAG's response to constituents' comments

EFRAG final position

Considering the feedback received, EFRAG maintained the positions expressed in the draft comment letter, but decided to enhance its comments and to refer to current activities undertaken in the European area by ESMA on the European Single Electronic Format. In EFRAG's view, a proper coordination and cooperation between the IFRS Foundation, ESMA and other regulators in the world should be ensured, so that no inconsistencies arise with the globally consistent digital implementation of IFRS, when digital reporting is developed in jurisdictions.

EFRAG decided to withdraw its comment on the role of the IASB in relation to the Taxonomy awaiting the results of the public consultation of its draft comment letter on the *Request for View IFRS Taxonomy Due Process 2015*. Based on the input received, EFRAG will develop its position on the role of the IASB.

Finally, regarding the suggestion that the IFRS Foundation undertakes a stakeholders' analysis to assess whether the IFRS Taxonomy would be embraced by different countries, before committing resources and efforts. EFRAG did not propose to include this comment, given the ongoing activities undertaken in the European area discussed above.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?

EFRAG's tentative position

In its draft comment letter, EFRAG acknowledged 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 was supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. EFRAG also welcomed the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/ software to a different entity.

Constituents' comments

Almost all respondents supported the messages in EFRAG's draft comment letter.

Some respondents recommended that the IFRS Foundation and the IASB monitor and participate in the ongoing consultations that ESMA is carrying out on the European Single Electronic Format and liaise with the European Commission. These respondents believed that this was needed to ensure that no inconsistencies arise regarding the globally consistent digital implementation of IFRS, when digital reporting will, from 1 January 2020, be required for issuers in the EU. ESMA is seeking views on introducing these requirements, subject to a dedicated endorsement process in the EU. However, one respondent commented that the Foundation should direct its efforts towards catering for primary users' needs, instead of regulators' requests.

EFRAG's response to constituents' comments

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

One respondent recommended that the IFRS Foundation set out new educational campaigns to educate entities on the IFRS Taxonomy given that the Taxonomy at present is applied purely on a voluntary basis.

Some respondents supported the establishment of a network of experts to assist and provide advice on how to monitor and assess changing technology; however, it was recommended that the IFRS Foundation clarify the relationship between this network of experts and the existing IFRS Taxonomy Consultative Group while recognising that their remits may differ. One respondent commented that setting up a network of experts only represents a start and not the end goal for the Foundation and the IASB that should be at the forefront on understanding how technological developments affect corporate and financial reporting.

Some respondents suggested that the Foundation undertake a stakeholders' analysis to assess whether the IFRS Taxonomy would be embraced by different countries, before committing resources and efforts.

A large majority did not comment on the role of the IASB in relation to the IFRS Taxonomy. Two respondents agreed with EFRAG's preliminary view that the IASB Board should not have a role in the approval of the IFRS Taxonomy. One respondent believed that the IASB Board should provide oversight of the Taxonomy to ensure its development does not constitute an interpretation of standards, or undermine the philosophy of principles-based standard setting.

EFRAG's response to constituents' comments

Consistency of Application and Implementation (Question 6)

Proposals in the Request for Views

The Request for Views describes the IFRS Foundation's existing range of actions to support consistent application of IFRS and how the recommendations of the previous strategy reviews have been implemented. The Request for Views explains the strong strategic interest of the IFRS Foundation in the consistent application of IFRS, even though the primary responsibility for consistent application is with preparers, auditors and regulators. The question is raised whether there is anything more the IFRS Foundation could and should be doing in this area.

The IFRS Foundation has set, as secondary strategic goals, to develop a timely and responsive interpretations process, while considering the principle-based nature of IFRS; and provide implementation support to IFRS adopters. The Request for Views discusses a range of actions the IFRS Foundation has pursued and guiding principles in helping to ensure the consistent application of IFRS. To summarise:

- standards must be clear, understandable, enforceable;
- guidance should be consistent with a principles-based approach to standard setting: discussion of the establishment of two Transition Resource Groups (TRGs) to support the implementation of the new requirements, underlining that TRGs do not issue guidance;
- co-operation with parties involved in the financial reporting process is used to identify area of actions. In particular, the cooperation with securities' regulators is addressed;

EFRAG final position

Considering the feedback received, EFRAG maintained the positions expressed in the draft comment letter, but decided to enhance its comments with some additional observations:

- In its view, the best way to achieve consistent application is to develop clear, high-quality standards. Quality control, including field testing and effects analyses before finalisation of a standard, is essential to ensure that the resulting standard is stable and less open to divergence in practice. There are circumstances where inconsistencies and, thus, diversity in practice are inherent to the design and purposes of IFRS.
- Diversity in practice that derives from the exercise of judgment in a principle-based accounting environment should not be taken as an excuse to regulate each and every standard, as this undermines principles-based standard setting and might ultimately lead to jurisdictions turning away from the concept of global standards.
- The IASB should be restrictive in the use of TRGs, since their activities may be counteractive to principles-based standard setting. The Trustees should formalise the role and the use of TRGs, clarifying when they should be set up and how their work would interact with the outcomes of other bodies, such as the IFRS IC.
- The Trustees should continue monitoring the functioning and effectiveness of the IFRS IC and consider how to further use its

-
- The IFRS Interpretations Committee is playing a more active role, evidenced by the increase in interpretations and narrow scope amendments;
 - Education activities aim at promoting consistent application and generate income streams. The IFRS Foundation is currently undertaking a feasibility study to investigate the scope of new initiatives.
 - Carrying out Post-Implementation Reviews two years after the new requirements have become mandatory and have been implemented. Views are sought on the appropriateness of the two-year period.

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?

EFRAG's tentative position

In its draft comment letter, EFRAG made the following comments:

- EFRAG believed that Post-Implementation Reviews should now be regarded as a useful tool in the IASB's Research activities, helping to identify what works and what is in need of improvement in current practice, regardless of the date at which a standard has been issued.
- EFRAG called on the Trustees to examine and reconsider the effectiveness of its due process oversight in relation to addressing the substance of the complaints.
- EFRAG recommended 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.

expertise in the IASB's work (for example, in collecting issues for PIRs).

Constituents' comments

Almost all respondents provided comments consistent with those in EFRAG's draft comment letter.

Some respondents welcomed the efforts to make the effects analysis process more robust, while considering that the quality control procedures on the IASB standards should be further improved.

Four respondents commented on the strategic goal set in the Request for Views of developing a single set of high quality, globally accepted accounting principles. These respondents considered that there were situations where the IASB should not engage its standard-setting efforts, because they could result in uniformity rather than consistency and comparability, and inconsistencies in application and diversity in practice are inherent to the design and purposes of IFRS, namely where:

- management is required to exercise judgement (requirements of a standard dictate the application of judgement or a standard permits flexibility): it will more often than not be the case that two entities with comparable or identical fact patterns would arrive at different outcomes merely 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); and
- different accounting outcomes are likely to occur in situations in which there is a gap in the current literature. Therefore, 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.

Transition Resource Groups (TRGS)

About half of the respondents provided specific comments regarding the use of TRGs. In summary, it was recommended that the Trustees formalise (a) the structure and the use of TRGs within the organisation

and standard-setting process; (b) define the circumstances in which the use of TRGs is deemed useful; (c) the timing and the status of TRGs' outputs as part of the implementation of a new standard; and finally (d) the interactions of TRGs' deliberations with those issued by the IFRS Interpretations Committee. By clarifying these, the risk should be avoided that TRGs could have a disproportionate influence on the application of a new standard before proper experience has been gained and that the role of the IFRS Interpretations Committee would be overridden.

Some respondents believed that the IASB should be restrictive in the use of TRGs, since their activities may be counteractive to principles-based standard setting. TRGs should aim to educate preparers and users in the application of new standards, but should not routinely generate clarifications and amendments to standards.

IFRS Interpretations Committee (IFRS IC)

A few respondents provided comments on the role and the composition of the IFRS Interpretations Committee (the 'IFRS IC'). These respondents called on the Trustees to enhance further the functioning and effectiveness of the IFRS IC, in order to better respond to the implementation issues identified in practice and provide any necessary guidance on a timely basis.

Issues mentioned included: the need to streamline communication between the IFRS IC and the IASB, on how to agree to proceed with particular issues; the IFRS IC should not be prevented from considering issues related to topics for which a research project exists; and examining where the expertise of the IFRS IC can help the IASB in collecting issues for the preparation of the Post-Implementation Reviews of existing standards.

Quality Control System

About half of the respondents supported the enhancement of the IASB's quality control system before the publication of final standards. Other

respondents did not specifically address this issue (which was as such not mentioned in the Request for Views).

Post-Implementation Reviews (PIRs)

Respondents that provided feedback on this topic were generally supportive of the proposals in the Request for Views and of comments included in EFRAG's draft comment letter. Generally, respondents agreed with EFRAG's call that a PIR should not be undertaken before three years of experience following the implementation of a standard.

Furthermore, there was agreement with EFRAG that the findings of a PIR should provide direct input to the standard-setting agenda and that issues identified should not be pushed back to the research phase.

One respondent believed that a PIR should be initiated once it was deemed necessary and that the decision to set up a PIR should be transferred to a third party. Two respondents suggested that Trustees should have a more active role in the PIRs.

Education Activities

Respondents that provided feedback on this topic were generally supportive of the proposals in the Request for Views and of comments included in EFRAG's draft comment letter.

Some respondents stated that this means is not an effective medium to achieve consistency in the application of standards. One respondent would rather see the role of the education initiative to continue to provide university teachers training the next generation of accountants.

Appendix 1 List of respondents

Respondents	Country	Nature
European Securities and Markets Authority (ESMA)	Europe	Regulator
Insurance Europe (IE)	Europe	Business Organisation
German Insurance Association (GDV)	Germany	Business Organisation
Financial Reporting Council (FRC)	UK	National Standard Setter
ACTEO – AFEP – MEDEF	France	Business Organisation
Confederation of Swedish Enterprise (SEAG)	Sweden	Business Organisation
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
FEE	Europe	Professional Organisation
NASB	Norway	National Standard Setter
ICAEW	UK	Professional Organisation
ACCA	UK	Professional Organisation
AFME	UK	Business Organisation
Accounting Standard Committee of Germany (ASCG)	Germany	National Standard Setter
SFRB	Sweden	National Standard Setter
CFA UK	UK	User Organisation
ICAS	UK	Professional Organisation
ANC	France	National Standard Setter
BUSINESSEUROPE	Europe	Business Organisation
CRUF	UK	User Organisation