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Ref.: FRP/HvD/HOL/SRO

Dear Ms. Flores,

**Re: FEE Comments on EFRAG Consultation on Proactive Work**

- (1) FEE (the Federation of European Accountants) is pleased to comment on EFRAG's consultation on the future of its proactive work.
- (2) The consultation aims at getting advice on, and directions for, its proactive work from constituents. We decided to limit our response to the Questions to Constituents presented on page 4 of the consultation document by reference to (i) EFRAG's strategic aims and (ii) list of proposed projects: (i.e. which ones are key?), in addition to noting the following general comments.
- (3) The objective of the proactive work is to enhance EFRAG's influence on the standard setting process. In our view, the timing of proactive projects is especially relevant. EFRAG needs to be ahead of the IASB's work programme in order to be most effective. We therefore recommend that EFRAG seek, as much as possible, to align its timetable with that of the IASB, in consultation with each other.

**Answer to Question 1**

- (4) FEE is fully aware of EFRAG's Proactive Accounting in Europe publications.
- (5) In addition to acknowledging the significant work and contribution made through the past PAAinE initiatives, it is noted that it might be helpful for constituents if a bit more detail was provided regarding the outcome and impact of each of the individual initiatives undertaken.

## Answer to Question 2

- (6) As a constituent member of EFRAG, FEE fully supported the decision to enhance the governance, organisation structure and operating procedures of EFRAG in 2008. Further developing the proactive work is an important element of this reform. The Report on “Strengthening the European Contribution to the International Standard Setting Process” emphasises that in order to exercise a greater influence on the future direction of financial reporting, EFRAG needs to place more emphasis on developing its own research and discussion papers at an early stage of the IASB’s consideration of the topics concerned. FEE fully subscribes to this objective.
- (7) FEE believes that EFRAG is not a European standard setter and should not become a standard setter. This should not prevent it to launch projects, on its own or jointly with other standard setters including IASB itself, with the aim of influencing the development of international financial reporting standards from the outset. Accordingly, FEE welcomed PAAinE papers related to the conceptual framework or revenue recognition. FEE was also pleased to contribute to the paper on the Expected Loss Model.
- (8) In line with these comments, FEE agrees that the proactive work should not, as a matter of principle, be restricted to developing cutting-edge proposals for changes in the accounting model but should also aim at addressing real and important issues encountered in practice within the European environment.
- (9) FEE believes however that EFRAG needs to adequately prioritise its proactive work to secure its main objective which is to influence the global standard setter at an early stage and throughout the entire process of developing specific standards.

## Answer to Question 3

- (10) As indicated above and in accordance with its constitution, EFRAG’s main objective is “to provide a proactive contribution to the work of the IASB”. FEE believes that influencing the development of global financial reporting standards should be and remain the most important strategic aim for EFRAG. Other aims identified in the paper, as important they might be, should be dependent of the overarching objective that justified the establishment of EFRAG.
- (11) FEE believes that engaging with European constituents to understand their issues and how financial reporting affects them is clearly an important objective. It is the best way to ensure that global standards will be fully applicable in the European environment and ultimately conform to the European Public Good, which is a condition to be endorsed by the European Commission.
- (12) It is more difficult to rank the last two aims proposed in the consultation document. EFRAG is indeed expected “to promote solutions that improve the quality of information, are practical, and enhance transparency and accountability”. Similarly, in carrying out proactive work, EFRAG should base its proposals on principles and practices that underpin financial reporting. More than being strategic aims, these are characteristics that should underpin EFRAG’s work and submissions.

- (13) More specifically, in the context of the aims identified by EFRAG, “simplification” should be added as an important and necessary target, also when it comes to prioritising and the effective use of available resources.
- (14) With the aim of simplification in mind, the following two proposed proactive projects, as identified in the Consultation Paper were considered the most important:
- (i) The European perspective on development of post implementation reviews (Post-implementation review policy); It is noted that there is a need for simplification of the criteria for the implementation review; Implementation of IFRS 3 could be used as a valuable test case for a proactive work on that topic;
  - (ii) Understanding the Decision Environments of Users of financial reports; We understand that this project will seek to explore how various users use financial information for their decision-making. We very much support such a project, because user needs should always be the starting point for developing financial reporting requirements, either in law or through standards. In Europe, we have ongoing discussions about finding the right balance between information needs of users and reducing cost for preparers of that information, in particular for smaller entities. A better understanding of the various user groups’ needs should facilitate an informed discussion in these areas. As a minor point, EFRAG may want to consider changing the title of this project if it goes ahead, because it is perceived as being confusing by some (eg, what does Decision Environment mean?)
- (15) Performance Reporting remains an important issue, as long as the really difficult questions have not been addressed by the standard setter. A project that looks fundamentally at the issue of recycling, for example, is needed. This could be done either by the IASB directly, or with preparatory research work done by EFRAG. Given that EFRAG already has done two PAAinE projects on the topic, we are reluctant to put this project highest on the list of priorities for EFRAG, but we do believe that resolving the more fundamental issues with regard to performance reporting is important, in particular because it links in with many other areas of accounting (e.g. pensions, financial instruments, insurance accounting).

#### **Answer to Question 4**

- (16) FEE would like to emphasise that expressing a judgement on the quality of standards assumes that they can be assessed with reference to a strong framework identifying essential principles to be respected by standard setters and applied consistently throughout the entire set of standards. Therefore, EFRAG has an interest in promoting the finalisation of IASB’s work on the conceptual framework.
- (17) “Simplification of disclosures” was noted as an important project that should be given priority.

For further information on this letter, please contact Tibor Siska, Project Manager, at +32 2 285 40 74 or via email at [tibor.siska@fee.be](mailto:tibor.siska@fee.be), from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', with a long, sweeping horizontal stroke extending to the right.

Hans van Damme  
President