



European Financial Reporting Advisory Group ■

Request for Views *2015 IASB Agenda Consultation*

Feedback to constituents – EFRAG Final Comment Letter

January 2016

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Request for Views 2015 IASB Agenda Consultation (the ‘consultation’) in January 2016. 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 Consultation

The IFRS Due Process Handbook requires the IASB to undertake a public consultation on its work plan every three years. The IASB started its consultation in 2011.

The IASB issued the 2015 consultation in August with a deadline for comment of 31 December. The consultation intended to gather views on the strategic direction and balance of the work plan of the IASB, as well as consult on what should be the frequency of future Agenda consultations.

EFRAG’s draft comment letter

EFRAG published a draft comment letter in October. In the draft comment letter, EFRAG’s main observations were:

- EFRAG agreed in general with the factors proposed to prioritise projects, but noted that the IASB should clarify how they are using them in practice;
- Finalisation of the Insurance Standard, the Conceptual Framework and the Disclosure Initiative has the highest priority. The IASB should also make progress on the Dynamic Risk Management project;
- The IASB should build on the work done by other organisations and create synergies, notably with members in ASAF;
- EFRAG suggested that the IASB should explain more clearly the objective of each Research project and suggested an alternative categorisation;

- EFRAG noted that Post-implementation Reviews should play a significant role, and that sometimes their input is sufficient to advance to a Standard-level project;
- EFRAG was concerned about frequent small changes to standards and believed that IFRS should maintain their principles-based approach;
- EFRAG favoured maintaining a triennial frequency for the Agenda consultation; and
- EFRAG proposed a preliminary rating of each Research project.

Comments received from constituents

Twenty-four comment letters were received from constituents and considered by EFRAG in its discussions. These comment letters are available on the EFRAG website. Four respondents replied to the EFRAG's draft comment letter, while twenty provided a copy of their reply to the consultation.

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

In general, respondents supported the comments in the EFRAG's draft comment letter. Some constituents stressed the importance of a strong quality control in the publication phase to avoid the need of subsequent changes in published Standards, and were concerned about continuous small amendments. Also, some constituents noted that the implementation of IFRS 9, IFRS 15 and IFRS 16 will require significant effort so the IASB should consider a period of stability.

In general, respondents supported that the IASB rapidly completes Insurance Contracts, the Conceptual Framework and the Disclosure

Initiative. Different views were expressed on the importance and urgency of the projects on the Research programme.

EFRAG's final comment letter

EFRAG Board discussed comments from constituents at its January 2016 meeting and approved the final comment letter. 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 consultation, but enhanced its letter with a number of observations received from respondents.

In relation to the rating of projects on the Research programme, EFRAG decided the following changes from the draft comment letter:

- Change Provisions, Contingent Liabilities and Contingent Assets from *Medium* to *Low*;
- Change Discount Rates from *Medium* to *High*;
- Change Pollutant Pricing Mechanisms from *Medium* to *Low*;
- Change Primary Financial Statements from *High/Medium* to *High*;
- Rate all projects that did not receive a preliminary rating to *Low*, since none of them received significant support.

EFRAG also decided that it would not request to add any other project to the Research programme.

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

The balance of the IASB projects (Question 1)

Proposals in the Request for Views

In the consultation, the IASB identified five categories of projects – three phases of the standard-setting activity and two cross-cutting projects (Conceptual Framework and Disclosure Initiative) and asked what factors it should consider when assigning priorities to each category.

EFRAG's tentative position

EFRAG agreed in general with the factors proposed to prioritise projects, but noted that the IASB should clarify how they are using them in practice. EFRAG recommended that the IASB built on the work done by other organisations and create synergies, notably with members in ASAF

Constituents' comments

Constituents did not provide extensive input on the question. Three respondents noted that the IASB should not only consider the importance of the matter to users of financial reports, but also the relevance and urgency of the issue to preparers.

Another respondent noted that one relevant factor should be the realistic likelihood of developing a widely welcomed Standard in a reasonable time. Therefore the IASB should carry out an extensive debate with constituents after the publication of a discussion paper, to decide if the project should be moved forward.

EFRAG's response to constituents' comments

EFRAG final position

EFRAG agreed to indicate that prioritisation factors should include also the relevance and urgency for the preparers, and to recommend that the IASB should clearly link the agenda setting to the strategic direction delineated by the Trustees.

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

Several respondents echoed EFRAG's initial comment that, while the identified factors are appropriate, more clarity would be welcomed on how the IASB uses them in assigning priority.

Two constituents recommended that the IASB identifies a common theme for its work plan and one of them suggested '*strengthening the fundamental pillars of financial reporting*'. Another respondent was concerned of a lack of a clear strategic direction that should overlay the agenda setting.

However, some constituents noted that after the completion of fundamental Standards on Revenue Recognition, Financial Instruments and Leases, the IASB in the next years should focus on maintenance and not introduce more fundamental changes.

EFRAG's response to constituents' comments

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

Research projects (Question 2 and 3)

Proposals in the Request for Views

The IASB listed 14 active and 3 inactive Research projects and asked constituents to provide a rating high/medium/low. It also asked if it should add a project on the consistent application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*. In its draft comment letter, EFRAG asked constituents if a research project on separate financial statements should be added as well.

EFRAG tentative position

EFRAG suggested that the IASB should explain more clearly the objective of each Research project and suggested a possible categorisation.

Constituents' comments

Appendix 1 summarises the respondents' views on the Research projects.

Some respondents noted that, in general, the IASB should focus its resources on a small number of projects, also because constituents have a limited capacity to handle consultations. One respondent representing users however noted that there are still much needed improvements to be brought to IFRS. Another one did not see a disadvantage in having a wide range of projects in research phase and would restrict the number only in the standard-development phase.

EFRAG's response to constituents' comments

EFRAG final position

EFRAG decided the following changes from the draft comment letter:

- Change Provisions, Contingent Liabilities and Contingent Assets from *Medium* to *Low*;
- Change Discount Rates from *Medium* to *High*;
- Change Pollutant Pricing Mechanisms from *Medium* to *Low*;
- Change Primary Financial Statements from High/Medium to High;
- Rate all projects that did not receive a preliminary rating to Low, since none of them received significant support.

EFRAG confirmed that the IASB should remove from the list the projects on High Inflation and Foreign Exchange Rates. Since none of the additional projects indicated was supported by a significant number of respondents, EFRAG decided that it would not require to add any new project to the Research programme.

Some projects received mixed ratings from respondents.

Equity method. In the past EFRAG had indicated that it was important to address the implementation issues, although this may not involve the need to put into discussion the use of the equity method. EFRAG agreed to maintain a *High* rating but to indicate clearly that it was in the context of a narrower scope, in line with EFRAG's past proposals.

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

In general, respondents agreed with EFRAG's initial view that the findings of Post-implementation Reviews ('PIR') should play an important role and provide direct input in the standard-setting agenda, although one respondent noted that this would not be valid in all cases. Respondents recommended the IASB to perform more PIR, regardless of whether they are required under the Due Process Handbook – for instance, in reference to IAS 28 *Investments in Associates and Joint Ventures* and IAS 36 *Impairment of Assets*.

Two respondents suggested adding a project on non-exchange transactions with Government. One of them noted that this could address the issues with the treatment of levies, better than a research project on provisions. Another respondent suggested a project on Government Grants

One respondent suggested to investigate the interaction between IAS 21 *The Effect of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies* which in its view under some circumstances can lead to distortion to information.

One respondent suggested a range of additional projects:

- One project on mergers and acquisitions, to expand the use of pro-forma information to understand the impacts of business combinations;
- One project on sources of dilution in shares outstanding to improve investors' understanding on potential changes to the proportion of distributions they are entitled to;
- One project on disclosure on financial debt and liquidity to improve investors' understanding of the capital structure of a

EFRAG's response to constituents' comments

Financial Statement Presentation. The initial rating had been *High/Medium*. EFRAG noted that users had been indicating this as a priority since the previous Agenda consultation, particularly in the relation to the issue of performance reporting and decided not to make any reference to the Conceptual Framework that some respondents had suggested. EFRAG concluded that the IASB should not complete the revision of the Framework before developing more guidance on the interaction between measurement and performance, and noted that the relevant level of disaggregation in primary financial statements is a separate issue.

Business Combinations Under Common Control. While acknowledging that the majority of those who had provided a rating had indicated a *High* priority, EFRAG believed that the project did not seem to have the same importance and widespread relevance of other projects rated high. EFRAG noted that the IASB project has already reached an advanced stage and expects the IASB to move ahead with it.

Separate Financial Statements. Considering the limited feedback from constituents, EFRAG TEG agreed not to request the IASB to add the project to its agenda. Moreover, EFRAG had previously indicated that the IASB should consider the implication for separate financial statements in each individual project and not in a specific separate project after having defined/clarified the objective of separate financial statements in the conceptual framework.

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

company.

Two respondents asked to add a project on biological assets, with one of them asking in particular to consider an option to charge changes in fair value to OCI under specific circumstances.

One respondent suggested to investigate accounting issues arising from grants for investing activities.

One respondent encouraged the IASB to consider requirements to enhance performance reporting, on topics such as disaggregation of line items in primary statements and performance reporting, better linkage between profit or loss and statement of cash flows and financial performance indicators.

One respondent recommended adding as project on risk sharing agreements, noting that these agreements are difficult to account for since recent Standards are based on the notion of control.

One respondent suggested that the IASB should take a more pro-active role on corporate reporting. EFRAG commented on this in its reply to the RfV Trustees' Review of Structure and Effectiveness: Issues for the Review.

EFRAG's response to constituents' comments

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

Major projects (Question 4)

Proposals in the Request for Views

In the consultation, the IASB asked comments on the current work plan for major projects.

The major projects were identified in Insurance Contracts (upcoming Standard); Conceptual Framework (published Exposure Draft); Disclosure Initiative (different stages for different work streams); and Dynamic Risk Management and Rate-regulated Activities (published Discussion Papers)

EFRAG's tentative position

Finalisation of the Insurance Standard, the Conceptual Framework and the Disclosure Initiative has the highest priority. The IASB should also make progress on the Dynamic Risk Management project;

Constituents' comments

There was substantial consensus that the IASB should rapidly finalise the new Standard on Insurance Contracts, as well as the Conceptual Framework and make progress on the Disclosure Initiative.

Two constituents expected the IASB to perform additional work on some parts of the Conceptual Framework that are not sufficiently developed, but two other respondents considered those areas to be particularly difficult and suggested to complete it in its current scope.

EFRAG's response to constituents' comments

EFRAG final position

Given the substantial consensus among respondents, EFRAG confirmed its initial views.

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

There was little explicit reference to the Rate Regulated Activities, with three respondents noting that they did not see it as a priority. Another constituent noted that, due to variety and complexity of rate-regulated environments, it will be very difficult to develop a comprehensive Standard, and the IASB should rather focus on improving disclosures around these activities.

Several constituents noted that the IASB has published or is in the process of publishing a number of major Standards, which will require a significant implementation effort by preparers. For this reason, the IASB should consider having a period of pause.

EFRAG's response to constituents' comments

Maintenance and implementation and level of change (Questions 5 and 6)

Proposals in the Request for Views

In the consultation, the IASB asked if it was providing the right level of implementation support and if its work plan would deliver change at the right pace and level of detail appropriate with principle-based Standards.

EFRAG's tentative position

EFRAG noted that Post-implementation Reviews should play a significant role, and that sometimes their input is sufficient to advance to a Standard-level project.

EFRAG was concerned about frequent small changes to standards and believed that IFRS should maintain their principles-based approach;

Constituents' comments

Many respondents emphasised that IFRS should remain principle-based and were concerned about the number of small continuous amendments. Respondents noted that:

- Smaller entities do not have the capacity to follow and implement all these changes;
- A stronger quality control process, including a more open fatal flaw review and comprehensive analysis of the implementation issues, would reduce the need for subsequent maintenance;
- When there are multiple application issues for a Standard (as evidenced by submissions to the IFRS Interpretation Committee), this may indicate the need for a fundamental revision rather than a piecemeal approach of amendments;
- It is easier for entities to follow small amendments if they were

EFRAG final position

Given the substantial support from respondents, EFRAG confirmed its initial views.

EFRAG noted that the IASB should find the proper balance between the need to ensure the continuing quality of IFRS and the need for users and preparers to have sufficient stability.

grouped in the Annual Improvements, rather than published separately.

Some respondents noted that major projects have taken a long time to be completed and suggested that the IASB could explore means to make the standard-setting process more flexible and timely. As noted above in question 3, other respondents consider that continuous amendments should be avoided.

Four respondents encouraged the use of Transition Resource Groups in future, but one other respondent was concerned that guidance issued by a TRG could become too prescriptive.

One respondent made the following suggestions:

- When an issue is too big for an Interpretation and too urgent to be treated in the annual improvement cycle, the IASB or an ad-hoc sub-committee should act to provide guidance;
- In some cases when the IFRS Interpretation Committee rejects a submission on the ground that a Standard is clear on the issue, these decisions should be given greater authority and the IASB should indicate that they can be used within the IAS 8 hierarchy.

One respondent encouraged the IASB to provide more support in the implementation phase of new Standards but not a later stage, to avoid the rise of a second layer of Standard setting.

Other comments (Question 7)

EFRAG's tentative position

EFRAG noted that the FASB on occasions provides guidance on issues in converged Standards that are not addressed by the IASB. It would be important that the IASB indicates if it considers those pronouncements to be compatible with IFRS.

Constituents' comments

Not many respondents had additional comments. Three respondents agreed that the IASB should indicate if guidance elaborated by the FASB is consistent with IFRS, especially on topics where Standards are converged, and what role it plays in the IAS 8 hierarchy.

EFRAG final position

EFRAG confirmed its tentative position.

Frequency of Agenda consultations

Proposals in the Request for Views

In its consultation, the IASB asked if it should modify the frequency of its Agenda consultation from three to five years.

EFRAG's tentative position

EFRAG favoured maintaining a triennial frequency for the Agenda consultation.

Constituents' comments

Eight respondents agreed to extend the frequency to every five years, while thirteen preferred to maintain the current frequency. One respondent suggested a four-year cycle.

One respondent accepted a five-year interval, but noted that given the consultation period and the time needed to discuss the results, this would effectively result in a six or seven-year cycle. The respondent urged the IASB to maintain its agenda sufficiently flexible.

EFRAG final position

Given that mixed views were expressed, EFRAG decided to maintain its initial position and to emphasise the message that the IASB should not keep its agenda static but adjust it if circumstances change, while being transparent in explaining the changes.

Appendix 1 Rating of IASB projects

Project	Initial EFRAG rating	Ratings from respondents	New rating
FICE	High	Different views (four respondents rated it high, three high/medium, two medium, and three low). Two other respondents supported the project with a limited scope to address only the application issues on the 'fixed for fixed' condition. One respondent encouraged to look at options on NCI.	High
Pensions	Medium	Different views (four respondents rated it high, four medium and five low), depending on the type of plans in use in the country of the respondent. One respondent noted that IAS 19 has been modified recently, one other noted that some hybrid plans have developed after IAS 19 was issued.	Medium
Income taxes	None	One respondent rated it high, six medium, one medium/low and six rated it low (or not high). One other respondent noted that the IASB should focus on specific issues without the need for a fundamental review of the Standard.	Low
Provisions	Medium	Only one respondent rated it high, mentioning the interaction with the CF. Eleven other respondents rated it low (or not high), one high/medium and one medium.	Low
IFRS 5	Medium	Three respondents rated it high, one medium/high and five rated it medium. Respondents agreed that the Standard creates a number of issues, and some of them advised to carry out a PiR.	Medium
Share-based payments	None	Generally rated low, some respondents suggested performing a PiR.	Low
IAS 21	Very low	Generally rated low, should be removed or kept inactive	Very low
IAS 29	Very low	Generally rated low, should be removed or kept inactive	Very low
Discount rates	Medium	Six respondents rated it high, one high/medium, with four rating the project medium and two low. Respondents noted that the objective of the project should be to assess and explain if the requirements in each Standard are aligned to the intended objectives. Changes to Standard may not	High

		be needed.	
Equity method	High	Three respondents rated it high, three high/medium, two medium and five others low. One other respondent noted that the IASB should focus on specific issues without the need for a fundamental review of the Standard, one other noted that the conceptual fundament is unclear.	High
ETS	Medium	One respondent rated it high, two medium, two medium/low and seven respondents rated it low.	Low
BCUCC	Medium	Different views (five respondents rated it high, three medium/high, two medium and two low). One respondent noted that a project on transactions with related parties would be relevant.	Medium
Principles of Disclosures	High	Nearly all respondents rated it high.	High
Dynamic Risk Management	High	Generally rated high, although one respondents indicated a low rating and three a medium rating. One respondent suggested removing it, as it interests only a limited number of entities.	High
Extractive	Low	Generally rated low.	Low
Primary Financial Statements	High/ Medium	Different views (six respondents rated it high, three high/medium and five respondents rated it low). Participants at outreach events in Paris and London indicated it as a high priority. Respondents that support the project recommend to focus on the depiction of performance.	High
Goodwill & impairment	High for impairment	Mostly ranked high, although with some distinctions on the topics encompassed in the project (recognition of separate intangible assets, improvements to the impairment test, reintroduction of depreciation). Many noted that it should be more advanced than a research project.	High
Definition of a business	Medium	Different views (five ratings high, six medium and three low). Given the diversity of views and the advancement of the IASB discussion, no change to the rating is suggested	Medium
Separate FS	None	EFRAG asked for views on this project, that is not included in the IASB programme. Few respondents provided a view. One rated it as high, one as medium and one as low.	Low

Appendix 2 – List of respondents

Respondent	Category	Nationality
ASCG	National Standard Setter	Germany
FRC	National Standard Setter	UK
ESMA	Regulator	Europe
UPM	Preparer	Finland
FSR	National Standard Setter	Denmark
OIC	National Standard Setter	Italy
German Insurance Association	Preparers' organisation	Germany
Swedish FRB	National Standard Setter	Sweden
Insurance Europe	Preparers' organisation	Europe
ISDA		World
Eurelectric	Preparers' organisation	Europe
Confederation of Swedish Enterprises	Preparers' organisation	Sweden
FEE	Accountants' organisation	Europe
Business Europe	Preparers' organisation	Europe
ICAC	National Standard Setter	Spain
Eumedion	Users' organisation	The Netherlands
AFME	Preparers' organisation	Europe
ACTEO	Preparers' organisation	France

FBF

Preparers' organisation

France

NASB

National Standard Setter

Norway

DASB

National Standard Setter

The Netherlands

CFA Society United Kingdom

Users' organisation

UK

AFRAC

National Standard Setter

Austria

BASB

National Standard Setter

Belgium