



European Financial Reporting Advisory
Group (EFRAG)
35 Square de Meeûs
B-1000 Bruxelles
Belgium

19 August 2014

Dear Chairman,

Re: Invitation to comment on proposal to enhance IFRS quality control

We thank you for the opportunity to participate in this proposal and would like to provide the following replies to the questions.

- 1- *Do you agree with EFRAG that some specific standard setting process step involving the public at large is necessary to further enhance quality control of IFRS? Please explain your views.*

BUSINESSEUROPE agrees that there is a problem in the standard-setting process leading to difficulty in understanding and applying new standards, as well as potentially unintended (albeit, with hindsight, foreseeable) consequences.

There are several contributing factors to this: complex standards, poor fundamental structure (with the main text and additional requirements labelled as "application guidance" split into two parts, which does not allow readers to find and understand the requirements in one location), partly overly complex wording, use of jargon and errors in drafting.

This problem occurs despite the efforts of the IASB, staff and other constituents **within** the current due process and is likely due to the fact that people so involved in the process for such a long time can become to a certain extent blind to these problems. This risk exists also on the preparer side. When faced by the combination of the complex standard-setting process and resource constraints, many constituents, especially preparers, take the position of waiting until proposals are near final before looking at the details. The result is that much of the preparer review in the development of standards is by a limited number of the same people from the same companies and organisations

The overall aim of a revision in the drafting process of any accounting pronouncement should be: are the requirements written in plain English and understandable to its fullest extent by someone reading the requirements for the first time. BUSINESSEUROPE believes that the drafting process has moved in the opposite direction for several years.



2- *Do you support the proposal made by EFRAG? Please explain your views?*

BUSINESSEUROPE does not consider that the proposal to have a dedicated team issuing decisions and tentative changes to published-but-not-yet-effective standards will solve any problem. The introduction of a new body would potentially lead to more bureaucracy and a change that is more form than substance. It may also delay the EU endorsement process, which would be a particular concern for SEC registrants.

Furthermore, preparers (particularly those with limited resources dedicated to review of upcoming accounting standards that we mentioned previously) could treat this as further uncertainty about the final shape of a standard and hence postpone implementation work, unless it was made extremely clear that there would be no fundamental changes to the standard.

3- *Would you favour alternative proposals? If so, what are they?*

For the reasons described above, it is important that any shortcomings are addressed **before** a standard is published. Failing (or in addition to) the suggested revision of the drafting process mentioned in our reply to question one, we are supportive of a **public** fatal flaw review, which ensures that a broader public is able to provide input onto the drafting. BUSINESSEUROPE appreciates that the IASB may be concerned that respondents will try to re-debate conceptual issues, but this should not be used to forestall the process of building understanding and avoiding errors. We also consider that publication of final or near-final drafts could signal to less involved constituents that deliberations are complete and that they might start dedicating resources to review the potential impacts.

However, if this is not accepted by the IASB, BUSINESSEUROPE would support a widening of the current fatal flaw process. The IASB needs to consider comments of preparers, particularly with regard to implementation issues. To this end there should be a minimum level of preparer participation in all fatal flaw reviews, and this should encompass the standard as a whole, not just selected paragraphs. Statistics on the participants of these fatal flaw procedures (country or region, industry group, etc.) should be made public on the IASB website to increase awareness and transparency of the process, which is a general point we have raised with the IFRS Foundation bodies at various occasions.

We remain at your disposal, should you have any questions about these matters.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General