

IASB
Hans Hoogervorst
Cannon Street 30
London EC4M 6XH
United Kingdom

RE: Request for Views – Agenda Consultation 2011

Dear Mr Hoogervorst, *Berre Haus,*

We are pleased to provide you with our comments on the 2011 Agenda Consultation. As the European Securities and Markets Authority our comments aim at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

ESMA welcomes the IASB's decision to consult on its technical agenda and has considered the IASB's *2011 Agenda Consultation*. We believe that it will prove to be an important and valuable contribution towards a more stable and transparent agenda-setting. However, we do not consider the consultation to be the basis on which to determine what projects, and the scope of these, the IASB should work on for the coming years. In that respect we consider it only a starting point and think that the IASB should consult on more detailed priorities.

In our opinion, the IASB should strive for a period of calm in changes to accounting standards for investors and preparers and rather focus on post-implementation issues and promoting consistent application. Consistent application and implementation of IFRS is of the utmost importance for investors' confidence in financial statements and for the success of IFRSs.

During the comment period of the agenda consultation the IASB is progressing its work on the active projects on revenue recognition, leases, insurance contracts and financial instruments. It is clear that these projects will go well beyond 2011. Given the importance of these standards for the financial reporting framework we believe that the Board should first finalise high quality IFRSs in these areas as soon as possible before starting major new activities.



During the period of calm the Board should, although not formally endorsed in the European Union, focus its activities on the Conceptual Framework. The Framework plays an important role in assisting the IASB in setting standards that are principles-based, internally consistent and internationally convergent.

Our detailed comments on the consultation paper are set out in the Appendix to this letter, but to summarise we believe that the Board should progress considerably (i.e. final guidance should be available at the end of the 3 -year period) on the following projects:

- A fundamental debate consisting of conceptual and practical issues on what constitutes performance is necessary and should be undertaken by the IASB as soon as possible;
- The IASB should restart its *Financial Instruments with Characteristics of Equity* project identifying the characteristics that should be present in an instrument for it to be classified as either an equity or liability instrument; *and*
- We urge the Board to provide guidance in the area of *Business Combinations Between Entities Under Common Control* and *Extractive Industries*.

We believe that the number of projects to be included on the agenda should be limited considering the limited resources available. Projects should only be included on the agenda if there is clear evidence that a standard is broken or that guidance is missing.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,



Steven Maijoor
ESMA Chair

APPENDIX – ESMA’s detailed answers to the questions in the IASB’s 2011 Agenda Consultation

Question 1

What do you think should be the IASB’s strategic priorities, and how should it balance them over the next three years?

1. The Trustees of the IFRS Foundation published on 27 April 2011 a second consultation paper which sets out a strategy and vision for the IFRS Foundation and the IASB as they evolve as the global accounting standard-setter. In our opinion there are various inter-linkages between the Trustees’ *Strategy Review* and the IASB’s agenda-setting and will therefore repeat below some of the comments we provided to Trustees relevant for the IASB’s agenda-setting.

The IASB’s primary objective

2. The IASB’s primary objective is to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards that serve the needs of investors and other providers of capital. We believe that developing accounting standards for listed entities is and should remain its main focus and priority. On whether the Foundation should actively consider other areas related to financial reporting (for example, integrated reporting, not-for-profit, and so on) we believe that the IASB (and/or the Foundation) should explain more comprehensively why it believes there is a need to do so and that it should consult market participants on such proposals prior to active involvement and allocating resources.
3. We believe that consistency in IFRSs as principles-based standards should continue to entail the careful use of professional judgment, applied transparently. That judgment should aim at accounting and reporting economically similar transactions in the same manner and economically dissimilar transactions differently.

Future Agenda

4. Post-2011 the IASB should strive for a period of calm in changes to accounting standards for investors and preparers and rather focus on post-implementation issues and promoting consistent application. Consistent application and implementation of IFRS is of the utmost importance for investors’ confidence in financial statements and for the success of IFRSs.
5. We believe that the IASB should continue to critically examine, during the standard-setting process, whether the standard under development is capable of consistent interpretation, application and enforcement. As set out further in this letter we think that at least (limited) post-implementation re-

view should be organised by, for example, organizing round table meetings or other outreach activities in order to be sure that standards have not led to significant interpretation or implementation issues. In that respect we believe that it might be better not to issue new standards or to renew old standards without clear evidence of problematic issues in practice (not just because they are old), so as to provide stability, consistent application and comparability. In other words: do not fix if it isn't broken. Continued dialogue with enforcers of IFRS could help identify such problematic issues in practice.

Role of the Interpretations Committee

6. We believe that the IFRS Interpretations Committee could contribute more to the activities of the IASB than currently is the case. We regret that the IASB's consultation paper does not elaborate on the interaction with the Interpretations Committee. This is particularly important as we believe that preparers of financial statements might face significant changes when they implement all the new standards that the IASB is currently developing, and so the implementation process will inevitably reveal issues that the IASB will need to consider (especially as it has completed many of the projects on a rather compressed timescale).
7. The increasing number of countries adopting or converging towards IFRS could accentuate these pressures. We would encourage the Foundation to ensure that the agenda of the IASB and the IFRS Interpretations Committee allow sufficient time to deal with these issues.

The standard-setting process

8. ESMA believes that we are at a point in time where having a comprehensive look at the IASB's standard-setting process is worthwhile. We acknowledge that the IASB has made significant steps in developing its outreach program. To ensure that views are taken into account during the standard-setting process, the organisation could develop this further. Examples of how this might be achieved include (i) dedicating sufficient resources to understanding the impact of proposals prior to issuing public consultation documents such as exposure drafts assessing the need for new proposals and their scope; (ii) assessing the impact of the proposals in earlier phases; (iii) giving greater consideration to the number of amendments that investors and preparers of financial information can reasonably absorb within certain time frames; (iv) better formalising feedback statements; and (v) carrying out post-implementation reviews more systematically.

Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Question 1(b)

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

9. ESMA agrees with the two important tensions identified after the Trustees' *Strategy Review* in relation to the quality and implementation of IFRS: the need to demonstrate quality and relevance of the standards and the risk that practices related to implementation and adoption will diverge. We could support that those two considerations drive the IASB's future agenda. The labelling used in the consultation paper (*Developing Financial Reporting and Maintaining Existing IFRSs*) leaves however the impression that the split between these activities is rather artificial.
10. We feel that other labelling could enhance stakeholders' understanding of the activities the Board is carrying out when developing IFRSs of the highest quality on the hand and when it is dealing with implementation issues on the other hand.

Developing Financial Reporting

Conceptual Framework, including a presentation and disclosure framework

11. ESMA believes that, although not formally endorsed in the European Union, the Conceptual Framework plays an important role in assisting the IASB in setting standards that are principles-based, internally consistent and internationally convergent. The IASB took a phased approach to update the conceptual framework of which the first phase was completed in 2010. As expressed in our earlier comment letters we believe that no part of the Framework should be finalised and become effective until the whole Framework is ready. If not, it seems as for the next five years or so the IASB's Framework will be an incoherent mixture of the old Framework and the new. Bearing in mind the role of the Framework plays in the hierarchy, we do not think this incoherence is acceptable.

12. The IASB's recent projects have shown that further work is necessary on some of the underlying core conceptual principles such as:

(a) Performance reporting and in particular:

- the notion of performance and its relationship with the business model;
- the use of alternative measures;
- the principle underlying the distinction between profit or loss and other comprehensive income (OCI); and
- the use of recycling.

ESMA would urge the Board to give the highest priority to this project.

(b) Control

The notion of control was the central element in some of the projects the Board completed recently (such as IFRS 10 – *Consolidated Financial Statements*). We believe that it would be beneficial if the Board could consider the relationship of these developments with the Framework and in particular when considering guidance on derecognition of financial assets.

(c) The role of disclosures

In the consultation paper the IASB takes note of criticism that disclosure requirements in IFRSs are considered by some stakeholders to be too voluminous and not always focused on the right disclosures. Though ESMA believes it might be a starting point triggering a wider discussion on the role of disclosures we do not believe that the objective is to provide more or less disclosures but disclosures of the highest quality presented in a helpful fashion.

13. General principles on the issues detailed above should be addressed within the conceptual framework project, though to make them operational additional guidance should also be included in specific standards. For instance, the notion of performance and of which items should be classified either in profit or loss or OCI should ideally be developed jointly with the financial statement presentation project.

Researching issues for financial reporting

14. ESMA is supportive for the Board to invest appropriate time and effort in research activities which look into how financial reporting standards are operating. Such research could help to provide evidence of areas where IFRS needs improvement and thus support the development of new standards and post-implementation reviews. It should ideally be carried out in liaison with the academic research community.

XBRL

15. Technological developments could help achieve a better presentation of financial information required under IFRS, notably by the use of eXtensible Business Reporting Language (XBRL). We believe that the development of the IFRS Taxonomy should remain a separate activity of the IFRS Foundation but believe that the IASB and the Foundation's XBRL team should think how mutual experiences could be shared in order to provide investors with the most decision-useful information (for example by continuing its efforts to publish taxonomies together with the publication of a new standard). The Board and the Foundation's XBRL team should consult stakeholders jointly in the near future on how they see their relationship.

Standard-level projects

16. We would like to refer to our response to question 2 where we have set out what we believe should be the priorities for the IASB. To summarise we believe that the Board should progress considerably on the following projects the next few years:
 - A fundamental debate on what constitutes performance is necessary and should be undertaken by the IASB (see our comments above on the Framework);
 - The IASB should restart its *Financial Instruments with Characteristics of Equity* project identifying the characteristics that should be present in an instrument for it to be classified as either an equity or liability instrument.
 - As enforcers of IFRS we have noted that accounting practice has diverged in the area of *Business Combinations Between Entities Under Common Control* and *Extractive Industries*. We urge the Board to provide guidance in these areas as soon as possible.

Maintaining existing IFRSs

Post-implementation reviews

17. The IASB should carry out post-implementation reviews more systematically. We welcome the Board's commitment to undertake a post-implementation review on IFRS 8 – *Operating Segments* and on the in 2008 revised IFRS 3 – *Business Combinations*. In line with the existing requirements set out in the IASB's Due Process Handbook we believe that post-implementation reviews should be conducted two years after the implementation of a new standard or major amendment to an existing standard.

18. The consultation paper states that the post-implementation review of IFRS 8 will start in 2011. We would encourage the Board to define the methodology it will use for such reviews and to seek public feedback on its thinking prior to starting the review on IFRS 8.

Responding to implementation needs

19. We believe that IFRSs provide a complete set of accounting standards. New jurisdictions in the process of adopting IFRS that claim shortcomings in the IFRS literature should provide clear technical arguments for such position.
20. We however acknowledge that the increasing number of countries adopting or converging towards IFRS could reveal issues that the IASB will need to consider. We would encourage the IASB (and the Interpretations Committee) to allow sufficient time to deal with these issues.

Question 2

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Question 2(a)

Considering the various constraints, to which projects should the IASB give priority and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Question 2(b)

Adding new projects to the IASB's agenda will require the balance of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred would you remove from the agenda in order to make room for new projects and why? Which of the projects previously added to the IASB's agenda do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

Existing Projects

21. During the comment period of the agenda consultation the IASB is progressing its work its active projects on revenue recognition, leases, insurance contracts and financial instruments. It is clear that these projects will go well beyond 2011. Given the importance of these standards for the finan-

cial reporting framework we believe that the Board should first finalise high quality IFRSs in these areas as soon as possible before starting major new activities.

Deferred projects

22. We believe that the number of projects to be included on the agenda should be limited considering the limited resources available. As set out at the beginning of this letter we believe that projects should only be included on the agenda if there is clear evidence that a standard is broken or guidance is missing.
23. In the table below, ESMA ranked the issues put forward by the IASB in its consultation paper in the order of priority we attach to them (starting with the most pressing needs). It goes without saying that the IASB should leave room to respond to any urgent issues that may arise.
24. As you will see from the table below we have identified four projects that the Board should treat with highest priority and make sure that final IFRS literature is available before the end of the upcoming three year period. These four projects include: performance reporting, financial instruments with characteristics of equity, business combinations under common control and extractive industries.

Project	Priority	3-year target	
Other comprehensive income	High Priority	Framework/ Final standard	ESMA has repeatedly urged the Board to start a project on performance reporting. We believe that such a project should get the highest priority and, if possible, be carried out together with the Financial Statements Presentation project. Such project should include work on (i) the notion of performance and its relationship with the business model, (ii) the use of alternative measures, (iii) the principle underlying the distinction between profit or loss and other comprehensive income (OCI), and (iv) the use of recycling. This project should ideally be developed jointly with the financial statement presentation project.
Financial instruments with characteristics of equity	High priority	Final standard	We believe that it would contribute to transparency and benefit investors if the IASB could provide conceptually sound guidance on distinguishing between assets and liability and could eliminate the current rule-based approach.
Business combinations between	High priority	Final standard	We would urge the Board to provide guidance in the

entities under common control			area of <i>Business Combinations Between Entities Under Common Control</i> .
Extractive industries	High priority	Final standard	Current IFRS 6 – <i>Exploration for and Evaluation of Mineral Resources</i> does not provide a basis for providing investors with high quality and comparable information. We believe there should be an integral IFRS providing literature how to account for these activities.
Presentation and disclosure standards	Medium-high priority	Framework/ Final Standard	In the consultation paper the IASB takes note of criticism that disclosure requirements in IFRSs are considered by some stakeholders to be too voluminous and not always focused on the right disclosures. Though ESMA believes it might be a starting point triggering a wider discussion on the role of disclosures we do not believe that the objective is to provide more or less disclosures but disclosures of the highest quality presented in a helpful fashion.
Discount rate	Medium-high priority		We agree with the Board when it states that IFRSs use a variety of discount rates and that there is a need for more consistency in how to determine discount rates.
Financial Statement Presentation - excluding consideration of other comprehensive income	Medium priority		We agree that revising the IFRS literature on the organisation and presentation of information in the financial statements would be welcome. We believe the Board should heavily liaise with investors and consider future technological developments (such as electronic reporting) in this respect. Though we would have preferred to consider the project as part of a wider debate on performance reporting, we support focusing on cohesiveness and comparability.
Income taxes	Medium priority		We believe that the IASB should develop its thinking to undertake a fundamental review of accounting for income taxes.
Interim reporting	Medium priority		Though ESMA agrees that it is worth to have a look at the current interim reporting requirements, we believe that recent experiences has shown that the scope of such a project should rather be on the disclosure requirements associated with interim reporting than on measurement.
Inflation accounting (revisions to IAS 29)	Medium priority		We agree that potential future economic situations might warrant having a look at inflation accounting.

Post-employment benefits (including pensions)	Medium Priority		Since IAS 19 was first issued, the diversity and complexity of pension schemes have increased significantly. The standards might therefore no longer adequately reflect the range or arrangements that exist now.
Emission trading schemes	Medium priority		We agree with the Board when it states that further guidance is needed on how allowances received from the scheme administrator should be recognised and measured and what liabilities, if any, relating to the receipt of allowance should be recognised and measured.
Share-based payments	Low priority		Though we note that the Interpretations Committee has received several requests for clarification on IFRS 2 we do not think it is time to start a broader-scope project. Alternatively, the Board could decide to start research activities to get a better understanding of the implementation problems that exist.
Earnings per share	Low priority		We agree that there is scope to simplify the calculation of EPS under IAS 33. From the ED published earlier by the Board it seems as its thinking is already quite developed. We believe that the Board could finalise its project if it is close to final. If not, the Board should not start new thinking at this time.
Liabilities - amendments to IAS 37	Low Priority		We believe that the IASB should first finalise the Conceptual Framework before restarting its project on IAS 37.
Agriculture, particularly bearer biological assets	Low priority		We do not believe that the need for a (limited-scope) amendment to IAS 41 has been demonstrated sufficiently.
Intangible assets	Low priority		The role of intangible assets has changed significantly over the last decade. We believe that the IASB should develop its thinking to ensure consistent treatment for intangible assets.
Rate-regulated activities	Low priority		We think that the IASB should explore whether existing standards might be able to provide an acceptable solution without the need to deviate from the Framework.

25. We think that the Board should not take projects on its agenda related to the equity method of accounting, foreign currency translation, government grants and Islamic (Shariah-compliant) transactions and instruments. In addition, we are not convinced that country-by-country reporting is an



issue for the Board to consider as accounting standard-setter. The European Commission already put forward proposals as part of its review of the Transparency Directive.