

c/o KAMMER DER WIRTSCHAFTSTREUHÄNDER
SCHOENBRUNNER STRASSE 222–228/1/6
A-1120 VIENNA
AUSTRIA

TEL +43(1) 81173 228
FAX +43(1) 81173 100
E-MAIL office@frac.at
WEB <http://www.frac.at>

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the IASB's Agenda Consultation 2011.

Principal authors of this comment letter were Leopold Fischl, Christian Gross, David Grünberger, Helmut Kerschbaumer, Roland Nessmann, Gerhard Prachner, Andreas Rauter and Alfred Wagenhofer.

GENERAL REMARKS

At present, most of the pressing issues affecting economies worldwide would appear to be related to the financial crisis and to the need to restore trust in economic entities. The political determination to alleviate the negative effects of the financial crisis is leading to new international solutions for better oversight, e.g., Basel III for banks or Solvency 2 for insurers. Against this background of new and complex international regulatory systems, where regulations are already a significant burden for many companies, it seems to us of crucial importance that the IASB introduces the "period of calm" for preparers and users, during which no new standards or substantial amendments would be adopted. We believe that after the finalisation of the four core projects, Revenue Recognition, Leases, Insurance Contracts and Financial Instruments, no new standards should be adopted for a certain period. We are aware that there are many issues that would benefit from an improvement in existing standards, but there is a definite limit to the ability of preparers and users to make changes in their financial reporting systems or analyses.

SPECIFIC REMARKS

Question 1

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

We believe that the IASB should focus primarily on the four core projects, Revenue Recognition, Leases, Insurance Contracts and Financial Instruments. The IASB should not add more projects to its agenda until the core projects have been finalised.

Meanwhile, the IASB should devote some attention to shaping its views on the development of the Conceptual Framework and also on the efficient mix of principles and rules in the standards. As more jurisdictions and entities adopt IFRSs, it is likely that there will be more calls for guidance on existing standards. The IASB should develop internal views about how much such guidance is necessary and how it should be provided.

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?

Generally, we agree with the IASB on these two categories and the issues in the categories, but offer several observations and suggestions.

The categorisation suggests that post-implementation reviews are purely a maintenance activity. We view post-implementation reviews also as providing input to the further development of financial reporting, because such reviews – if their scope is sufficiently broad – can also indicate the need for more fundamental improvements. While important for allocating the IASB's resources, we believe that the categories should recognise the contents of IFRSs and due process or evaluation activities as separate issues. Thus, post-implementation reviews should be shown as a separate category of process activities.

The document mentions XBRL several times. While XBRL is an important advance in information technology and has potentially strong effects on how financial reports are delivered, we do not think that the IASB's standard-setting deliberations should be shaped by XBRL. Therefore, we do not believe it should be given separate mention in an agenda consultation document that attempts to elicit priorities in the development of standards.

Over the past years, the IASB agenda has been significantly shaped by the convergence efforts with U.S. GAAP. We believe that the convergence of accounting standards should not be included on IASB's agenda in the future. The IASB should rather be the trailblazer and original thinker in accounting worldwide, and listen to all national standard setters, including FASB, in its efforts to develop global standards.

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.

IFRSs are currently applied in a large number of jurisdictions and their quality is judged by how they are implemented. Uniform application therefore seems to be a more pressing issue than has so far been recognised and specific resources should be devoted to meeting these concerns, even though the IASB usually abstains from considering application and enforcement issues.

In addition, we believe that post-implementation reviews, once a process is in place and reviews are conducted regularly, will provide valuable input to direct the allocation of resources to each of these categories.

Question 2

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

The IASB emphasises a principles-based approach to standard-setting. However, neither does the Framework contain any guidance on how this can be achieved, nor are the current standards and suggested issues strongly principles-based. We suggest that a framework for developing principles-based standards should be developed, including consideration of how much guidance and how many rules are required. We note that many issues (see the list of the previous agenda projects) appear to include specific questions that are likely to require specific solutions in terms of additional guidance or rules. Particularly if even more countries and accounting cultures adopt IFRSs, we foresee that the IASB will be swamped with requests for guidance, clarification, and specific rules, which is likely to reduce consistency of the standards. The IASB should allocate more resources to installing an on-going project that runs parallel to other projects and monitors the consistency of IFRSs and their compliance with the Conceptual Framework.

A second source of problems is the differences between exposure drafts and standards: Because parts of some standards – e.g., the examples in IFRS 9 – were not included in the relevant exposure draft, nobody had an opportunity to comment on those examples, which – at least from our point of view – change the exposure draft and its principles in a way which would at the very least have limited our general acceptance of this standard. To guarantee greater transparency, the processes surrounding the users' feedback to IASB's activities should be formalised in the Due Process Handbook.

Problems may also emerge if the standards on Financial Instruments and related standards – e.g., Leases – are not mandatorily applicable at the same time: This could lead to problems of application, if the scopes – and in the cited example, this will clearly be the case – overlap with the scopes of standards already in force.

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?

As commented earlier, we agree that the IASB should finalise the four core projects, Revenue Recognition, Leases, Insurance Contracts, and Financial Instruments.

We note that these projects are closely related to Conceptual Framework issues, so that completion of the projects may have an impact on framework deliberations. The projects deal with important sets of transactions and contracts that tie into the definition of assets and liabilities and their measurement. Therefore, we believe that the development of these standards will pre-empt several issues of the Conceptual Framework discussions (as did the consolidation project with the reporting entity phase). We note that the discussions of the Conceptual Framework have been highly controversial (and more controversial than many standards) and have taken much more time than anticipated. Therefore, we suggest that the Conceptual Framework should be a continuing project running in parallel to other projects. We believe it is not realistic to assume that one can develop a framework first that guides the development of standards later: history has shown that frameworks have developed after the main set of standards was in place, that current standards are often highly inconsistent with

the framework, and that new projects offer new insights into fundamental concepts that are the basis of any framework. Any finished (and not continuously evolving) framework would therefore have to be at an extremely high level of abstraction and would be a poor guide in standard-setting and application.

As integrated reporting is likely to become increasingly important in the future, the IASB should try to consider the principles of integrated reporting when dealing with the Conceptual Framework and consistency of IFRSs.

We suggest that the IASB prioritises those projects that have the potential to improve financial reporting the most (benefit) relative to the chance of finishing them successfully in time (cost). This basic cost-benefit trade-off could lead to the IASB first picking low-hanging fruit before undertaking fundamental projects that may create problems of consistency with existing standards. We believe that the effects analyses and post-implementation reviews the IASB undertakes will increase its expertise in estimating costs and benefits.

Having reviewed the list of projects included in the consultation document, our shortlist of the more important projects (in alphabetical order) that should be considered after the four core projects have been completed (or to the extent that resources not needed for the core projects permit) is as follows:

- Business combinations between entities under common control
- Emissions trading schemes
- Financial instruments with characteristics of equity
- Other comprehensive income
- Presentation and disclosure standard (including a project on the simplification/reduction of disclosures).

We consider that the other projects mentioned in the list are of lower priority than these projects.

Question 2(b)

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) 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 but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

We suggest focusing on the priorities mentioned above and not including the rest of the projects on the IASB's agenda. This would set more resources free to concentrate on the four core projects, and the projects listed above as and when the core projects are successfully completed or leave resources available.

We note that explanations for some of the projects on the list mention work done by other bodies than the IASB itself, in particular, national standard-setters or groups of standard-setters, such as EFRAG. The IASB should consider outsourcing some of the basic and preparatory work to such institutions. This would help conclusions to be arrived at more quickly.

Kind regards,

Romuald Bertl

Chairman