EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

EUROPEAN COMMISSION

EFRAG

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PANEL

- Philippe Danjou – *IASB member*

- Françoise Flores – *EFRAG Chairman*

- Jeroen Hooijer – *Head of Unit – DG Market*

PREPARATION OF THE FEEDBACK STATEMENT

This note has been prepared for the convenience of European constituents by the EFRAG secretariat. It has been reviewed by representatives of the IASB and has been jointly approved for publication by representatives of EFRAG and the European Commission attending the event.

Introduction

In July 2011 the IASB published its Agenda Consultation 2011. In this request for views, the IASB asks for constituents' views on the strategic balance and direction and specific projects to be included on its agenda. EFRAG published its draft comment letter in response to the consultation in August 2011. In addition, EFRAG, in co-operation with National Standard Setters and the European Commission, arranged a series of outreach events to obtain input from European constituents and to understand their main priorities and needs.

This feedback statement summarises the comments made at the outreach event arranged in co-operation with the European Commission (EC) on 25 November 2011 in Brussels.

The discussion focused on the issues related to:

- Agenda setting process

  o IASB's broad strategic direction

  o Evidence based agenda setting process

  o Request for a period of calm

  o The role of convergence

  o Enhancement of the Conceptual Framework

  o Standard setting process

- Specific projects to be included on the IASB's agenda

  o Projects suggested by participants

Agenda setting process

IASB's broad strategic direction

The IASB's agenda consultation document (hereafter referred to as the 'IASB's Request') invites constituents to comment on the IASB's strategic priorities, and how it should balance those over the next three years. The IASB member present at the event highlighted the importance of European constituents' views in shaping the IASB's broad strategic direction. The IASB member noted that, since the start of IASB's operations, there has been an external pressure (e.g. financial crisis, convergence with US GAAP) to include projects on the agenda without an overall consultation on what should be included. The IASB's Request is an open and transparent

process aimed at understanding the needs of investors, users, companies and other interested parties that are not currently fulfilled by the IFRS.

The IASB's Request identifies five strategic areas and groups them into two categories: developing financial reporting and maintaining existing IFRS standards. EFRAG's tentative views are that such a distinction into two categories is rather artificial since the activities are inter-related.

The IASB member noted that, in overall terms, EFRAG's thoughts on the IASB's broad strategic direction are generally consistent with the recommendations the IASB received from the IFRS Advisory Council. Regarding the IASB's proposed groupings for the five strategic areas, the IASB member believed that European constituents should not attach too much importance to the architecture of the request itself, as the structure is only meant to facilitate discussions.

Participants in the event completed a short survey which invited them to balance IASB's resource efforts between various strategic priorities. The following graphic shows the results obtained based on 26 participants that completed the questionnaire:
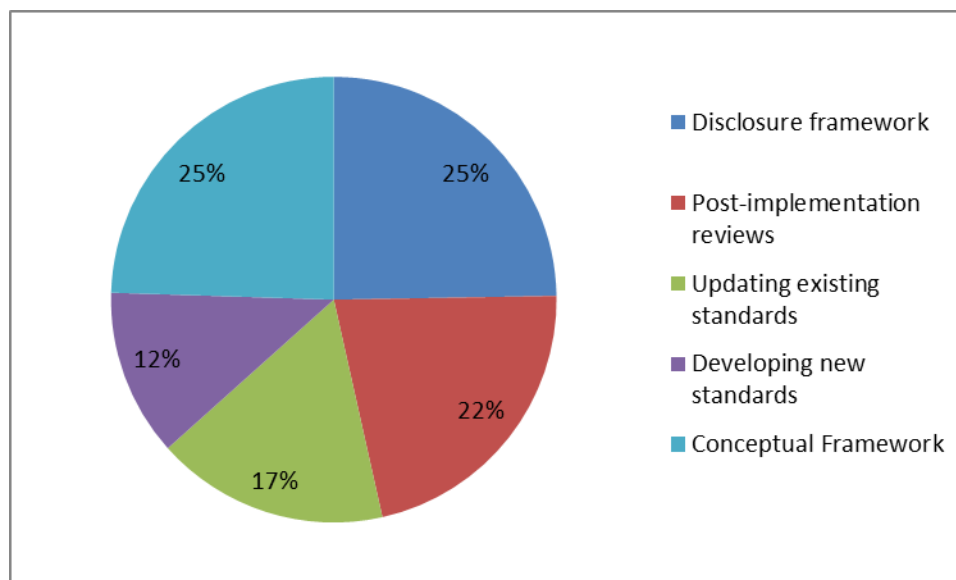
In overall terms, participants believed the above strategic activities were highly interrelated. Participants highlighted the need for finalising and enhancing the Conceptual Framework and developing a Disclosure Framework. It was noted that developing and updating standards may not have sense without the completion of the Conceptual Framework, and that the IASB should ensure consistency with the request for a stable platform of IFRS.

Regarding the allocation of resources, one preparer believed the IASB should reserve some time for unexpected events and urgent issues. One lesson learnt from the last few years is that

the IASB should have the ability to react to changes in economic and business environment by shifting resources allocated to the different strategic areas if needed, i.e. the agenda should stay alive and would be adapted depending on specific circumstances.

Evidence-based agenda setting process

In its draft comment letter, EFRAG states that agenda decisions should be based on an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. When there is evidence that a new standard, or amendment to an existing standard, is needed, the next step should be to develop a specified project proposal. Possible evidence may include a gap in the existing IFRS requirements and situations where information becomes less relevant or may be a result of post-implementation reviews.

EFRAG suggests in its comment letter that the project proposals should specify the evidence of the need for the new standard or amendment as well as its objective and scope in order to, at a later stage, be able to assess whether the application results in high quality and improved information. The EFRAG Chairman referred to those activities as a first step of the evidence-based process, aiming at gathering facts and not only views. If evidence of the need exists, then a second step will be conduct based on submitting the project proposals to public consultation. The IASB representative highlighted that agenda decisions made by the Board are always, according to the 'Due process handbook', based on a careful scope definition, and detailed analysis of the users' needs that the standard should respond to.

Participants in the event, including the representatives of certain National Standards Setters, seemed largely to support an evidence-based agenda setting process.

A participant noted that an evidence-based agenda setting would allow considering topics for which there is a void in IFRS, e.g. extractive activities and emission trading schemes. If such evidence exists, the IASB should work on them in order to achieve a reasonable comprehensive set of standards. From his point of view, the IASB, as a global standard setter, should develop a rationale and clear criteria to include projects on the agenda and to prioritise projects. The number of comment letters received may not be a good indicator.

The IASB member clarified that the IASB's starting point is the feedback received from users and preparers; this first step is then always followed by a technical assessment and evaluation of resources needed to complete the project before including any project on the agenda.

A participant from an audit firm noted that the assessment of possible projects to be included in the IASB's agenda should be based on their urgency, importance and prevalence. She believed that these characteristics need to be better defined and that the IASB should set clear criteria for selecting projects for its agenda and assessing their relative priorities.

A participant from a professional business association noted that under an evidence-based agenda setting approach, a convincing justification of the benefits of the project should always be provided. Recent projects where he thought the justification was not sufficient include the new Exposure Draft on *Revenue from contracts with customers.* He was not convinced this standard would represent a clear superior standard compared to the current IAS 18 *Revenue Recognition.*

The EFRAG Chairman noted that EFRAG's proposals will result in more consultation before the IASB can include a project on its agenda and wondered whether this will put too much pressure on constituents. Particularly, she was interested in knowing preparers' willingness to participate in such efforts and if they have any indication on what should be the limits.

One preparer responded that the process should be flexible enough to allow stakeholders to manage their limited resources. She believed that giving relevant feedback is vital and this implies to invest a necessary amount of time. The preparer referred to the field testing activities EFRAG is currently carrying on the new Exposure Draft *Revenue from contracts with costumers*; EFRAG needs to consider the various activities going on from the perspective of preparers in order to appropriately accommodate additional requests and comments.

Although in overall terms participants were in favour of an evidence-based agenda setting process, a participant noted that this proposal may be somehow inconsistent with a period of calm. Gathering evidence based on IFRS practice could result in a significant amount of issues that need to be addressed, which could be in conflict with EFRAG's message of a period of calm. The participant believed the notion of a period of calm would not be impaired if the issues resulting from evidence are first included in a research agenda. The research agenda would be an intermediate stage in an evidence-based agenda setting process which would allow not only for a more effective and easier management of the various issues, before they result in new project proposal, but for managing stakeholders' expectations as well.

Request for a period of calm

The EFRAG Chairman highlighted that a period of calm was a precondition for achieving what EFRAG argued should be the most important objectives of the IASB: (i) to mitigate the risk that the development and changes to IFRS would not be well understood by users and preparers, and (ii) to mitigate the risk that IFRS standards would not be implemented in a consistent manner by those already applying them or moving to their adoption. She believed constituents would prefer a stable platform of standards before further substantial projects are undertaken and the IASB should serve to that objective.

The EFRAG Chairman also noted that a period of calm did not mean that the IASB should not do anything in the forthcoming period, it means that the IASB (as a principle) should not finalise projects having pervasive effects on financial reporting within this period, unless there is wide

consensus among those that apply IFRS that the pervasive change is needed. She stressed that EFRAG's main messages included in its draft comment letter regarding the IASB's future work should be understood in a context where the four main projects included in the IASB's current work plan are finalised (i.e. the standards on Revenue from Contracts with Customers, Leases, Financial Instruments and Insurance Contracts). Therefore, the IASB would be able to focus during this period on those four main projects, on the finalisation of the main parts of the Conceptual Framework, and on any other important issues raised by stakeholders.

Participants in the event generally agreed on the above notion of a 'period of calm' and expressed different arguments and points of view.

One preparer and EFRAG TEG member, believed that changing IFRS continuously has several critical undesired consequences, including (i) financial reporting internal control systems could be weakened, (ii) impairment of the quality of the performance figures reported by companies, and (iii) generating uncertainty for investors when they assess companies' performance. There is the possibility that errors result from applying control procedures due to misunderstandings of the standards and the changes to standards, misjudgments, lack of personal attention, and operational issues. As a consequence, the expected reliability of the internal control systems may be more affected in a situation where changes to IFRS do not cease.

A participant from an audit firm noted the IASB should ensure that the agenda remains balanced and manageable, comprising a blend of standard-level projects, narrow-scope amendments and research activities in progress at any time. In this sense, it is important to limit the number of projects in progress. She believed this balance is important not only from the IASB's perspective, but also from that of preparers and users and would allow for this notion of a 'period of calm'.

One preparer noted that in the last four years the level of the IASB's activity has increased due to the convergence process and the financial crisis. There were many exposure drafts and new proposals in the past few years. Preparers and users need time to understand the standards and assess their implications. The participant believed that before undertaking new projects, it is really necessary to give at least some time to become familiar with the various standards in order to ensure the consistency and quality of their application; if not, the process will be unsustainable. The participant also suggested that the IASB should describe more precisely the critical milestones of the projects-standards. From her point of view, it seemed that the IASB is working for a self-imposed deadline which is not necessarily supported by users and preparers.

The IASB member agreed that the IASB could better explain in its various papers (discussion papers, exposure drafts and standards) the reasons for undertaking the projects and provide more information about its assessment. However, he believed the IASB is on track to improving; since July 2011 certain changes have already taken place, e.g. the frequency of Board meetings has been reduced and the IASB is paying more attention to a careful management of its agenda. He referred to the standard on Revenue Recognition which has been recently re-exposed.

Taking into consideration only a pure technical assessment, the re-exposure could have been limited to certain specific new proposals which represent significant differences compared to those included in the initial Exposure Draft. However, the Board preferred to re-expose the full text in order to achieve a high quality standard. He was expecting that IASB's decisions on projects on Lease Contracts, Impairment and Insurance Contracts will be similar.

The IASB member also noted that the IASB is working towards targets rather than meeting specific deadlines in its standards development process; however, they know that some decisions cannot be delayed forever, and that an agreement is needed. He noted that the leaders of the G-20 were responsible for deadline settings when they called on international accounting bodies to achieve a single set of standards. From his point of view, although the deadlines set by the G-20 had not been very realistic; it must be said that it was extremely difficult to foresee how difficult the convergence process would be.

The EFRAG Chairman believed that most of the comments heard in the meeting reflect past or current issues and was pleased with the IASB's change of course initiated last July 2011. She noted that there is a difference between meeting objectives and deadlines, and it would be of interest to constituents to come back to a reasonable pace of change.

The role of convergence

It was discussed whether convergence should still play a role in the agenda setting. The EFRAG Chairman noted the difficulty to articulate a clear view and position on convergence. She noted that EFRAG and European constituents support IFRS as a single set of high quality global financial reporting standards. She believed there is evidence the IASB moved away of European constituents needs when it was focusing on the convergence process, and that this process has not in all cases led to high quality global standards. The EFRAG Chairman stressed that the real driver of the agenda setting should be to increase the quality of financial reporting rather than convergence by itself. If the IASB is committed towards achieving high quality global standards, more jurisdictions will adopt IFRS in the future.

Regarding the objective to achieve high quality standards, one preparer suggested the IASB, as a financial reporting standard setter, to consider different attributes for the financial statements. The participant also believed that the attribute of high quality cannot be considered in isolation; instead, it should be assessed in relation to the outcome, i.e. whether standards result in ultimate reliable and useful financial reporting. From his point of view, the IASB is not always considering if the information provided under current IFRS is useful for the decision-making process.

The IASB member noted that the relevance of the information and its reliability are two key factors (included in the IASB Due Process Handbook) which are considered when deciding to

add a project to the technical agenda; however, he acknowledged that the IASB may have to improve in communicating this assessment to stakeholders.

A participant from an audit firm believed that the IASB should focus on developing a comprehensive set of high-quality financial reporting standards based on clear principles.

Enhancement of the Conceptual Framework

In its draft comment letter, EFRAG agrees with the IASB's view that one of the projects and priorities of the IASB should be the enhancement of the Conceptual Framework.

The EFRAG Chairman noted that EFRAG's draft comment letter may have been imprecise when referring to the Conceptual Framework. She believed that reviewing and enhancing the existing Conceptual Framework is necessary to clarify the underlying financial reporting model that should drive further developments of high quality IFRS, and should be a high priority for the IASB. She also stressed that this project should not be allowed to take a lot of years; instead, the IASB should identify priorities, i.e. revise the current Framework or some of its parts to the extent that they have proven deficient or incomplete. It should be noted that EFRAG's proposals for enhancing the Conceptual Framework also include the development of a Disclosure Framework.

The majority of the participants agreed that completing the Conceptual Framework should be a priority since its incompleteness was unhelpful for the discussions and due process. Participants also believed there was a need to develop a Disclosure Framework; some suggested addressing it separately, whereas others believed it should be a comprehensive part of the Conceptual Framework.

One member of a National Standard Setter noted that if stakeholders look for a stable platform of standards, it is reasonable to start from the beginning, i.e. from the Conceptual Framework. From his point of view, it is meaningless to divide their completion and enhancement in different phases; he would prefer a complete document that needed to be implemented only once. He believed the following items are important: (i) the distinction between transactions recognised in other Comprehensive Income and in profit or loss, (ii) the recycling mechanics between the two statements, and (iii) the development of the ideas underlying the notion of 'performance reporting'. The participant also noted that many constituents are complaining about the current amount of disclosure requirements and believed the IASB should make progress towards achieving their reduction through the development of a Disclosure Framework. While the reduction on the overall amount of disclosures is an objective also shared with other initiatives - such as integrated reporting -, the participant believed that a sound Conceptual Framework is needed.

A participant from an audit firm agreed with prioritising certain parts of the Conceptual Framework and believed its completion and enhancement could be done in various phases. In

addition to the above mentioned issues the participant also referred to the definition of assets and liabilities, including the distinction between liabilities and equity as a priority.

Another participant from an audit firm believed the IASB should continue developing and refining the Conceptual Framework in order to provide a clear set of principles to support individual standards. The Conceptual Framework should, however, remain a 'living document' to be assessed as new standards are developed. In this way, the Conceptual Framework could evolve as the reporting environment changes. In addition, she noted that not only is the amount of disclosure an issue that has been the subject of much criticism during the current financial crisis, but also poor disclosures, excessive or immaterial disclosures, make it difficult to assess an entity's performance. She welcomed certain worldwide initiatives to deal with this subject given that, from her point of view, consolidating all disclosure guidance into a single standard, as proposed in the Agenda Request, would not by itself achieve the necessary improvement.

The EFRAG Chairman also noted that in the last years the Conceptual Framework has been one of the topics most reiterated by EFRAG in its comment letters to the IASB. EFRAG believes that before the IASB introduces a fundamental change in the accounting model, a conceptual debate should take place first. EFRAG also states that, unless there are strong and convincing arguments for the contrary, new standards that are in conflict with the Conceptual Framework should not be issued unless there is wide consensus among those who apply IFRS that the pervasive change is needed. The EFRAG Chairman noted that this message results from the need to understand the standards; although the IASB is in charge of developing the accounting model, stakeholders need to understand it. However, this view does not prevent a pragmatic approach to the real IFRS practice since there could be situations were an issue needs to be fulfilled and there is a contradiction with the Conceptual Framework.

Reacting to these thoughts, one member of a National Standard Setter noted that it makes no sense developing further standards if the Conceptual Framework is not complete.

Standard setting process

By issuing interpretations of IFRS, the IFRS Interpretations Committee (IFRSIC) has a responsibility in maintaining IFRS by developing interpretations and proposing amendments through annual improvements to standards. However, the IASB's Request neither clarifies whether the IFRSIC should be more involved in the agenda setting process, nor does it articulate the future responsibilities in the forthcoming years of IFRSIC.

A preparer noted that there are some issues coming out from specific industries with a complexity and scoping that fall both outside the boundaries of the need for a new standard (because these are too minor), and outside those being addressed by IFRSIC as interpretations or annual improvements (too major). The participant believed the IASB should develop a mechanism to deal with such type of issues, which could be a real problem for particular

industries, without getting into a rules-based approach. Another participant agreed with this thought and suggested the IASB should adapt its due process to handle those specific problems in a way that is most suitable.

A preparer expressed her disappointment with the work carried out by the IFRSIC and referred to certain issues, presented to this Committee the year before, for which they have not been informed about the follow-up . The IASB member noted the IASB would follow those discussions.

A participant from a professional accounting association believed there is a need for a profound review of all the existing standards with the objective of ensuring that concepts and definitions are being used consistently across the standards, and that each of the standards is consistent with the Conceptual Framework. This review should also include the four main forthcoming standards. From his point of view, it was not satisfactory to rely on post-implementation reviews to identify weaknesses and practical problems.

Related to post-implementation reviews, another participant suggested that the IASB should extend these activities to all existing standards. On the one hand, this would allow identifying those requirements in standards that are broken or need further guidance, and on the other, the IASB would gather valuable information on different issues by jurisdiction and industry.

Specific projects to be included on the IASB's agenda

Projects suggested by participants

The IASB member noted that it was the first time the IASB addressed its agenda setting through a public consultation and this would be an on-going process every three years. The IASB would add new projects as needs arrive, or decide to take some projects off or defer them. However, the IASB could also react to changes in economic and business reality changing in the meantime in a work plan previously defined if needed, i.e. the agenda is alive and would be adapted depending on specific circumstances.

One preparer noted their disappointment regarding the list of projects included in the Agenda Request. The appendix includes currently 23 projects but should be around 60 items if the Conceptual Framework and the various issues submitted to the IFRS Interpretation Committee were included. She believed there is a lot of room for improvement and suggested a different approach to the agenda setting. The IASB should undertake a programme of work on fundamental issues which are common to all the existing standards and to those currently under development, and which can also be perceived behind many of the suggestions for projects to be added to the IASB's agenda. As illustrative example, she referred to the notion of assets; if the IASB decided to develop its definition and recognition principles, then it could deal with the ongoing projects on Leases and Revenue Recognition and with some existing and deferred projects such as IAS 16, IAS 38 or emission trading schemes. This would also mean that she

could hardly see a period of calm. The participant referred to the point of view expressed by ACTEO in its comment letter.

The IASB member clarified that the Appendix included in the Agenda Request is not intended to be a comprehensive list of the various issues that constituents face. The Appendix aims to be a reminder of the projects that have been initiated but not completed, and of the requests that have been brought to the attention of the IASB. He personally believed some projects were justified by real needs whereas others, although they were communicated by constituents, should not be included in the agenda. In any case, the IASB is not committed to assessing only the projects included in the Appendix and will carry out an open assessment of users and preparers' needs.

Participants completed a short survey on what specific projects they thought should be included on IASB's agenda and what projects should not be included. The survey was based on the list included in the IASB's consultation document of projects previously added to IASB's agenda but deferred, and new project suggestions. However, participants could also include other projects they thought were important. The survey was completed by 26 participants.

The top projects to be included were (in descending order):

- Conceptual Framework (18);

- Presentation and disclosure standard (17);

- Other comprehensive income (16);

- Financial instruments with characteristics of equity (12);

- Business Combinations between entities under Common Control (10); and

- Financial statement presentation (excluding other comprehensive income) (8).

The common position of participants in the event, reflected in the questionnaires or through their comments, was that the IASB should also complete the four main projects it has on its agenda regarding revenue recognition, leases, financial instruments and insurance contracts. The majority of participants agreed that the Conceptual Framework and the Disclosure Framework should be amongst the first priorities of the IASB, which was consistent with the previous comments heard during the event.

The IASB member was somehow surprised by the above results, since a project on intangible assets was not in the list of preferred projects, whereas he assumed that users are interested in this topic.

A participant from an association which represents insurance companies responded that the IASB should not pursue the project on intangible assets at this stage, since previous work on this topic has already shown that it is unlikely that sufficient benefits will result from its development. For similar reasons, this participant also suggested postponing a project on financial instruments with characteristics of equity.

A participant from a professional accounting association noted that intangible assets by themselves should not be a separate IASB project; rather the focus should be on the asset definition included in the Conceptual Framework. The participant offered the assistance of the organisation he represented to work in collaboration with the IASB.

Another participant also noted that preparers were reluctant to recognise internally generated intangible assets; however, he believed that different methodologies were already available to measure this type of assets.

The EFRAG Chairman noted that EFRAG's proactive projects that were advanced - or close to their publication - could be included in the next IASB agenda and used as valuable initial input for IASB's work. These projects are carried out in cooperation with different National Standard Setters and include topics such as Business Combinations under Common Control (BCUCC), Income taxes, and Disclosure Framework. She stressed that BCUCC is one type of transaction that is neither covered currently under IFRS principles nor in the guidance.

Based on the results obtained in the survey, it seemed that participants in the event attached some importance to the project on BCUCC. A participant from a National Standard Setter agreed on the importance of this project. Another participant from a European Supervisory Body believed it was also an important project together with the disclosure framework.

Some participants suggested that the IASB should go one step further and deal with common control transactions under a broader approach, since business combinations are only one aspect of the issue.

The EFRAG Chairman was also interested in participants' opinions regarding a project on financial statement presentation (excluding OCI).

A participant from an audit firm responded that she would not recommend undertaking such a project. Presentation could not be addressed in a meaningful way until the conceptual basis of the elements of financial statements, and the notion of performance, have been established. She believed that, once these parts are segregated from the project, there is no evidence that financial statement presentation is broken. A preparer suggested delaying this topic to a later stage. The EFRAG Chairman asked once all the new standards are implemented and used how much time would be needed before a change in financial statement presentation would be reasonable. The preparer responded that at the earliest this could be 2015 or 2016. Any change would need to meet the criteria of urgent and prevalent attributes.

During the event, other projects suggested by participants to be included in the agenda were a standard focusing on presentation for small and medium entities, and a standard for non-profit entities.

Participants thought the least important projects for the IASB's agenda were:

- Country-by-country reporting (11);

- Islamic transactions and instruments (11);

- Agriculture (7);

- Extractive activities (7);

- Inflation accounting (6); and

- Rate regulated activities (6).

The EC representative noted that the European Parliament considered there to be a strong public policy reasons to pursue country-by-country reporting. The European Commission has adopted legislative proposals for country-by-country reporting which would require EU listed and non listed large companies to disclose their payments to governments for oil, gas, minerals and wood industry on a country-by-country and per project basis. The EC representative believed it is a global issue that needs to have the attention of the IASB.

The EFRAG Chairman noted that, excluding the above mentioned project, all the other projects considered of less importance seemed to affect only certain parts of the word. She asked participants whether there could be a reconciliation of the above projects with a period of calm, i.e. whether they are willing to develop standards on such topics that mainly apply to certain jurisdictions.

As an illustrative example, the EC representative noted that he visited India the week before the event and a project on agriculture would be very appreciated by that country.

A participant from a National Standard Setter believed it was not the right way to pursue, since a small amendment can have a significant pervasive effect in the financial reporting that will impact all jurisdictions.

Another participant believed that there could be other solutions to engage than a new standard on Islamic transactions, and suggested that there may be space for a research project to promote debate on the issue.

Once the discussion was finalised, a participant from an audit firm asked the IASB member how the IASB is going to address the different suggestions they receive. The firm for which he worked discussed the agenda at international level, and different opinions came out from different countries being difficult to reach a consensus. The EC representative wondered also how the IASB is going to reconcile the suggestions with the idea of a period of calm.

The IASB Member responded that the Agenda Request is the first step in answering this question. Once the IASB has received all the comment letters from constituents and before making any decision, they will assess the nature and complexity of the issues identified in order to make - somehow - a distinction between issues of which the scope could be a project and issues that can be dealt with as improvements. They will then consult with the IFRS Advisory Council and the National Standard Setters.

A participant noted that a global standard setter has first to think of how he is going to decide on the different projects suggested; as a result, some rationale and criteria were needed. The IASB should take into consideration that certain countries in the world are less active or do not take part in the comment process. Another participant added that the IASB should not undertake directly the suggestions made by constituents; what is compelling in one jurisdiction is often not an issue in others and vice versa.