

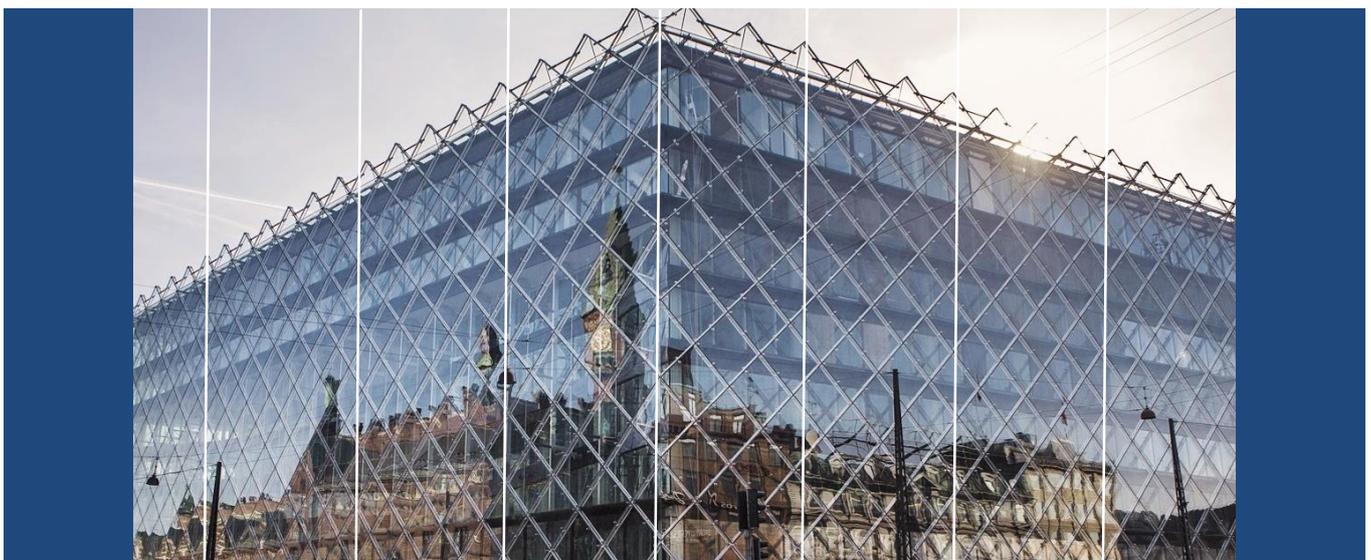
OUTREACH EVENT

IASB AND EFRAG AGENDA CONSULTATION

REQUEST FOR VIEWS

COPENHAGEN

25 NOVEMBER 2015



This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by IASB staff and has been jointly approved for publication by representatives of EFRAG, the Danish Accounting Standards Committee and Confederation of Danish Industry who attended the outreach event.

Introduction

EFRAG together with the IASB organised two outreach events, one in Paris and another in Copenhagen, covering the IASB's *2015 Agenda Consultation, Trustees' Review of Structure and Effectiveness: Issues for the Review*, the EFRAG Proactive Work Consultation and EFRAG's response to the IASB's *2015 Agenda Consultation*. This report has been prepared for the convenience of European constituents to summarise an outreach event held in Copenhagen on 25 November 2015 and organised by EFRAG, the IASB, the Confederation of Danish Industry and the Danish Accounting Standards Committee.

Kristian Koktvedgaard (Confederation of Danish Industry) and Torben Johansen (Danish Standard Accounting Committee) opened the outreach event and welcomed EFRAG, the IASB and the participants.

At the conference, Peter Clark (IASB Technical Director) and April Pitman (IASB Senior Technical Manager) introduced the IASB's *2015 Agenda Consultation* and explained that the Trustees of the International Financial Reporting Standards (IFRS) Foundation were, in parallel, seeking input on issues related to the structure and effectiveness of the organisation. Finally, they stressed the importance of the *2015 Agenda Consultation* for the IASB in setting its strategies and priorities for the upcoming years. In its agenda consultation, the IASB wanted to understand not only which topics were important for stakeholders but also why those topics were considered relevant.

Subsequently, Saskia Slomp (EFRAG Director) presented EFRAG's initial views on the IASB's *2015 Agenda Consultation* and request for views on *Trustees' Review of Structure and Effectiveness* (on consistent application of IFRS). Saskia Slomp also noted that EFRAG had decided to launch its own Proactive Agenda Consultation (concurrently with the IASB's *2015 Agenda Consultation*) where it sought views on the effectiveness of EFRAG's proactive work, the coordination of its proactive work with the IASB and what new proactive projects constituents believe EFRAG should undertake.

Summary of observations

Participants at the event expressed the following views:

- changes to standards, however small, are burdensome and time-consuming. It would be better if the IASB would focus on major projects, maintaining its principles-based approach, and make less recurrent changes;
- the *Disclosure Initiative* was ranked as one of the most relevant projects and *Goodwill and impairment* was considered an important issue that the IASB needed to work on;
- the progress on the Conceptual Framework project was welcomed and it was important to conclude the project. However, the final outcome should not be very academic or difficult to work with. There was also a concern about some of the "open questions" such as the distinction between liabilities and equity;
- Business Combinations Under Common Control is still a recurring issue for which there is no guidance;
- The IASB should rapidly finalise the *Insurance Contracts* project; and
- The IASB should have an active role in corporate reporting discussions.

Discussion

Main comments received

The IASB staff explained how the 2011 agenda consultation had impacted the IASB's work plan and the different stages of the standard-setting process.

EFRAG encouraged the IASB to maintain its principles-based approach and asked the IASB to better communicate how the identified factors are applied in practice in prioritising project.

Setting priorities on the main areas of technical work

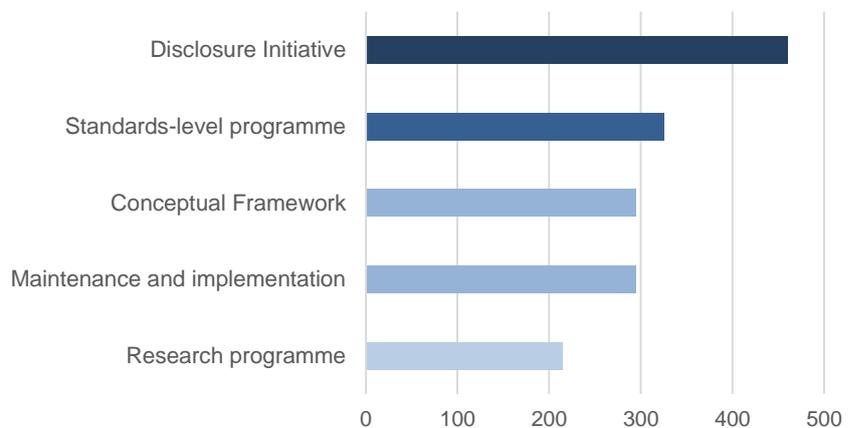
April Pitman mentioned the IASB's Feedback Statement related to the *2011 Agenda Consultation* and recalled how it had impacted the IASB's work plan and standard-setting process. In particular, April Pitman referred to the IASB's criteria for allocation of resources and prioritisation of topics which had been developed after the *2011 Agenda Consultation*. April Pitman finally emphasised that the IASB was now asking for stakeholders' views on the factors that the IASB should consider when deciding the allocation of resources.

Peter Clark added that after the *2011 Agenda Consultation* the IASB had decided, in response to the feedback received, to give more emphasis to the issues related to consistent application and implementation of IFRS. As a result, since then the IASB had issued 15 annual improvements, narrow-scope amendments or interpretations and, in addition, the IFRS Interpretations Committee had issued 54 agenda decisions. Finally, Peter Clark explained that although the IASB had discussed ways of providing a quantitative assessment of the factors, it had been difficult to find a useful way to do this.

Saskia Slomp stressed the need for a strong quality control before the publication of final standards and encouraged the IASB to maintain their principles-based approach without developing too detailed guidance. Saskia Slomp also explained that EFRAG had tentatively agreed with the factors identified by the IASB for prioritisation in its work plan; however EFRAG had requested the IASB to better communicate how the identified factors are applied in practice and what their relative weight is.

At the conference, participants were asked to complete a survey (Appendix 1 - *Questionnaire*). On question two of the survey, participants were asked to allocate a total of 100 points to various strategic priorities identified in the IASB's *Request for Views: 2015 Agenda Consultation*. The outcome of the 16 completed questionnaires is presented in a chart below.

Allocation of points to the five main areas of the IASB's technical projects



One participant pointed out that there is a limit to the number of projects that stakeholders and the national standard setters' boards can handle especially given the fact that they also have to deal with initiatives from other standard setters, legislators and regulatory bodies. Therefore, time is a key factor when deciding on the number of projects that the IASB should undertake and on the timing of new projects.

Changes to IFRS, however small, are burdensome and time-consuming. It would be better if the IASB would focus on major projects and make less recurrent changes.

Some participants expressed concerns about the significant number of small and narrow-scope changes that the IASB was making to the existing Standards. These participants noted that changes to Standards, however small, were burdensome and time-consuming for preparers, national standard setters, auditors, etc. These participants acknowledged that IFRS were a set of global standards and that some countries needed more detailed guidance than others. Still, they considered that it would be better if the IASB focused on major projects and make less changes.

April Pitman acknowledged the importance of stakeholders' availability of time and their concerns on consultation burden. Nonetheless, the IASB was looking for a balanced position which was not always easy to achieve. Peter Clark recollected that in 2011 the IASB had been urged to be more responsive to the issues that came up at a practical level. To address these concerns, the IASB changed to a more responsive mode and launched a large number of smaller projects. He noted that now it was time to understand whether or not the IASB had reached an appropriate position.

Main comments received

Setting priorities at project level

The IASB staff presented the IASB's current research programme. Most of the projects on the research programme had been added in response to the feedback received in the *2011 Agenda Consultation* and these projects varied in terms of scope, complexity and stage of development.

Assessment phase	Development phase	On hold
Definition of a business	Business combinations under common control	Extractive activities
Discount rates	Principles of disclosure	Foreign currency translation
Disclosure initiative	Dynamic risk management	High inflation
Goodwill & impairment	Equity method	
Income taxes	Financial instruments with characteristics of equity	
Pollutant pricing mechanisms		
Post-employment benefits		
Primary financial statements		
Provisions, contingent liabilities and contingent assets		
Share-based payment		

EFRAG staff explained its tentative views on the level of priority of the different projects of the IASB.

On EFRAG's tentative response to the IASB, Saskia Slomp explained that EFRAG considered that the IASB's projects *Insurance Contracts* and *Conceptual Framework* should have a high priority. She also highlighted the need for progress on the IASB's *Disclosure Initiative* and *Dynamic Risk Management*. It was also suggested that the IASB should leverage its research activities by relying on the work of others and creating synergies. Finally, Saskia Slomp explained EFRAG's initial views on the level of priority of the existing IASB's research projects (table below). She also mentioned that that primary financial statements is a fundamental project for users.

High priority	Medium priority	Low / Very low priority
Financial Instruments with characteristics of equity	Post-employment benefits	Foreign currency translation
Equity method	Provisions	High inflation
Disclosure initiative	Discontinued operations	Extractive activities/ Intangible assets
Dynamic risk management	BCUCC	
	Pollutant Pricing mechanisms	
	Discount rates	
	Definition of business	

EFRAG did not reach a consensus on the rating of:

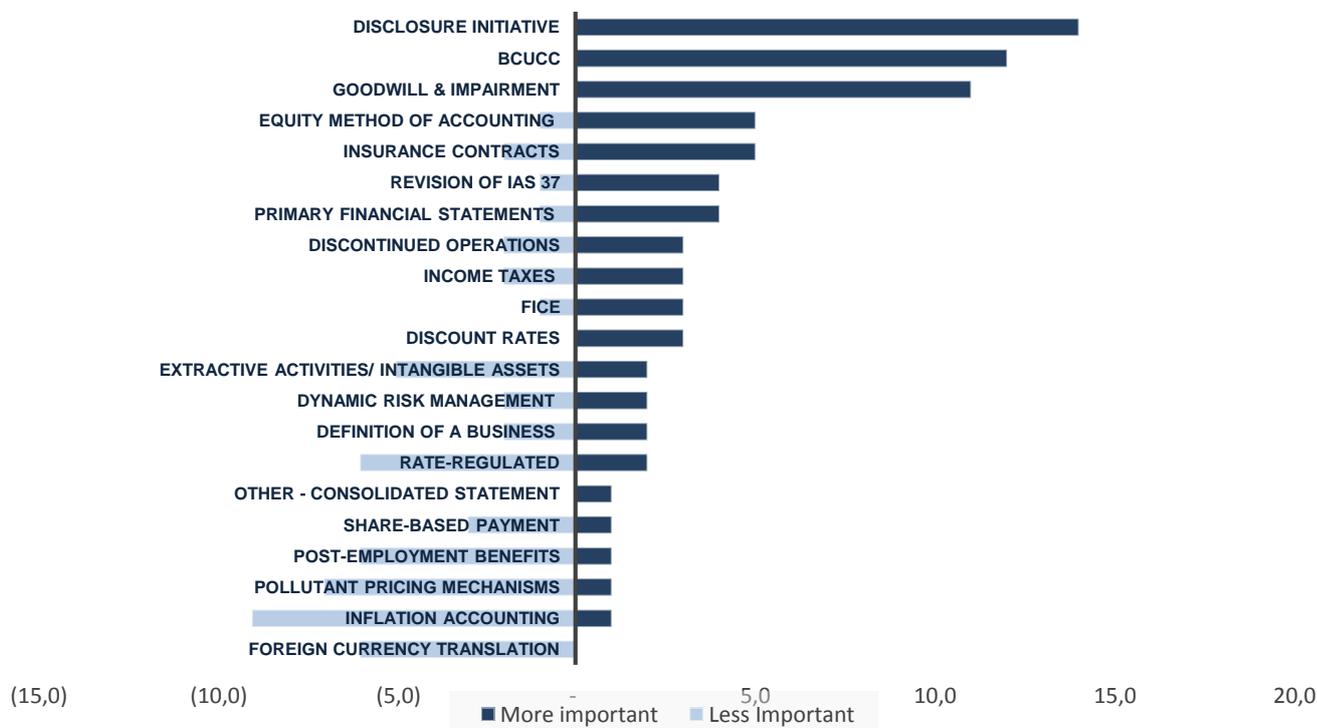
Share-based payments

Primary financial statements (between high and medium)

Goodwill and impairment (Impairment improvements rated as High. Different views on reconsideration of annual amortisation for goodwill)

At the conference, participants were asked to fill a survey (attached as Appendix 1 - *Questionnaire*). On question three of the survey, participants were asked to identify the five most relevant IASB's projects. They were also asked to identify the least relevant projects. The outcome of the 16 completed questionnaires is presented in a chart below:

The most relevant and the least important IASB's projects



In general, participants agreed that the IASB's projects *Goodwill and Impairment*, *Disclosure Initiative*, *Business Combinations under Common Control (BCUCC)*, *Conceptual Framework* and *Insurance Contracts* were important.

Goodwill and impairment is an important and urgent issue that the IASB needs to work on.

Participants referred to ***Goodwill and Impairment*** as an important and urgent issue that the IASB needed to address in the near future. Participants referred to the following:

- the IASB should discuss in its research project the value and relevance of the existing impairment-only approach. For example, one participant did not favour the concept of having assets in the balance sheet that were not being amortised/depreciated. Another participant highlighted that after a number of years, acquired goodwill is replaced by internally generated goodwill and this reduces the effectiveness of the impairment test.
- subjectivity and the difficulties that arise with the amortization approach. One participant also noted that changes in the standards (i.e. a change to an amortisation approach) could have an impact on some of the companies' key performance measures (KPIs);
- the amount of goodwill was accumulating, becoming big and difficult to write-off. One participant noted that it was difficult to write-off of these assets (i.e. impairment) unless there was a change in management or the business was clearly in trouble. This participant also explained that it was difficult to understand why these assets should be "sitting on the balance sheet" for a long period of time while other assets would not. Another participant added that when intangible assets remained on the balance sheet for a number of years, questions started to arise about the value of those intangibles as the way a company values those intangibles and businesses had changed over twenty years; this raised consistency issues;
- impairment testing is complex and requires significant judgment. More importantly, it constitutes a practical challenge for preparers, who have to make the impairment test, and users who have to subsequently duly understand it;
- the IASB should reconsider the current requirements on separate recognition of intangible assets. One participant considered the current IFRS 3 *Business Combinations* approach very theoretical and not related to how management viewed a business on an acquisition. In addition, users had

difficulties in understanding why some assets (e.g. intangibles) had been recognised in a business combination. Thus management had often to spend a lot of time explaining the accounting results of a purchased price allocation procedure to users;

- there are difficulties and subjectivity related to the guidance in IFRS on how to identify Cash Generating Units (CGUs) and allocate purchased goodwill to different business units. More specifically, some participants noted that after a number of years, companies started to experience difficulties in making the goodwill impairment test, particularly when the company went through a comprehensive restructure and there was a change in the composition of the existing cash generating units; and
- the debate on convergence, including convergence on business combination accounting, had been on the table for a number of years and stakeholders were starting to raise questions on what had been achieved and whether convergence was still worthwhile. One participant considered that it was important to clearly define the ultimate purpose of convergence before taking any significant decisions on the project.

Peter Clark referred to the goodwill impairment research project and explained that the IASB was now focusing on three interrelated areas:

- Improvements to the impairment test;
- subsequent accounting of goodwill; and
- accounting for separate intangibles.

Peter Clark also noted that the amortisation approach vs impairment-only approach was a difficult issue where views were split. Therefore, he considered that the IASB would need convincing arguments to change from an impairment-only approach to an amortisation approach. He also highlighted that the IASB was trying to remain convergence with the FASB whenever possible.

The Disclosure Initiative was the most relevant project for the participants.

The **Disclosure Initiative** was ranked the most relevant projects. One participant referred to the chart presented in the meeting and highlighted the importance of the *Disclosure Initiative*. He noticed that in some cases final standards resulted from a compromise. As a result, more and more disclosures had been added. Therefore, he welcomed the comprehensive review of disclosures and improvements to the existing guidance.

As groups often enter into corporate restructurings, BCUCC is a recurring issue for which there is no guidance.

One participant highlighted that **BCUCC** was a significant and recurring topic for which there was no guidance. He explained that groups often entered into corporate restructurings, such as legal mergers, for different reasons (e.g. simplify the group structure). Considering that such mergers typically involve entities under common control, he argued that the issue of business combinations under common control was very relevant. This participant also noted that “pooling of interest” method had “been forgotten” and questioned whether this method could be used in a BCUCC. Finally, he considered that the IASB’s research project on *Equity Method of Accounting* was, to some extent, related to the BCUCC project. Therefore, he urged the IASB to deal with these issues concurrently.

Conceptual Framework should not be, in the end, very academic and difficult document to work with and there were concerns about some issues that had been scoped-out from the conceptual framework project such as the distinction between liabilities and equity.

A number of participants also commented on the IASB’s project **Conceptual Framework**. These participants welcomed the progress that the IASB had been making, however, participants mentioned that:

- the Conceptual Framework should not be, in the end, a very academic and complex document. One participant considered that the existing Conceptual Framework was useful and it did not raise significant practical challenges when companies had to discuss it with auditors and regulators; and
- there were concerns about the “open questions”, namely on the distinction between liabilities and equity. One participant expressed that it would be difficult to make the Conceptual Framework fully operational without having answers to those open questions.

Peter Clark explained that the IASB was currently updating some of the existing sections of the Conceptual Framework and introducing new ones. Overall, the IASB was trying to fill the gaps, update the principles and improve the guidance. However, Peter Clark noted that project on the Conceptual Framework was not going to answer every existing question. For example, it was not going to consider what the equity method was, nor how to distinguish liabilities from equity. Some of those answers would probably come up later on a standard level project. Yet, he did not consider that there was a high risk of subsequent reversal of the IASB’s proposals on the Conceptual Framework if these open questions are answered at a later date.

The IASB should rapidly finalise the Insurance Contracts project

Some participants also called for the completion of the IASB’s project **Insurance Contracts**. One participant from the insurance industry detailed that there was still no definitive standard for insurance contracts, as IFRS 4 *Insurance Contracts* is an interim standard, and called for the IASB to rapidly finalise the *Insurance Contracts* project.

Participants provided mixed view on the level of priority of the IASB's project Dynamic Risk Management.

On the **Dynamic Risk Management** project ("Macro Hedging"), participants provided mixed views. For example, one participant considered that the *Dynamic Risk Management* should not be considered as a high priority as financial institutions seemed to cope with existing guidance. One other participant highlighted the importance of the *Dynamic Risk Management* project for a group of companies, especially for those within the energy industry sector. For these companies it was a challenge to comply with the existing guidance.

Guidance on employee benefits and share based payments did not raise significant concerns among participants.

Participants in general did not raise concerns about guidance on **employee benefits and share based payments**. Some participants explained that in Denmark the practice was not to have defined benefit plans, except for senior management. Some entities with overseas subsidiaries might be affected. In addition, insurance pension fund companies were becoming more and more professional, therefore the issues had been decreasing.

Main comments received

EFRAG Proactive Agenda Consultation

Saskia Slomp referred to EFRAG Proactive Agenda Consultation and explained that the consultation seeks views on the effectiveness of EFRAG's proactive work; the coordination of its proactive work with the IASB and what new proactive projects constituents believe EFRAG should undertake. EFRAG wanted to work on topics that were important for Europe, aiming to raise a debate in Europe and in the world with the objective to influence the IASB standard-setting activities. One participant considered that the projects presented by Saskia Slomp seemed to be focused on very specific issues and considered that EFRAG could influence and focus more on big issues.

Main comments received

Corporate reporting discussions

April Pitman presented the role of the IASB's in wider corporate reporting and explained that the Trustees believed that the IASB should continue to be an active participant in corporate reporting discussions. However, the Trustees did not believe that the IASB should be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting.

Saskia Slomp explained that although EFRAG's initial view was that the IASB's primary focus should remain on financial reporting, the IASB should also be able to take steps to maintain the relevance of IFRS within the corporate reporting debate and to address non-IFRS information. However, at the same time, the IASB should not be in the lead.

The IASB should have an active role in corporate reporting discussions.

Several participants mentioned that the IASB should be an active participant in corporate reporting discussions. Some participants explained that it was important for the IASB to be involved in such discussions as they were important for the future of corporate reporting. Some participants added that if the IASB was not involved in the discussion, this would prevent the IASB from gaining a full understanding of the latest developments of corporate reporting and increased the risk of having diversity in practice on corporate reporting on the long term. However, there were also legal and political constraints that the IASB should be aware of.

IASB and EFRAG Agenda consultation - questionnaire

The purpose of this questionnaire is to gather your input on projects to include on the IASB's agenda. The input is to be used for the event of 23 November and will be presented in summarised form at the event as a basis for the exchange of views. The questionnaire assumes that the IASB will finalise its projects on leases. This project is therefore not included in the questionnaire.

1. Your background

Please state your professional background:

- Financial statements preparer
- Financial statements user
- Auditor
- Academic
- Other, please specify
-

2. Overall balance in technical projects

If you were to allocate a total of 100 points to various strategic priorities in relation to IASB's resource efforts as identified in the IASB's Request for Views, how would you allocate these points to the following areas:

Strategic priorities	Points
Research programme	
Standards-level programme	
Maintenance and implementation	
Conceptual Framework	
Disclosure Initiative	
Total	100 points

3. Specific projects

Please indicate with a '+' the five projects you think it is most important that the IASB includes on its agenda.

Please indicate with a '-' the five projects you think it is least important that the IASB includes on its agenda.

Standards-level projects

- Insurance contracts
- Rate-regulated activities

Research projects

- Business Combinations under Common Control
- Definition of a business
- Discount rates
- Disclosure Initiative – Principles of Disclosure
- Dynamic Risk Management
- Equity method of accounting
- Extractive activities/ intangible assets/ R&D expenses (inactive)
- Financial instruments with characteristics of equity
- Foreign currency translation (inactive)
- Goodwill and Impairment
- Income taxes
- Inflation accounting (inactive)
- IFRS 5 Discontinued Operations – consistent application
- Pollutant Pricing Mechanisms – formerly Emission Trading Schemes
- Post-employment benefits (including pensions)
- Primary Financial Statements
- Provisions – revision to IAS 37
- Share-based payment
- Other, please specify

Other, please specify

Other, please specify
