We thought that 2008 had been a very challenging year for financial reporting standard setting, dealing with the implications of the financial and economic crisis. However, 2008 turned out to be an even more challenging year from a political and technical accounting perspective and again has been largely dominated by the financial and economic crisis and the related consequences for financial reporting.

FINANCIAL CRISIS

The financial crisis has put pressure on relevant bodies to get the effects of the crisis addressed. Measures have been taken to change the global system of financial regulation. As a result, financial reporting continues to receive political attention as it is seen to be a crucial element in providing and restoring market confidence. Not only does financial reporting feature as a regular point on the European Union (EU) Council of Finance Ministers’ agenda, but also at a global level it has been - and is still - on the political agenda. Notably the Group of Twenty (G20) and the Financial Stability Board have called for standard setters to respond globally to the crisis through the development of high quality globally accepted financial reporting standards. The importance of appropriate European input into this international standard setting process has also been expressed at the highest political level and is a key issue for European institutions.

EFRAG’s work over the past year has been driven to a higher level of activity than in previous years responding to numerous International Accounting Standards Board (IASB) pronouncements and due process documents. Notably the IASB’s proposals on fair value measurement and financial instruments came under attack in 2009. As a result of calls made by the G20, the IASB made the decision to replace International Accounting Standard 39 Financial Instruments: Classification and Measurement (IAS 39). The IASB split the project into three (or more) phases and finalised the first part in November 2009 with the publication of International Financial Reporting Standard 9 Financial Instruments (IFRS 9) dealing with the classification and measurement of financial assets. The Supervisory Board (SB) gave permission for a fast track due process to respond globally to the crisis through the development of high quality globally accepted financial reporting standards. The importance of appropriate European input into this international standard setting process has also been expressed at the highest political level and is a key issue for European institutions.

EFRAG OBJECTIVES

- PROVIDING PROACTIVE ADVICE TO IASB (THE INTERNATIONAL ACCOUNTING STANDARDS BOARD);
- STIMULATING, COORDINATING AND CARRYING OUT PROACTIVE ACCOUNTING ACTIVITIES;
- ENDORSEMENT ADVICE TO THE EUROPEAN COMMISSION ON THE ACCEPTABILITY OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN EUROPE;
- ADVISING THE EUROPEAN COMMISSION ON CHANGES TO THE ACCOUNTING DIRECTIVES AND RELATED TOPICS.

EFRAG EXPECTATIONS FOR 2009

In addition to the financial crisis, convergence between IFRS and US GAAP has been a prominent driver in setting the IASB’s agenda over the last few years. This is evidenced by the IASB convergence program and the large number of convergence projects scheduled to be completed before June 2011. EFRAG has strongly conveyed the message that the existing objective of convergence is no longer sustainable as IFRS has now achieved a sufficient degree of worldwide acceptance to be fully independent of national standards. In EFRAG’s view, the drive for convergence should be replaced with the objective of promoting and facilitating the national adoption of IFRS as a means of achieving high quality, globally accepted, financial reporting standards. In this respect EFRAG welcomes the IASC Trustees’ announcement of February 2010 that convergence is a strategy aimed at promoting and facilitating the adoption of IFRS but is not an objective in itself.

IASB GOVERNANCE

The Trustees have announced changes to the IASCF Constitution and at the same time announced a number of reviews including a review of the future strategy of the IASB post June 2011. In Europe (and elsewhere in the world) calls are regularly made for further improvements to the IASB governance structure in relation to its accountability and independence. The SEC, in its February 2010 statement, also highlighted accountability and governance of the IASB as an important element in their future decision on whether to require IFRS for US issuers. Proper governance of the IASB is essential in light of the number of forthcoming and potentially for Europe, controversial IASB pronouncements. Europe therefore needs to have input into the IASB governance debate and be specific about its concerns.

PROPER GOVERNANCE OF THE IASB IS ESSENTIAL AND EUROPEAN INPUT TO THE IASB GOVERNANCE DEBATE IS VERY IMPORTANT.
Enhancement of EFRAG

Closer to home and more inward looking EFRAG’s final report “Strengthening the European Contribution to the International Standard Setting Process” was published in December 2008 and became operational in 2009. It saw the appointment of the new SB and its Nominating and Audit and Budget Committees as well as the establishment of the EFRAG Planning and Resource Committee (PRC) to set the European pro-active agenda. EFRAG has also increased its technical staff, attracting many very good candidates demonstrating that EFRAG is an interesting and challenging place to work and gain experience.

EFRAG is very grateful for the EC’s decision, effective from 2010, to co-fund EFRAG thereby enabling its enhancement. However, the EC’s contribution of up to 50 % of the total expenses of EFRAG requires sustainable long-term private sector funding. The base funding of EFRAG is provided by the European organisations that stand behind and are members of EFRAG. Additional contributions of funding have been provided by the National Funding Mechanisms in a number of EU Member States. In 2010 and in the future, it is essential that not only several of the larger economies bear their share of the private funding responsibility of EFRAG, but that further National Funding Mechanisms are created in a wider range of European countries. This will provide a broader base of private sector funding and soundly balance the funding provided by the EC.

In the summer of 2009 the new SB took over their responsibilities from the former SB chaired by Göran Tidström. I would like to take this opportunity to express my thanks to Göran Tidström for all his efforts and his contributions to the success of EFRAG. He is seen by many as the “father” so as to have twice of EFRAG having chaired the SB since EFRAG’s creation in 2001 and been instrumental in its establishment.

The other main SB activities are listed below.

Amidst the technical and political challenges of 2009, the enhanced structure and governance of EFRAG became operational. The increase in resources and notably the increase in proactive work should make it possible for EFRAG, on Europe’s behalf, to have greater influence with the IASB as it formulates views on financial reporting issues and before it issues discussion papers or other due process documents. The enhancement should ensure that Europe enhances its thought-leadership in financial reporting matters.

I am proud that EFRAG, since its establishment in 2001, has grown rapidly in importance and is currently recognised as a key player in global standard-setting. It is often referred to as the third largest “standard-setting body” in the world.

It was a great pleasure for me to hand over my responsibilities from July 2009 to Pedro Solbes, former European Commissioner and Minister of Economy and Finance of Spain. Pedro Solbes brings extensive experience in the field of international co-operation on financial and economic policy issues. The other members of the new EFRAG SB were appointed in June 2009 by the General Assembly. These members are of a high calibre and each have an outstanding reputation in their field. The broad geographical spread and variety of professional backgrounds guarantee that the EFRAG SB is representative of the entire Europe.

I wish to express my great appreciation and recognition to Stig Enevoldsen who has been Chairman of EFRAG from April 2004 till 31 March 2010. Under his leadership EFRAG has become recognised as an important part of the global standard setting architecture, supporting the IASB and the European Community in improving financial reporting and ensuring a credible and acceptable accounting framework for users, preparers, the accountancy profession and other stakeholders in Europe. I am grateful for having witnessed and contributed to this process. I wish the new EFRAG SB, the new EFRAG TEG and the EFRAG secretariat all the best for the future.

Göran Tidström
Former Chairman EFRAG SB

The importance of appropriate European input into the international standard setting process has been expressed at the highest political level and is a key issue for European institutions.

Interim EFRAG PRC

At its March meeting, the SB appointed an interim EFRAG PRC consisting of two members of the SB, the Chairs of three NSS (from France, Italy and the UK) and the EFRAG TEG Chair. The Chair of the German Standard Setter and the EC were appointed as observers. Peter Sampers was appointed as interim Chair. The establishment of the EFRAG PRC was publicly announced in April 2009.

Memoranda of understanding with NSS

As part of its newly enhanced structure and its new focus on proactive work, EFRAG entered into a memorandum of understanding (MoU) with each of the NSS of France, the UK and Germany signed in the first half of 2009. The MoU contains as main elements: the provision of staff resources; participation in the EFRAG PRC; the appointment of candidates for IASB advisory groups; informal meetings between the Chairs of the signatories to each MoU; development of proactive papers; and participation in the EFRAG Technical Expert Group (TEG) and Consultative Forum of Standard Setters (CFSS). Each MoU will be reviewed every two years. A basic condition of each MoU is that to be a full participant the relevant National Standard Setters (NSS) will provide a cash funding of 350,000 € to EFRAG.

IASCF Constitution Review

In spring 2009, the SB developed the EFRAG comment letter on “Identifying Issues for Part 2 of the IASCF Constitutional Review” in consultation with its constituents. EFRAG raised two main comments. Firstly, EFRAG called for the IASB to be more consultative in its agenda setting process. Secondly, EFRAG requested that the IASB implement an explicit process to deal with decisions about the re-exposure of Exposure Drafts(ED). In particular, it was EFRAG’s view that the IASB should explain the basis for a judgement that re-exposure was not necessary in cases where significant changes to EDs have been made.

Göran Tidström is seen by many as the “father” of EFRAG having chaired the Supervisory Board since EFRAG’s creation in 2001 and been instrumental in its establishment.

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In December 2009 EFRAG issued its final comment letter on Part II of the IASCF Review of the Constitution, “Proposals for Enhanced Public Accountability” to the Trustees. Based on consultation with its constituents, EFRAG’s main comments were as follows:

- The Constitution should express commitment for principles-based standards;
- The convergence objective should be removed from the Constitution since IFRS have achieved a sufficient degree of acceptance and have been adopted widely enough to be fully independent of national standards. The emphasis should be on the adoption of high-quality global standards; and
- There should be public consultation on the IASB work plan.

As a result of the IASCF Constitution Review Part II, the Trustees announced governance enhancements in February 2010. EFRAG was pleased to see that the major changes announced met EFRAG’s principal concerns, notably the introduction of three-yearly public consultations on the IASB’s technical agenda; commitment to a principles-based approach; emphasis on the adoption of IFRS whereby convergence is a strategy aimed at promoting and facilitating the adoption of IFRS, but is not an objective in itself.

INTERNAL RULES

Following the enhancement of EFRAG the SB recommended to the GA that certain amendments were made to EFRAG’s internal rules. These were subsequently approved by the GA.

2008 FINANCIAL RESULTS

The Audit and Budget Committee informed the SB about its examination of the EFRAG financial results for 2008. The Committee recommended that EFRAG adopt an accumulated reserves policy whereby the level of reserves, in general, should be sufficient to cover but not exceed the budgeted expenses for the next calendar year. The GA approved the 2008 financial statements.

AUDIT AND BUDGET COMMITTEE

The Committee assists the SB in fulfilling its oversight responsibility for audit and budget matters. The Committee monitors the EC grant application and reviews the preparation of the 2009 year-end financial information and considers the development of the 2010 estimates and the budgets for future years. The Committee also reviews the procedures and internal controls.

NOMINATING COMMITTEE AND NEW COMPOSITION TEG

The Nominating Committee started its work in October 2010. Given that the mandate of eleven of the twelve EFRAG TEG members was due to expire on 31 March 2010, the Nominating Committee’s main task was to propose a new composition for EFRAG TEG as from 1 April 2010 including a new Chairman. The selection of EFRAG TEG candidates is based on the following criteria: technical competence; background (user, preparer, accountancy profession and academia); experience; and geographical spread. The SB decided on the new composition of EFRAG TEG and appointed Françoise Flores as the new Chair of EFRAG and Mike Ashley as Vice-Chair.

We are delighted to have Françoise and her team in place for the challenging times we will confront in the coming years addressing all the developments in financial reporting at the global and European levels.

I personally, but also on behalf of the entire SB, wish to express my gratitude to, and admiration for, Stig Enevoldsen, who has during the six years of his Chairmanship developed EFRAG into an organisation that is well known and respected throughout Europe and the rest of the world.

Pedro Solbes
31 March 2010
With the encouragement of the EC, EFRAG – the European Financial Reporting Advice Group – was established in 2001 to provide input into the development of International Financial Reporting Standards (IFRS) issued by the IASB and to provide the EC with technical expertise and advice on the technical quality of IFRS. EFRAG is a private sector body established by European organisations prominent in European capital markets, known collectively as the “Founding Fathers”.

EFRAG’s role as technical advisor to the EC is formalised in a “Working Arrangement” which states that “EFRAG will provide input to the EC on all issues relating to the application of IFRS in the EU” in particular proactive input to the IASB and endorsement advice to the EC.

Until 2010 EFRAG was entirely funded by its Member Organisations (European stakeholder organisations with an interest in financial reporting, which founded EFRAG) and the National Funding Mechanisms (national systems that organise contributions to the funding of EFRAG and/or the IASB). From 2010 onwards EFRAG will be co-funded by the EC for up to 50% of the expenses of EFRAG, whereby public sector funding will match the private sector funding. With the EC funding EFRAG will move to a three-tier funding model:

- Base funding from Member Organisations
- National Funding Mechanisms
- EC funding

The transparency and independence of EFRAG TEG is mainly achieved by:
- having all technical discussions held in meetings open to the public;
- publication of EFRAG TEG agendas and summary minutes of its meetings;
- publication, with an open call for comments, of draft EFRAG comment letters (DCL) to the IASB, and draft effect study reports and draft endorsement advice letters (DEALs) to the EC;
- presentation of the basis for EFRAG TEG’s conclusions for the endorsement advice and reasoned positions for comments to the IASB;
- publication of draft discussion papers on the proactive work;
- publication of final comment letters (CL) on IASB consultation documents, and other EFRAG positions;
- and publication of final endorsement advice letters (EAL) and final effect study reports to the EC.

The Chairs of the French, German and UK standard-setters are non-voting members of EFRAG TEG. Further, CESR, the IASB and the EC attend EFRAG TEG meetings as observers (see Table 2). The Chairman, Stig Enevoldsen, a partner in Deloitte, Denmark, is full time. From 1 April 2009 Stig Enevoldsen will be succeeded by Françoise Flores as Chairman of EFRAG.

EFRAG operates through the TEG. Its 12 members are from throughout Europe and from a variety of backgrounds. They devote 30% to 50% of their time – free of charge – to EFRAG.

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Moving towards one global accounting language

The effects of the global economic crisis continue and if anything have strengthened the need for a single common accounting language to be adopted around the world. It is a very positive sign that more major economies, such as China, India, Brazil and Mexico, have made the commitment to go to IFRS within the next few years. In addition, other jurisdictions such as Canada and South Korea have already signalled their commitment to adopt IFRS. Japan’s confirmation of its endorsement model we have adopted is a reference point for other jurisdictions. A similar approach is being used by, for example, Japan.

Up to now Europe has been able to influence the development of IFRS, particularly in relation to the governance of the IASCF organisation. That might slowly change, when other major economies adopt IFRS. However, we will always be the major economy with the longest experience of IFRS, and we must utilise that in a positive way, for example by continuing to ensure that the governance structure and processes of the IASB drive the development of IFRS in a direction that meets the requirements of users (and preparers) of financial statements worldwide.

Europe is well organised in the way that the EC closely monitors the development of IFRS and has given support to EFRAG as its recognised technical body, that conveys European views to the IASB. It was encouraging that the EU Commissioner signed the MoU of the IASCF Monitoring Board, as this ensures that Europe will continue to have some influence on the IASB’s governance. It also means that Europe will be able to exercise appropriate influence on the appointment of the next chair of the IASB, although Europe may need to accept that the next chair is not from Europe. In general terms we will in the future have to accept that IASB is a global body in which Europe shares its interest with many others. It is relevant to note that Europe is seen as the role model for major economies implementing IFRS, and the endorsement model we have adopted is a reference point for other jurisdictions. A similar approach is being used by, for example, Japan.

Europe is committed to IFRS first and foremost because it provides comparability and transparency in financial reporting. Actually we do not have any other realistic alternative. Those who talk about European standards or rules are pursuing an unrealistic alternative in today’s increasingly globalised economy. It is better for us to devote our efforts to influencing the direction of IFRS rather than attempting to develop an alternative approach which puts at risk the significant benefits that flow from moving towards a single global financial reporting language.

Europe and IFRS 9

The economic crisis proved to be the first real stress test of IFRS, and it is clear that some of the standards (including IAS 39 on financial instruments) were in need of improvement. The IASB was therefore right to take steps to evaluate and revise their standards both in the light of experience and also to avoid the potential negative effects of the standards that became evident during the crisis.

During 2009 significant pressure was placed on the IASB in Europe to improve accounting standards in order to ensure that financial reporting does not have pro-cyclical economic effects. The EU Council of Finance ministers (ECOFIN) demanded changes to IAS 39 on financial instruments and some other standards and the request was supported and echoed by the G20, the Financial Stability Board and others. ECOFIN requested that the changes to IAS 39 be finalised and issued in time for them to be endorsed for use in 2009 financial statements.

IASB reacted quickly and positively, issuing Eds on many of the relevant issues during the year and the Board is to be complimented on undertaking a comprehensive review of accounting for financial instruments. They decided to split the project into three phases, so that the first part could be finished in time for use in 2009. Over the summer IASB issued several
on measurement and the use of fair value for which we have been calling for several years. Leaving aside the expected increase in the use of fair value, the new standard has some very good features including the acknowledgment that an entity’s business model concept can be relevant in determining the measurement basis of financial assets and the simplification in relation to asset classes, even though it might be argued that the reduction is only from four to three asset classes. However, there are also some negative elements, in particular the dividing line between fair value and amortised cost measurement is weighted too heavily in favour of the use of fair value. Under IFRS 9 only a limited number of assets can be measured at amortised cost, because it has to be the entity’s business model to collect the contractual cash flows and those cash flows can only reflect payment of capital and interest and the interest mentioned can only cover time value of money. Accordingly, it is very restrictive.

Even though it seems that IFRS 9 is a significant improvement and simplification compared to IAS 39, it is difficult to evaluate whether IFRS 9 is a positive or negative development until we are able to consider it in the context of proposals for other aspects of accounting for financial instruments, in particular impairment, hedging, liabilities and de-recognition.

Financial Instruments – remaining topics

These other aspects of accounting for financial instruments are difficult and complex issues, and there are certainly specific European worries about the outcome of the hedge accounting requirements, and it is important that careful consideration is given to European business models and risk management strategies in developing these requirements, and that the new hedging rules are not again a copy of US rules that are heavily influenced by a desire to prevent abuse. EFRAG has never supported anti-abuse provisions in accounting standards as these result in standards that consist of rules rather than principles. Hedging is clearly a very sensitive issue in Europe and the accounting treatment of hedging has a major impact on financial statements, and therefore the IASB is encouraged to keep that in mind. It is also important that the IASB ensures symmetrical treatment of assets and liabilities except for own credit risk.

Impairment is also a difficult issue. It is recognised that the existing incurred loss model is problematic, because it results in income being recognised early and losses being recognised late. The expected loss model clearly has some good features, but there are also many concerns including practical issues not only for financial institutions but also for non-financial institutions.

Derecognition has always been troublesome, and the proposal from the IASB’s exposure draft and the alternative model seems to be carried forward. The alternative model includes an exception for repos, which is an important issue that requires much consideration.

Role of financial reporting standards issued by the IASB

There are some in Europe who believe that the extensive use of fair value measurement in IFRS has had pro-cyclical effects, thereby contributing to the financial crisis. There has also been a perception that a principal objective of financial reporting should be to support financial stability rather than give a faithful representation of a company’s situation.

EFRAG, however, believes that IASB and prudential regulators should work together and try as far as possible to find common solutions but that where there are divergent objectives the needs of investors and other capital markets participants should take precedence in general purpose financial statements over the objectives of regulators and governments. We should remember that well-informed capital markets are essential in helping Europe overcome the crisis, and therefore that European capital markets must be supported by high quality, robust accounting standards and rigorous auditing and enforcement.

The IASB is expected to issue a large number of due process documents for consultation over the summer of 2010, and many of the projects are large and complex. Constituents lack the time and/or the resources to carefully consider and respond to such a volume of major proposals in such a short period of time. It is also questionable whether the IASB itself will have sufficient time to consider the comment letters with due care and attention, and this will lower the quality of the IASB due process. IASB is a due process organisation and due process must not be compromised. It is also unclear what will happen in terms of the IASB’s timetable if constituents do not support the IASB’s proposals.

Therefore the IASB ought to select carefully the most important projects and give priority to finalising them. These projects would include some crisis-related issues and some convergence MoU projects, but not all of them. EFRAG has expressed its views to the IASB on what the priorities should be. It is understandable that the IASB should wish to respond positively to the SEC request to complete all the convergence MoU standards by June 2011 as a basis for a decision by the SEC on whether to require IFRS for US domestic filers. However, the SEC has continually emphasised the need to apply due process and the need for high-quality standards and therefore we believe that SEC would support our request that the IASB should prioritise and still be able to make a decision in 2011 even though not all the MoU projects would be finalised.

Agenda items of less significance

Since 2007 the IASB has issued annual improvements (AI) to the standards. The IASB’s stated intention with the AI is to package minor amendments to standards into a single document. This has been of concern to many constituents, because they have to consider and comment on them and subsequently implement very minor changes. It is somewhat ironic that the IASB has recently introduced into the constitution the notion that IFRS should be principles-based while at the same time the Board spends time on issues that result in more or revised detailed rules. The IASB has now asked IFRIC to deal with AIP issues, so the problem seems set to continue. It would be better if IFRS stopped working on AI and instead concentrated on the major issues and allowed constituents to do the same. The same may be said for the many non-fundamental changes to individual standards that are on the IASB’s main agenda. These irritate constituents and the process appears to work against the development of principles-based standards.

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The IASB has asked its SAC for input on its post-2011 agenda. It is important that constituents are asked for input, and the IASC’s decision to ask for public input every three years is welcome. However, it appears that the scope of the consultation will be restricted to items to be added to the agenda and will not extend to prioritisation of the agenda as a whole. This is unfortunate as it is equally important to establish a proper procedure for assessing changing priorities, whether projects should be removed from the agenda and also whether to enter into MoUs with standard-setters from other major areas than the US, such as Europe, Japan, China and India. It is of course also an issue whether quality is being sacrificed in order to achieve a compromise between the two boards. Finally it is a problem that on some issues – such as insurance – the IASB has had to delay issuance of its ED in order to allow the US to catch up. In the case of insurance, this may significantly delay the finalisation of the project, which would be an issue for Europe.

INTERPRETATIONS

IFRIC issued very few interpretations in 2009, and we support that in principle. However, there might be a perceived need for more interpretations amongst issuers and regulators from new countries joining IFRS, and Europe should be ready to accept a small increase in interpretations. The three interpretations issued in 2009 were all very narrow issues and the interpretations were significantly improved as a result of input from the consultation process.

EFRAG in 2009

2009 was a very busy year for EFRAG because the IASB responded to the effects of the crisis by issuing a number of EDs, some proposing relatively minor and others major changes to IFRS. We also continued to work on proactive activities, which are described in detail below.

The IASB issued numerous consultation documents and EFRAG responded with draft comment letters and comment letters on all IASC discussion papers and EDs. The year started with two EDs with very short comment periods and with EFRAG issuing two draft comment letters by 8 January based on discussions in public conference calls. In 2009 EFRAG issued 23 DCL and 26 CL plus 13 DEAL and 10 EAL as listed in the schedule on pages 32-33.

We issued comment letters on such significant topics as Financial Statement Presentation, Framework chapters, Revenue Recognition, Consolidation, Fair Value Measurement, Income Taxes, Leases, Derecognition of financial instruments, Credit risk in liabilities, Financial Instruments Impairment, Financial Instruments Classification and Measurement, Management Commentary as well as many other less significant proposals for change. Therefore 2009 was the most demanding year for EFRAG TEG and the secretariat in its nine year history, and we had to organise extra meetings in July, September and late October as well as many conference calls.

EFRAG moved into new and bigger office accommodation in mid-January 2009. A significant improvement to the old office, it reflects the values of EFRAG being light and bright, transparent and in a young style. It is an environment in which it is pleasant to work and our staff enjoys the improved working environment.

Even though the staff increased during 2009 we also had to say goodbye to Paul Ebling after almost five years as EFRAG’s Technical Director. EFRAG’s high standing owes much to the quality injected by Paul into our comment letters and endorsement advice.

EFRAG’s staffing increased significantly during 2009 and in order to increase the focus on the proactive activities a Research Director, Mario Abela, joined EFRAG in early September coming from the US. This is a significant step forward for EFRAG. To ensure that EFRAG’s focus on its technical work was maintained in the absence of a permanent Technical Director, the new Research Director agreed to act as Technical Director until a new Technical Director was in place and we are very grateful to him for this. A new Technical Director, Pieter Dekker, has been appointed, starting on 1 April 2010. He comes from a position as Director in E&Y in the UK. In addition, Saskia Slomp was appointed Director of EFRAG to provide support to the Chairman of EFRAG TEG and the secretariat in its nine year history, and we had to organise extra meetings in July, September and late October as well as many conference calls.

The secretariat will increase further during 2010.

The EFRAG TEG Chair designate is from France and has been a member of EFRAG TEG for 6 years and has been elected vice-chair for 2 years, but served unoffically in that capacity prior to her formal election. She has been the Chair of the SME joint working group, the Performance Reporting Phase I and II working groups and the Common Control working group. She is presently also Vice-Chair of the new SME Working Group. During her time as vice-chair of EFRAG TEG, she stepped-in for the Chair at various meetings and conferences including the World Standard Setters meetings and the regular meetings with the Chairman of IASB.

Françoise takes up her role as chair with a strong foundation in financial reporting. She has impressive technical skills as a partner in Mazars, a clear commitment to IFRS in Europe and the role of the IASB, as well as a solid understanding of the European corporate environment through her work with BUSINESSEUROPE and ACTEIO in France. Along with her IFRS expertise, Françoise has over 20 years experience in financial control and reporting, of which ten years as Chief Financial Officer in the context of both international listed and unlisted corporations.
EFRAG Draft Comment letters

We have received feedback that our draft comment letters, which are always issued well before the IASB deadline for responses to its proposals, are widely regarded by IFRS stakeholders not only in Europe but also across the world as helpful and provide important input in developing their comment letters to the IASB.

Our draft comment letters have always been very important to us. We try to ensure that they explain our views clearly, even if this results in lengthy letters, in order to support our constituents. This is the reason why we have resisted suggestions from some quarters that we should significantly shorten our comment letters. In addition we introduced some new features and improved the structure including “Background notes for EFRAG’s constituents” in order to explain EFRAG’s views to constituents in more detail by reference to the IASB Ed concerned. These Notes are not included in the final letters and the final letters have also been shortened to sharpen their focus in the hope that they will be more influential with the IASB.

It is essential for us to maintain the high quality of our draft comment letters and, following the enhancement of EFRAG, we will endeavour to monitor the work of the IASB more closely, so that we can comment at an even earlier stage on its work. This is particularly important as many believe that the IASB’s thinking about the basis of new standards is generally at an advanced stage at the time an Ed is issued and it is therefore essential for Europe to endeavour to influence the IASB’s thinking as early as possible, as we have been trying to do through our pro-active activities.

WORKING WITH THE EC

In 2009 we worked very closely with the EC on many issues, but particularly in relation to the financial instrument accounting issues highlighted by the economic crisis, on which we were in close contact while maintaining our position as an independent advisor to the EC.

The working arrangement with the EC that was entered into in March 2006, under which “EFRAG will provide advice to the Commission on all issues relating to the application of IFRS in the EU”, in particular proactive input to the IASB and endorsement advice, has continued to underpin EFRAG’s work. EFRAG co-chaired stakeholder meetings on accounting for financial instruments and we prepared endorsement advices and effect study reports on many smaller projects finalised by IASB and IFRIC in order to support the EU endorsement process. We also appreciate the involvement of the EC in EFRAG activities as observers giving input to the TEG, the SII, the PRC and many of our working groups.

ACCOUNTING REGULATORY COMMITTEE (ARC)

EFRAG attended meetings of the EC ARC in 2009 as observers and gave technical presentations when requested by the EC. EFRAG appreciates the opportunity to work with representatives of the EU governments.

STANDARDS ADVICE REVIEW GROUP (SARG)

EFRAG met regularly with the SARG during 2009 and presented endorsement advices including our basis for conclusions. All the advice presented were judged by the SARG to be objective and well balanced. We believe that the relationship with SARG is positive and constructive and we appreciate the feedback and suggestions for process improvements made by the SARG.

ENDORSEMENT SITUATION

It is encouraging that the EU endorsement process has almost caught-up with the backlog of issued standards and interpretations. Shortly before Christmas 2009 the endorsement of a batch of standards was announced in the Official Journal and it is likely that all the outstanding items will be endorsed in the early summer of 2010 except for IFRS 9, where the EC is reflecting on the action to be taken.

It is a very positive signal that all recent standards and interpretations have been endorsed without controversy, and that more time to allow for debate is only required for more controversial or complex issues. This shows the high level of support for IFRS that exists in Europe.

Although the pipeline of unendorsed standards has been reduced recently, it is nevertheless disappointing that it takes so long to endorse IASB standards and interpretations as this creates uncertainties for capital market participants. However, it is also necessary for the IASB to allow longer lead times in order to give companies sufficient time to prepare for implementation and to allow sufficient time for the endorsement process to take place.

A further concern about the endorsement process is that IFRIC interpretations in particular are frequently endorsed with a later effective date than that of the actual IASB pronouncement. The consequence is that EU companies do not start implementing new interpretations at the same time as companies outside the EU. When this occurs, it effectively constitutes a temporary carve-out, which is regrettable.

The carve- out of parts of IAS 39 on financial instruments still exists

This, of course, brings us to issue of the IAS 39 carve-out, which consists of approximately 20 deletions from 13 paragraphs. The carve-out was originally intended to be a temporary and short-term measure, to be used for two years, but it is now in its sixth year, and there has been no real progress in resolving the issues which gave rise to it. Although only a small number of companies, mainly banks, are taking advantage of the carve-out, the carve-out is a concern because it weakens the position of Europe when discussing accounting and the direction of IFRS with the US, Japan and others and it weakens the credibility of European accounting generally. European constituents should ensure that there is a constructive dialogue on the remaining issues on accounting for financial instruments with the IASB, and the IASB should listen carefully in order to arrive at an approach that is acceptable to all parties. EFRAG will certainly work actively to facilitate the necessary discussions.

USER PANEL AND USER INVOLVEMENT

EFRAG’s User Panel was established in late 2006. It has given EFRAG valuable input on the projects included on our agenda, and it is also providing input to our effect study work, where user requirements and experience are especially important. The Panel’s discussions have been very lively and the user representatives continually give us new inspiration. We are seeking additional ways of increasing our contacts with users and we continue to seek additional Panel members as user input is essential.

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MEETINGS WITH CEESR

There is close cooperation between EFRAG and CEESR on accounting issues. The TEG Chair and the Technical Director participated in meetings with CEESR representatives and committees and we obtain input to our work from the participation of CEESR representatives in TEG meetings. Members of EFRAG staff provide input to the CEESR Subcommittee on IFRS and attend their meetings on a regular basis. EFRAG values its close working relationship with CEESR on accounting issues.

MEETINGS WITH EUROPEAN NATIONAL STANDARD SETTERS

EFRAG invites all the European NSIs to Brussels for a full day meeting every three months. We believe that it is important that we continue to have direct contact and discussions with the NSIs throughout Europe.

MEETINGS AND VISITS

Visit to the US

The TEG Chair and the Chairs of the German, French and UK NSIS visited the US in February 2009 to meet with representatives of the FASB. We also visited the US SEC and discussed with SEC staff the possibility of the US adopting IFRS and the potential consequences that would flow from it. In addition we had meetings with representatives of International Monetary Fund and the World Bank. It was a positive trip with a lot of good input for us.
Websites

Our website has worked satisfactorily during the year and has welcomed an increasing number of visitors. We believe that our Endorsement Status Report, which is downloadable from our website, is widely used as the most up-to-date and easiest to access information on the subject.

It is essential for EFRAG to have a thorough understanding of the needs of users of financial statements in developing its views on the wide range of financial reporting issues that EFRAG addresses. Since 2006 EFRAG has operated an active User Panel that meets on a quarterly basis. The significant workload and increased number of complex issues on EFRAG’s agenda in 2009 has made it even more important to have user involvement. In 2009, EFRAG therefore invited two additional people to join the Panel, increasing the membership to seventeen members by the end of 2009. Stig Ennevoldsen, EFRAG Chair, continued to also be Chair of the User Panel.

In terms of the User Panel’s activities, 2009 was not an easy year. The Panel held strong views on the complex issue of the classification and measurement of financial instruments. During the development of IFRS 9, Panel members agreed that some financial instruments should be measured at cost and others at fair value but indicated that any attempt to define the line between the two categories would not be perfect and would raise concerns. There were also concerns amongst Panel members that the insurance industry might not support a model that measures financial assets at amortised cost and insurance liabilities at fair value or an approximation of fair value.

Impairment of financial assets was another important part of the IASB’s project to replace IAS 39. The Panel considered several issues in relation to the “expected loss model”, and were broadly supportive of a model that focused on expected losses (as opposed to incurred losses) of debt instruments. However, there was a general concern from some Panel members about the level of subjective inputs required in an expected loss model. Regarding hedge accounting, Panel members felt that the IASB should focus on developing a more principle-based approach and remove the choices currently permitted.

On EFRAG’s proactive work, Panel members were asked for initial thoughts on a project on the ‘Disclosure Framework’ and the Panel has been asked to be closely involved in the project.

The Panel also considered the proposals on the accounting for Income Tax and it was thought that more work was needed on developing tax requirements that produced information that would give users more confidence about the tax numbers and how to better understand future tax cash flow implications. In relation to rate regulated activities, the Panel’s view was that regulated assets and liabilities should be recognised when they meet the definitions of assets and liabilities under the IASB’s Framework. However, they did not feel there was a need for a separate standard on this very specific industry issue. There was overall consensus from the Panel that lease accounting was in need of a major fix, and there was initial support for the proposals in the IASB’s discussion paper.

The following members joined the Panel during the course of 2009:

- Jerome Vial – Senior Manager (EY Zurich, Transaction Services)
- Vincent Papa – Director, Financial Reporting Policy- ENEA (CFA Institute)

I WOULD LIKE TO EXPRESS MY APPLAUSE FOR THE HARD WORK PERFORMED BY THE OTHER MEMBERS OF TEG, THE USER PANEL, WORKING GROUPS, ADVISORY PANELS ON THE PROACTIVE WORK, AND LAST, BUT CERTAINLY NOT LEAST, BY THE STAFF IN THE EFRAG SECRETARIAT

MEMBERS OF THE USER PANEL

- Stig Ennevoldsen – User Panel Chairman - TEG Chairman; Jean-Baptiste Bellon - Financial Analyst (Trapeza Conseil); Javier de Frutos – CEO (Grupo BBV); Jacques de Grefling – Equity Analyst (CIBC World Securities); Thomas Kaiser – Accounting Analyst (Landesbank Baden-Württemberg (LBBW)); Sergio Lamonica – Managing Director (LECG Consulting Italy); Michael Schickling - director (Brunswick Group); Friedrich Spandl – director (BAWAG); Alison Thomas – director (PwC); Guy Weyns - Managing director Global valuation & Accounting (Morgan Stanley); Jed Wrigley - Fund Manager, director of Accounting & valuation (Fidelity International); Carsten Zielke - TEG Member; Roar Hoff – Financial Analyst (Norske Finansanalytikers Forening); Sue Harding – Credit Analyst (Standard & Poor’s); and Thomas Jønussen – Financial Analyst (Danskebank). In addition, the EC and TEG members attend the meeting as observers.

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In 2009 the following papers were issued: In 2009 the following papers were issued: to enhance the quality of proactive input to the IASB. The objective is to stimulate, and carry out, research into, the edge and expertise in the most efficient way. A key coordinate our activities so as to leverage our knowledge and expertise in the most efficient way. A key objective is to stimulate, and carry out, research into, and analysis of, financial reporting issues so as to encourage debate in Europe. It is also our intention to enhance the quality of proactive input to the IASB.

In 2009 the following papers were issued:

- Performance Reporting: A European Discussion Paper
- Financial Reporting of Pensions – Feedback and Redeliberations
- Summaries of comments on three discussion papers

The Planning and Resource Committee (PRC) was established as a committee with interim membership in the first half of 2009. The PRC agreed to include in the proactive agenda the following projects:

- Accounting for entities under Common Control: led by Italy and EFRAG
- Accounting for Income Tax: jointly led by Germany and UK and supported by EFRAG
- Disclosure Framework led by EFRAG and supported by the UK
- Assessing the Effects of Accounting standards: led by the UK and EFRAG
- Business Model and Implications for Financial Reporting: led by the UK, with support from France and EFRAG
- Performance Reporting: A European Discussion Paper
- Financial Reporting of Pensions – Feedback and Redeliberations
- Summaries of comments on three discussion papers

The work is moving forward and in early 2010 the “Strategy for European Financial Reporting Activities” was approved by PRC. We plan to significantly increase the resources devoted to the proactive work in 2010 and we expect more papers to be issued late in 2010 or 2011.

Our proactive work continues to be challenging – it is difficult to develop new thinking and ensure it is accessible and meaningful for our constituents. In what continues to be a very busy period for those following and commenting on IFRS developments, it has been a positive sign to continue to receive carefully considered and thoughtful responses to our discussion papers.

What the IASB’s current work programme has demonstrated is that there are a number of issues in financial reporting that need a fundamental re-think. Accounting for income taxes and establishing principles on

EFRAG PRC has discussed all the papers and has approved their issue.

The staff of the French NSS and EFRAG issued a Research Paper on the new Definition of Assets.

2009 was the first year of operation of the EFRAG PRC. Proactive work - contributing to and influencing early thinking on significant financial reporting issues – is crucial in the work of EFRAG and the NSS. We strongly believe that it constitutes the main and most appropriate means of influencing the agenda and thinking of the IASB in the longer term. EFRAG already started its proactive work in 2005 in close cooperation with the NSS in the PAAuE initiative (Proactive Accounting Activities in Europe). The establishment of the EFRAG PRC was a logical step in the EFRAG enhancement process in order to give proactive work a more prominent place in the EFRAG and NSS activities.

The enhanced structure around the proactive work has been gradually put in place during 2009 with the establishment of the PRC in advance of the appointment of the new SB. The former Coordinators Committee agreed to continue as an informal advisory group of NSS that are not directly involved in the proactive projects to the agenda that are important to and influencing early thinking on significant financial reporting issues – is crucial in the work of EFRAG and the NSS. We strongly believe that it constitutes the main and most appropriate means of influencing the agenda and thinking of the IASB in the longer term.
how information is communicated to users through the financial report, are two clear candidates for improvements required in financial reporting. These are both important projects in which we are investing resources in an attempt to go back to first principles and develop a more fundamental reconsideration of the underlying principles of pension accounting that would contribute to the development of an improved international standard on the subject.

The discussion paper “The Financial Reporting of Pensions” was issued in January 2008 setting out the tenative views of the UK NSS. Comments were invited on the Discussion Paper and the UK NSS considered those responses and finalised its views. In November 2009, EFRAG and other European NSS published “Financial Reporting of Pensions - Feedback and Revisions”. The objective of this report was to provide guidance in the near future. The project aims to critically examine key aspects of accounting for corporate income tax separately from the requirements in existing IAS 12, with a view to developing a discussion paper that starts from first principles and sets out proposals that might form the basis of a new standard. A key objective is to develop an approach to accounting for tax that is technically sound and workable, and, most importantly provides users with useful and understandable information about income taxes.

BUSINESS COMBINATIONS UNDER COMMON CONTROL

In 2009 the Italian Standard Setter (CIG) with support from EFRAG started a new proactive project on business combinations under common control (BCUCC). There is no current guidance on IFRS on BCUCC because IFRS 3 Business Combinations (IFRS 3) contains an explicit scope exemption for these types of transactions. In addition, the IASB is not expected to provide guidance in the near future. The project aims to consider the initial measurement of the components of a business transferred in a BCUCC in the transferor’s consolidated and separate financial statements. The transaction may involve either the transfer of a business or of a controlling interest in a legal entity that directly or indirectly controls an underlying business.

Accounting for these transactions is an issue especially relevant for entities that are allowed or required to prepare individual and separate financial statements under IFRS. The different accounting treatments used in practice may have materially different impacts on organisations. The overall purpose of the meetings ensure that EFRAG properly represents the European view and that the views expressed in Europe are heard and understood by the IASB and IFRIC and influence the development of their pronouncements.

The former Proactive Accounting Activities in Europe (PAAinE) activities in Europe have been incorporated under the umbrella of the PRC which sets the agenda for the proactive work carried out by EFRAG in co-operation with the NSS. Proactive work is a crucial element of the work of EFRAG and the NSS. It constitutes the main and appropriate means of influencing the agenda and initial thinking of the IASB. With the EC funding from 2010 EFRAG will be able to dedicate substantially more resources to the proactive work and research and gradually increase its proactive output.

NSS are also important partners as commentators on our draft comment letters and draft endorsement advice letters.

Relations with global standard setters

EFRAG also participates in the global standard setters meetings. In 2009 the meetings took place in South Africa and Germany.

EFRAG also participates in the world standard-setters annual meeting organised by the IASB. The meeting took place in London.

NATIONAL STANDARD SETTERS IMPORTANT IN DEVELOPING EFRAG’S VIEWS

A key element in the enhanced structure of EFRAG is the co-operation with NSS in Europe. Notably in shaping Europe’s proactive input to the IASB and the co-ordination of the proactive work in the EFRAG PRC. EFRAG and the NSS interact at two levels: participation in the proactive work and through the EFRAG Consultative Forum of National Standard Setters (CFSS). EFRAG has also signed memos of understanding with each of the French, UK and German standard setters.

In the CFSS (see Table 1), EFRAG meets quarterly with the European NSS. During these meetings EFRAG discusses current European financial reporting issues, major proposed changes to IFRS and EFRAG’s proactive work with the NSS in the presence of IASB members and TEG members. These discussions allow EFRAG to have a better understanding of the impact of the proposed amendments on national business practice and national accounting standards. The meetings facilitate the exchange of up to date information and knowledge between the various...
the financial performance and position of the entity. Therefore, the choice of accounting model by the entities may be influenced by prudential, legal and tax implications.

An advisory panel (see Table 10) was established to provide feedback to the working group. In its first meetings, members discussed the scope of the project and a possible conceptual model that could be used to consider and evaluate alternative accounting and presentation treatments for BCUC. The objective of the project is to issue a discussion paper at the end of 2010 or early 2011.

**PERFORMANCE REPORTING**

The objective of the PAAInE project on Performance Reporting is to develop European views on performance reporting issues and to communicate them to the IASB so they are considered in the Financial Statements Presentation project.

In March 2009 EFRAG issued for public comment “Per-formance Reporting: A European discussion Paper”. This paper followed an initial discussion paper issued in November 2006 “What (if anything) is wrong with the good old Income Statement?”. The purpose of the new discussion paper was to discuss some fundamental issues about the presentation of financial performance including: the notion of “performance”; the role of key and bottom lines in a performance statement(s); particularly the “net income” line; and the appropriate disaggregation model for income and expenses. These issues relate to the Financial Statements Presentation project undertaken jointly by the IASB and the U.S. Financial Accounting Standards Board (FASB).

The discussion paper noted that performance is a complex, multi-faceted notion that cannot be encompassed in one or a few numbers. Nevertheless both preparers and users want some key performance reporting lines to convey headline numbers and to provide a starting point for analysis. It is therefore important that items of income, expense, gains and losses are disaggregated, grouped and aggregated in a way that ensures that the most useful key lines are presented. The paper notes that whether recycling is needed also depends on the aggregation/disaggregation model used. The final chapters of the paper discuss various disaggregation models.

Written comments on the paper were invited. A summary of comments has been prepared and published. The comments received will be considered in developing views when responding to the IASB due process documents related to the Financial Statements Presentation project.

**EFFECTS STUDIES**

In 2009 the EFRAG PRC decided to add this existing project, led by the UK ASB and supported by EFRAG, to its agenda. The main objective is to develop proposals for a framework by which the effects of accounting standards can be considered by standard setters, notably the IASB, in developing new standards and major amendments to existing standards. Standard setters have for many years wrestled with ways in which they can determine the effect of standards, and to date such analyses have been restricted to a qualitative assessment of costs and benefits. The aim is to set out some principles and proposals for considering the effect of accounting standards, and how they might be embedded and articulated at each stage of the standard setting process.

**PAPER ON THE PROPOSED NEW DEFINITION OF AN ASSET**

The staff of both EFRAG and the French standard setter (CNC - changed into ANC beginning of 2010) jointly prepared a paper to the IASB staff on the proposed new definition of an asset tentatively adopted by the IASB and FASB. During the year, EFRAG and CNC staff tested the proposed new definition of an asset against a series of economic arrangements and analysed the results. The purpose of the analysis was to assess whether the proposed new definition of an asset drafted by the IASB staff was operational and would result in an improvement over the existing IASB definition of an asset. In addition to being useful for the IASB staff in its deliberation on the development of the Conceptual Framework, another purpose of the paper was to stimulate thinking and research on conceptual issues that underpin financial reporting.

**DISCLOSURE FRAMEWORK**

In 2009 EFRAG started a new proactive project on the disclosure framework. There is criticism of the current disclosures requirements in IFRS. Investment analysts claim that disclosures are deficient in quantity, relevance and clarity; individual investors often complain that disclosures are so voluminous and incomprehensible that they ignore them; preparers express concern over the significant costs involved in satisfying such requirements. Over the years standard-setters and regulators have significantly increased the number of disclosures often on a standard-by-standard basis. This may have contributed to a lack of cohesiveness and unclear presentation.

Currently no standard setter has developed a conceptual framework for disclosures. Only in recent years have some standards started to include the objectives and rationale for selecting disclosure requirements. This is the case with IFRS 3 as revised and IFRS 7.

The objective of the project is to encourage the IASB, and other standard setters, to reassess the current process of developing disclosure requirements and to provide recommendations for the development of a set of robust principles.

The output of the project is expected to be a discussion paper that defines a set of principles and criteria that standard-setters should refer to when developing disclosure requirements.

EFRAG will appoint a Pan-European advisory panel whose role will be to provide feedback to the staff and be involved in the review of the discussion paper. EFRAG will lead the project with support from the UK ASB. A discussion paper is expected to be issued in 2011.

**BUSINESS MODEL**

This project is led by the UK ASB with support from the ANC and EFRAG and addresses the business model and its relevance to financial reporting. The aim of the project includes: to consider the suggestion that financial reporting should reflect an entity’s business model; to illustrate how the idea of a business model might suggest particular solutions to issues in financial reporting; and to discuss the means by which the business model might be incorporated into requirements or other guidance for financial reporting.
The developments in IFRS this year have continued to be dominated by the IASB’s response to the financial crisis along with other significant proposals aimed at enhancing financial reporting. It would be somewhat of an understatement to say that it has been a busy year and we appreciate it has also been demanding for our constituents. EFRAG continues to be impressed by the number of constituents who contribute to our due process documents on the IASB’s proposals and our endorsement advice to the EC on new and amended IFRS. It is this effort that really make our technical work possible.

The key technical projects for the year are discussed below:

**CONSOLIDATION**

The key objective of the consolidation project is to bring about a single accounting standard based on a single consolidation principle.


EFRAG supported the objectives of the ED because it is often difficult to distinguish between entities that should apply IAS 27 and SIC-12. This is because even though SIC-12 is intended to be an interpretation of IAS 27, in reality, both are based on different principles. EFRAG also thought that currently there is not enough disclosure about certain entities that are not consolidated, such as structured entities.

EFRAG however had a number of concerns. The primary concern being that risk and rewards should be explicitly incorporated into the control model. EFRAG is of the view that a consolidation model that relies on control alone, as opposed to risk and rewards, will not result in the same structured entities being consolidated or remaining off-balance sheet as under existing IFRS.

During the remainder of 2009, the IASB re-deliberated its proposals in light of the comments received with a view to issuing a final standard in 2010.

**FINANCIAL INSTRUMENTS**

The global financial crisis created the push for eXediteus reforms in reporting for financial instruments. The Group of Twenty (G20) called on the accounting standard-setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high quality global accounting standards. ECOFIN, council of the European Union comprising Economics and Finance Ministers, asked the IASB to resolve the issue of impairment of available-for-sale debt instruments that are measured at fair value by the end of 2009.

The IASB decided to undertake a project of replacement of IAS 39 Financial Instruments: Recognition and Measurement splitting the project into phases so that the first phase that dealt with the classification and measurement of financial instruments was finalised in time for implementation in 2009 financial statements. The IASB intended to complete the other two phases of the project (hedge accounting, impairment) by the end of 2010.

The IASB published proposals related to the first phase of the project, classification and measurement, in July 2009. EFRAG commented on the proposals. EFRAG Financial Instruments Working Group, Insurance Accounting Working Group and User Panel, provided important input to that process.

EFRAG welcomed a more principle-based classification system based on how financial instruments are managed and their characteristics, and the fact that the system had only limited exceptions - a fair value option and a presentation choice for equity investments. However EFRAG had some significant concerns with the proposals including: no bifurcation for hybrid instruments would be possible, reclassification of instruments from one category to another was prohibited even if the original criteria for classification did not hold any longer, no reliability threshold for measuring unquoted equity investments was foreseen, the recycling from other comprehensive income to profit or loss of any part of the total return on equity instruments if an entity elects to report it in other comprehensive income was prohibited, and the classification and measurement of liabilities would be measured at fair value and that would result in many more cases than today when effects from changes in entities’ own credit risk would be reported in financial statements.

In November 2009 the IASB published IFRS 9 Financial Instruments that covered classification and measurement of financial assets. In the final standard the IASB addressed some of the concerns that EFRAG had raised but not all. To address concerns regarding measurement of liabilities, the IASB decided to defer finalisation of classification and measurement requirements for financial liabilities to 2010. EFRAG issued draft endorsement advice on IFRS 9 in consideration of a possibility to endorse IFRS 9 on a fast track basis before 2009 year end. However, it was decided that more time should be taken to consider the implications of the new standard for European constituents.

In the context of developing a new impairment model, in June 2009 the IASB issued a ‘Request for Information’ on the feasibility of implementing an expected cash flow approach to impairment of financial assets. In responding to the request, EFRAG supported the IASB’s decision to review the incurred loss model in the context of other impairment approaches. However EFRAG noted that the implementation of an expected cash flow approach would involve significant operational challenges for European constituents.

Subsequently, in November 2009 the IASB published its proposals for new impairment model. As part of its proactive work, in December 2009 EFRAG and FEE published a joint paper Impairment of Financial Assets - The Expected Loss Model. The paper was written to be read in conjunction with the IASB proposals providing European stakeholders with a different perspective.

In addition EFRAG responded to the Financial Crisis Advisory Group’s (FCAG) request for input. EFRAG expressed a support for the FCAG efforts to address concerns raised during the crisis by various parties that general purpose financial reporting (especially in the areas related to financial instruments) might exacerbate the crisis and failed to provide satisfactory warning signs. EFRAG also stressed an importance of the IASB and the FASB working together to get to common solutions that would improve financial reporting to the benefit of capital markets participants around the world.

Other activities in the area of financial instruments in 2009 included issuing comment letters to various EDs, the more significant ones being the EDs of proposed amendments to IFRIC 9 Reassessment of embedded derivatives concerning reassessment of embedded derivatives upon reclassification out of the fair value category, proposed amendments to IFRS 7 Financial Instruments: Disclosures “Investments in Debt Instruments”, and the IASB’s request for views on the FASB amendments to fair value measurement guidance and impairment recognition requirement. These and other comment letters can be found on EFRAG’s website.

**Financial Instruments Working Group**

In 2008, the EFRAG decided to renew the membership of the Financial Instruments Working Group. The new working group comprises high quality specialists in financial instruments with diverse backgrounds, including preparers, auditors, consultants and users, representing different countries (see table 6). The Group held its first meeting in May 2009. The role of the Group is to provide input to EFRAG TEG on financial instrument issues affecting Europe and the views of European stakeholders on those issues and to ensure that EFRAG TEG is in a position to be influential in promoting European interests in financial instruments reporting standard setting.

The Financial Instruments Working Group was actively involved in providing input to EFRAG TEG to facilitate its assessment of the IASB proposals and the standard for reporting financial instruments issued by the IASB in November 2009. In particular, the Group held discussions concerning such aspects of financial instruments reporting as classification and measurement, impairment and derecognition of financial instruments as well issues of fair value measurement.

**DERECOGNITION**

The IASB’s proposal fundamentally changes the approach to derecognition of financial assets, moving away from ‘risks and rewards’ to a control notion.
In March 2009, the IASB first issued an ED with a pro-
posal to simplify the derecognition provisions of IAS 39 while keeping a large part of the old principles. A ma-
gnificant difference with IAS 39 was the treatment of sale-
and-repurchase transactions (repos), which would have largely been derecognised under the proposed rule.

The vast majority of the respondents to the ED – in-
cluding EFRAG – rejected the proposals on the ground that they did not result in a significant improvement of IAS 39 and the control of repos was problematic.

The IASB therefore decided to develop a new pro-
posal based on the alternative approach that was also
presented in the ED. The alternative approach, which
received more support than the main proposal, would result in a significant change from the current require-
ments in IAS 39 with derecognition of financial assets
being determined using a control notion and with risks
and rewards no longer being relevant criteria. Control
and hence derecognition of a financial as-
set would be determined by assessing an
entity’s present access to the cash flows of that asset.

FAIR VALUE MEASUREMENT

The proposed IFRS focused on ‘how to’ measure fair value and did not deal with
to fair value whatsoever. It used, the recent
financial crisis highlighted the need to de-
velop a consistent global approach to fair
value measurement.

The IASB issued its ED on Fair Value Measurement
in May 2009 and EFRAG worked on its response to the
public consultation. EFRAG issued a comment
letter on the ED that supported most aspects of the IASB’s pro-
posal. However, EFRAG also expressed the view in
its comment letter that the application of fair value, as
defined and described in the ED, should not apply to
all non-financial items. This view arose out of con-
cerns that fair value was not the right measure in all
cases and could be difficult to apply. EFRAG argued that
more consideration was needed including further
public consultation and debate on the issue of ‘when to
use fair value in IFRS’. EFRAG also noted in its com-
ment letter that it does not agree with the proposal that
the fair value of a liability should always reflect non-
performance risk.

FINANCIAL STATEMENTS PRESENTATION

The Discussion Paper proposes a “new look” for finan-
cial statements, but constituents are reluctant to give up
some aspects of the existing practice. As a result the ED is likely to be a compromise of “something old” and “something new”. A continuous statement of com-
prehensive income becomes an issue as the IASB and the FASB proceed with the Post-employment Benefits and the Financial Instruments projects.

The beginning of 2009 saw EFRAG developing a re-
sponse to the IASB’s Discussion Paper Preliminary
Views on Financial Statements Presentations (the DP)
issued in October 2008 as Phase B of the Financial Statements Presentation project. EFRAG supported the
presentation principles proposed in the DP (in-
cluding cohesiveness) but critised the proposed ap-
plication of those principles. EFRAG’s major concerns related to the proposed disaggregation model and the required level of detail on the face of primary state-
ments; the introduction of a reconciliation schedule,
which would lose a few useful numbers in an over-de-
tailed disclosure; and the proposal to require the direct
method for presenting cash flows.

REVENUEd RECOGNITION

In late 2008 the IASB issued a discussion paper on
revenue recognition in contracts with customers. The
discussion paper proposed that when an entity enters
into a contract with a customer, an asset (the entity’s
right to receive consideration) and a liability (the ent-
ity’s performance obligation) would arise. Revenue
should then be recognised as the entity satisfies its
performance obligations, which would happen when
control of the asset (as good or a service) was trans-
tered to the customer.

In July 2009, EFRAG submitted its comment letter in
response to the IASB’s discussion paper. EFRAG con-
sidered that the model proposed by the IASB would
often result in revenue related to construction-type
and service-type contracts not being recognised until
completion of the work. EFRAG did not think this would
result in the most decision-useful informa-
tion. In EFRAG’s view, revenue should be
recognised as the entity progresses to-
wards fulfilment of its performance obliga-
tion, rather than upon fulfilment.

MANAGEMENT COMMENTARY

In June 2009, the IASB issued an ED on
management commentary. The ED de-
scribed a high-level principles-based
framework for the preparation and pres-
entation of management commentary and the content of a
decision-useful management commentary.

The IASB proposed that a non-mandatory guidance docu-
ment on management commentary should be issued
based on the ED.

In November 2009, EFRAG published its draft com-
ment letter. The draft comment letter supported the
IASB’s decision to develop high-level, principle-
based, non-mandatory guidance on management
commentary. EFRAG was also broadly supportive of
the detailed proposals, but had some concerns about the
desirable qualitative characteristics it was pro-
posed that management commentary should have and
thought that IASB should not defer development of
place ment principles (principles for placing disclo-
sures in management commentary or in
the notes to the financial statements).

RATE-REGULATED ACTIVITIES

The IASB published an ED in July 2009 on the account-
ing for rate-regulated activities. EFRAG expressed
support for the overall objective of the project, but did not support some of the proposals. In EFRAG’s view, the ac-
counting model on which the ED is based is concep-
tually flawed and presents proposals that are unclear
and difficult to follow.

The accounting for rate-regulated activities was first
discussed by the IFRIC some years ago, but the IFRIC
decided not to address the issue, but rather referred it
to the IASB. Unlike US GAAP, IFRS does not provide specific guidance on the accounting for rate-regulated
activities and several questions have arisen on how to
reflect the impacts of rate-regulation in the financial
statements of entities operating in a regulatory envi-
ronment.

Focusing on the objective of the project, EFRAG
agreed that the issue of whether rate regulation gives
rise to assets and liabilities under the Framework is
widespread. For this reason, EFRAG supported the
IASB in its effort to consider the issues. However,
EFRAG expressed numerous concerns with the pro-
posals and, overall, thought that the IASB had not
addressed the issues in an appropriate manner.
First, EFRAG argued that it was questionable whether the rate-regulated activities as described in the ED
would always meet the definition of assets and li-
abilities under the Framework. In addition, there is a risk that the proposals would be applied by analogy to other situations for
which the ED requirements are not in-
tended.
EFRAG also expressed significant
concerns with the very narrow scope of
the ED and questioned why the IASB had decided to focus
to only on cost-of-service regulation, which indeed might
be common practice in jurisdictions operating in the
US and neighbouring countries, but not in European
environments. Management commentary-based
approaches are more prevalent and therefore outside the scope of
the ED. Given these concerns, EFRAG concluded that
it did not support the issuance of a standard based on
the proposals.

INCOME TAXES

The IASB published an ED of an IFRS to replace IAS 12 Income Taxes in March 2009. EFRAG considered the
proposals at several of its meetings and noted its sup-
port in relation to convergence and the IASB’s efforts to try to address the issues created by the
application of IAS 12. However, EFRAG con-
cluded that the proposals were not an improvement to
the existing IAS 12 and should not be used as a basis for
a revised standard.

The IASB began work on the accounting for income
tax back in 2002 as part of the short-term conver-
genesis project with the FASB. The project started off
with two objectives in mind (1) to converge with US
GAAP and (2) to improve IAS 12. However, during the

Catherine Gutmann
Mike Starkie
course of the project, the FASB indicated that it would suspend its work on income tax and would decide how to proceed with the project once it had considered the responses to the IASB’s ED. In respect of the ED, EFRAG thought that the proposals were very rule-based and as a result, it compromised the benefits of having an amended income tax standard based on well understood principles which entities could apply to their ‘real life’ tax situations. In EFRAG’s view, the IASB was trying to align aspects of existing IAS 12 with a totally different tax jurisdiction without first having carried out a field-test exercise to better understand the implications of the proposals and assessing the usefulness of the information it would produce when applied to a non-US environment. Given these considerations the IASB should carry out further work before publishing a final standard on income taxes.

In October 2009, the IASB decided not to continue with the ED in its current form. At the time of writing, the IASB has indicated that it would consider a limited scope project to amend IAS 12 and address some of the fundamental practice issues that arise from the requirement in the existing standard.

FRAMEWORK

Since 2004 the IASB and the FASB have been in the process of developing a joint project on a common conceptual framework. The project is being conducted in eight phases. In 2008 the IASB issued an ED of the first two chapters of the proposed new framework (objectives and qualitative characteristics) and also the Discussion Paper on the reporting entity notion. Further documents were issued in 2009. The Group currently comprises members from the insurance industry (6), audit firms (3) and various other insurance-related profiles (4) (See Table 3). Bearing in mind that the IASB’s ED on insurance contracts is expected to be issued in June 2010, the Group met frequently.

The Group has closely followed the IASB’s deliberations and has discussed the IASB’s main tentative decisions. The Group has welcomed the IASB’s decision to move away from an exit value notion and has been overall supportive of the IASB’s building block approach. The Group nevertheless raised significant issues, including the treatment of acquisition costs, participation features, the recognition of net income and revenue and the interaction between the insurance project and the IAS 39 replacement project.

The IASB still has important decisions to make, including the scope of the insurance contracts standard and the treatment of unit-linked and participating contracts. The Group will continue to meet with the same frequency in 2010 in an effort to provide EFRAG with the maximum level of input to help it prepare its comment letter on the IASB’s forthcoming ED.

SME ACCOUNTING

The IASB issued International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in 2009. The standard reflects many of the positions stated in EFRAG’s comment letter issued in February 2008 in response to the IASB’s ED of the standard. In line with EFRAG’s position, the final standard is a stand-alone document, except for the references to IAS 39. Also, the final standard includes fewer options and the requirements have been further simplified compared to the ED. On the other hand, it is EFRAG’s view that a more thorough analysis of users’ information needs should have been carried out and the results of this should have been reflected in the final standard.

The reconstituted EFRAG SME Working Group was appointed in May 2009 with strong membership drawn from a variety of backgrounds (See Table 7). The Working Group’s objectives are to:

- prepare papers for EFRAG with the aim of ensuring that European views are taken into account at the IASB’s discussions on IFRS for SMEs;
- provide input for EFRAG to be used for its recommendations and suggestions to the EC on accounting issues related to SMEs;
- deal with other accounting issues related to SMEs.

The main tasks of the Working Group were in 2009 related to advice on EU accounting legislation. The Working Group, however, first considered the ballot draft of the new IFRS for SMEs and evaluated it for use in Europe and as expected the Group had diverse views, but came up with constructive input for EFRAG TEG.

The EC issued in 2009 a consultation paper ‘Cutting Accounting Burden for Small Business/ Review of the Accounting Directives’. EFRAG did not submit a comment letter on this paper. Staff members of the EC were invited to attend the meetings of the EFRAG SME Working Group and at these meetings the members of the Working Group presented, on an informal basis, their different views on issues related to the EU Accounting Directives. Over the summer the EC asked for input on a new draft directive and the Working Group had several meetings on that subject in order to challenge the EC proposals.

Some of the issues discussed in the working group in relation to the EU Accounting Directives were:

- the users of financial statements of SMEs;
- how detailed versus principle-based the accounting directives should be;
- what should be the basic principles of the accounting directives;
- the layout of the financial statements; and
- required disclosures.

As a consequence of the issuance of IFRS for SMEs, members also discussed what role they thought this standard should have in the EU. The EFRAG SME Working Group also invited the Spanish Accounting and Auditing Institute (ICA) to present how a general accounting plan for SMEs had been inspired by the requirements of IFRS.

In 2009, the EC also issued the consultation paper ‘Consultation on the International Financial Reporting Standard for Small and Medium-sized Entities’. Partly in relation to this consultation paper, the EC asked EFRAG to perform an analysis of the compatibility between IFRS for SMEs and the Accounting Directives. EFRAG has asked the EFRAG SME Working Group to present an analysis on which EFRAG’s work can be based and the Working Group has held several meetings to discuss potential conflicts between the requirements of IFRS for SMEs and the Accounting Directives. EFRAG issued a draft letter for comment in March 2010.
## Publications and Activities in 2009

<table>
<thead>
<tr>
<th>IFRSs</th>
<th>Draft Comment Letter</th>
<th>Final Comment Letter</th>
<th>Draft Endorsement Advice</th>
<th>Final Endorsement Advice</th>
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<td>Amendments to IFRS 7 Investment in Debt Instruments</td>
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<td>16-01-2009</td>
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<td>Amendments to IFRS 7 Improving Disclosures about Financial Instruments</td>
<td>04-11-2008</td>
<td>15-12-2008</td>
<td>03-04-2009</td>
<td>27-05-2009</td>
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<td>Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets – Effective Date and Transition</td>
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<td>17-12-2008</td>
<td>30-01-2009</td>
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<td>Amendments to IAS 24 Relationships with the State</td>
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<td>01-04-2009</td>
<td>20-11-2009</td>
<td>29-01-2010</td>
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<td>Amendments to IAS 39 and IFRS 7 Derecognition</td>
<td>15-06-2009</td>
<td>31-07-2009</td>
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<td>Amendments to IAS 32 Classification of Rights Issues</td>
<td>21-08-2009</td>
<td>07-09-2009</td>
<td>08-10-2009</td>
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<td>Amendments to IAS 19 Discount Rate for Employee Benefits</td>
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<td>06-10-2009</td>
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<td>04-12-2009</td>
<td>22-12-2009</td>
<td>29-01-2010</td>
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<td>02-03-2009</td>
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<td>Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</td>
<td>10-07-2009</td>
<td>07-09-2009</td>
<td>14-12-2009</td>
<td>29-01-2010</td>
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<td>IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments</td>
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### Letters issued in 2009 in total

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### Other Letters

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<td>ED 10 Consolidated Financial Statements</td>
<td>02-03-2009</td>
<td>09-04-2009</td>
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<td>ED Fair Value Measurements</td>
<td>30-07-2009</td>
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<td>ED Rate Regulated Activities</td>
<td>20-10-2009</td>
<td>18-12-2009</td>
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<td>ED Management Commentary</td>
<td>16-11-2009</td>
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<td>IASB’s request for views on FASB’s amendments to Fair Value Measurement Guidance and Impairment Recognition</td>
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### Other Publications

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<td>Summary of Comments Received on the PAA in EDP on Elements of the Framework Debate</td>
<td>11-02-2009</td>
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<td>24-03-2009</td>
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<td>European Survey of User’s Information Needs</td>
<td>29-05-2009</td>
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<td>Impairment of Financial Assets – The Expected Loss Model</td>
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### Publications of EFRAG’s Supervisory Board

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<td>Identifying issues for Part 2 IASCF Review of the Constitution</td>
<td>06-03-2009</td>
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<td>IASCF Review of the Constitution Part 2</td>
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### Other Publications

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### Technical Meetings

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<td>TEG (1 day)</td>
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<td>CFSS</td>
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<td>Working Group Meeting</td>
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<td>User Panel</td>
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The financial highlights are based on statutory financial statements audited by BDO, Belgium. The financial statements have been prepared on accruals basis. Tangible assets equipment are recorded at historical cost and depreciated on basis of useful life of the assets. Current investments and cash at hand are recorded at market value. Committed contributions are recorded on accruals basis. In 2009 EFRAG has started to account for its contributions in kind. The amount included is based on the fourth quarter only.

EFRAG has started in the fourth quarter of 2009 to account for contributions in kind and expenses in kind consisting of the time members of the various committees dedicate to EFRAG as well as the additional value of the secondment provided to EFRAG. EFRAG’s expenses excluding expenses in kind have increased with over 40 % compared to 2008 largely due to the increase of the EFRAG secretariat staff and the new and larger EFRAG offices.

In 2009 the financing of EFRAG was entirely provided by its Member Organisations (European stakeholder representative organisations with an interest in financial reporting) and the National Funding Mechanisms (NFMs) in several European countries. EFRAG seeks to broaden its basis of NFMs to obtain a better coverage in Europe. At this stage, most European countries have not yet created a NFM despite being encouraged to do so by the EC, the Council of Ministers and EFRAG.

From 2010 onwards, EFRAG will be co-funded by the EC for up to 50% of the EFRAG budget whereby public sector funding will match the private sector funding. With the EC funding, EFRAG will move to a three-tier funding model:
- Base funding from Member Organisations
- National Funding Mechanisms
- EC funding

In addition there are contributions in kind provided by the members of TEG (with exception of the Chairman from 2010 onwards), the SB, the Working Groups and Advisory Panels and seconded staff at subsidised cost.

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<th>Income Statement 2009</th>
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<td>Contributions related to prior year</td>
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<td>Net profit or loss</td>
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</tr>
<tr>
<td>Total Fixed Assets</td>
<td>205</td>
</tr>
<tr>
<td>Amounts Receivable</td>
<td>350</td>
</tr>
<tr>
<td>Current Investments</td>
<td>250</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>1056</td>
</tr>
<tr>
<td>Deferred Charges and Accrued Income</td>
<td>105</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>1780</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1965</td>
</tr>
<tr>
<td>Accumulated Surplus</td>
<td>1584</td>
</tr>
<tr>
<td>Creditors</td>
<td>381</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1655</td>
</tr>
</tbody>
</table>

The EFRAG Member Organisations are:
- FEE Federation of European Accountants
- BUSINESSEUROPE European Business Federations
- CEA European Insurance Organisation
- EBF European Banking Federation
- EIBG European Association of Cooperative Banks
- EACB European Association of Cooperative Banks
- EFAA European Federation of Accountants and Auditors

The NFMs are:
- France CNC* non-mandatory call on all listed companies for IASB, EFRAG and special surveys accompanied by a letter of the ministry of finance
- Italy Part of the OIC budget that is obtained from a collection of funds by the Chamber of Commerce from all companies that have to publish financial statements
- Norway Norik Reknaaktsf suited (the Norwegian Accounting Standards Board), in collaboration with The Norwegian Institute of Public Accountants (OrF), The Confederation of Norwegian Business and Industry (NHO), and Oslo Børs (Oslo Stock Exchange)
- Sweden Collection of funds by self-regulating body from listed companies calculated as a percentage of the market capitalisation
- UK Paid by the UK Financial Reporting Council which is primarily funded by levies on companies and a contribution from the accountancy profession

*CNC became ANC (Autorité des normes comptables) at the beginning of 2010. In addition, EFRAG receives ad hoc contributions.
The Contributions for 2009 are as follows:

<table>
<thead>
<tr>
<th>Member Organizations</th>
<th>Amount in 1000 euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEI</td>
<td>300</td>
</tr>
<tr>
<td>BUSINESSEUROPE</td>
<td>200</td>
</tr>
<tr>
<td>CEA</td>
<td>75</td>
</tr>
<tr>
<td>EBF</td>
<td>75</td>
</tr>
<tr>
<td>ESBG</td>
<td>75</td>
</tr>
<tr>
<td>EACB</td>
<td>75</td>
</tr>
<tr>
<td>EFAA</td>
<td>25</td>
</tr>
<tr>
<td>Total Member organisations</td>
<td>825</td>
</tr>
<tr>
<td>NFMs</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>350</td>
</tr>
<tr>
<td>Italy</td>
<td>170</td>
</tr>
<tr>
<td>Norway</td>
<td>50</td>
</tr>
<tr>
<td>Sweden</td>
<td>100</td>
</tr>
<tr>
<td>UK</td>
<td>350</td>
</tr>
<tr>
<td>Total NFMs</td>
<td>1020</td>
</tr>
<tr>
<td>Ad hoc</td>
<td></td>
</tr>
<tr>
<td>Action (FR)</td>
<td>50</td>
</tr>
<tr>
<td>Forsikring &amp; Pension (DK)</td>
<td>13</td>
</tr>
<tr>
<td>Total Ad hoc</td>
<td>63</td>
</tr>
<tr>
<td>Total 2009 contributions</td>
<td>1908</td>
</tr>
</tbody>
</table>

We would like to thank the members of the former Supervisory Board:

- Göran Tidström, Chairman of PwC Sweden, President of EFES.
- Patrice Marteau, President of BUSINESSEUROPE.
- Javier De Frutos, Chairman of EFFAS.
- Gérard de la Martinière, President of CEA.
- Chris De Nicee, Chairman of ESBG.
- Jacques Potdevin, President of FEE.
- Hervé Guider, Chairman of EACB.
- Guido Ravoet, President of EACB.
- Robin Jarvis, President of EFAA.
- Peter Sampers, President of BUSINESSEUROPE.
- Klaus-Günther Klein, President of FEE.
- Hans van Damme, President of FEE.
- David Lindsell, President of FEE.
- And their advisors:
  - Erik Berggren, President of BUSINESSEUROPE.
  - Roger Kaiser, President of EBF.
  - Alberto Conti, Chairman of ESBG.
  - Saskia Stomp, President of FEE.
  - Astrid Hagamah, President of EFAA.

The new members of the EFRAG Supervisory Board since 11 June 2010:

- Pedro Solbes Mira, Chairman of CEA, former Member of the Spanish Government.
- Pär Boman, President of the Swedish Association of Banks.
- Peter Chambers, UK, Chairman of the UK Financial Reporting Council.
- Claudio de Conto, President of the Italian Association of Professional Accountants.
- Gérard de la Martinière, French, President of CEA, former Member of the Board of Directors of AXA.
- Patrick De Vos, Belgian, President of the Belgian Bookkeepers Association.
- Gerhard Hofmann, German, Member of the Board of the German Bookkeepers Association.
- Robin Jarvis, UK, Head of International Relations at the Accountants Association.
- John Kellas, UK, Member of the UK FRC Professional Oversight Board.
- Jorge Gil Lozano, Spanish, Managing Director of the Spanish Confederation of Savings Banks.
- Patrice Marteau, French, Chairman of CEA, former Member of the Board of Directors of AXA.
- Professor Angelo Provossi, Italian, former Member of the Board of the Italian Bookkeepers Association.
- Jens Ruder, Danish, former Member of the Danish Bookkeepers Association.
- Peter Sampers, Dutch, President of the Dutch Accounting and Auditing Board.
- Hans van Damme, Dutch, President of the Dutch Bookkeepers Association.

EC and CESR attend the meeting as observers.

Henri Olivier (FEE) is Secretary to the Supervisory Board.
TABLE 2 - TECHNICAL EXPERT GROUP

<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stig Enevoldsen (Denmark)</td>
<td>Chairman and CEO, EFRAG Chairman</td>
</tr>
<tr>
<td>Francoise Flores (France)</td>
<td>Co-Chair SME WG, Partner Deloitte</td>
</tr>
<tr>
<td>Hans Schoen (The Netherlands)</td>
<td>Chairman of the Insurance Accounting Working Group</td>
</tr>
<tr>
<td>Thomas Seeborg (Germany)</td>
<td>Managing Director Société Générale</td>
</tr>
<tr>
<td>Alan Dangerfield (Switzerland)</td>
<td>Head of Corporate Finance Accounting &amp; Controlling – External Relations</td>
</tr>
<tr>
<td>Michael Starks (United Kingdom)</td>
<td>Group Vice President and Chief Accounting Officer BP p.l.c.</td>
</tr>
<tr>
<td>Catherine Guttmann (France)</td>
<td>Partner Deloitte</td>
</tr>
<tr>
<td>Anna Brocza (Poland)</td>
<td>Audit Partner E&amp;Y</td>
</tr>
<tr>
<td>Roberto Monachino (Italy)</td>
<td>Director at UniCredit Banca Mobiliare</td>
</tr>
<tr>
<td>Araceli Mora (Spain)</td>
<td>Professor University of Valencia</td>
</tr>
<tr>
<td>Jean-François Lepeltit (France)</td>
<td>Chairman French Standard-Setter (CNC)</td>
</tr>
<tr>
<td>Hans van Damme (Greece)</td>
<td>EFRAG SB Member, FEE President</td>
</tr>
<tr>
<td>Anna Sirocka (Poland)</td>
<td>Audit Partner E&amp;Y</td>
</tr>
<tr>
<td>Françoise Flores (France)</td>
<td>EFRAG TEG Chairman</td>
</tr>
<tr>
<td>Mike Ashley (United Kingdom)</td>
<td>Chairman/Financial Instruments Working Group Audit partner KPMG</td>
</tr>
<tr>
<td>Liesel Knoop (Germany)</td>
<td>President German Accounting Standards Board (GASB)</td>
</tr>
<tr>
<td>Ian Mackintosh (United Kingdom)</td>
<td>Chairman UK Accounting Standards Board (UK ASB)</td>
</tr>
<tr>
<td>Anna Sirocka (Poland)</td>
<td>Audit Partner E&amp;Y</td>
</tr>
<tr>
<td>Araceli Mora (Spain)</td>
<td>Professor University of Valencia</td>
</tr>
<tr>
<td>Jean-François Lepeltit (France)</td>
<td>Chairman French Standard-Setter (CNC)</td>
</tr>
<tr>
<td>The EC, the IASB and CESR</td>
<td>attend the meetings as observers</td>
</tr>
</tbody>
</table>

*CNC changed into ANC (Autorité des normes comptables) at the beginning of 2010. Jérôme Haas succeeded Jean-François Lepeltit.

TABLE 4 - SECRETARIAT AS OF 31 DECEMBER 2009

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stig Enevoldsen</td>
<td>Chairman and CEO</td>
</tr>
<tr>
<td>Mario Alves</td>
<td>Senior Director and acting Technical Director</td>
</tr>
<tr>
<td>Sigvard Heurlin</td>
<td>Senior Project Manager</td>
</tr>
<tr>
<td>Mark Alvis</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Isabel Batista</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Svetlana Boycen</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Emmanuel Gagneux</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Gregory Hodgkinson</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Irina Ipatova</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Alex Novak</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Filippo Pili</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Kristy Robinson</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Joaquin Sanchez-Hermos</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Reimus Sommer</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Stuart Studru</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Marius Van Reemen</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Jeff Waldier</td>
<td>Project Manager</td>
</tr>
<tr>
<td>Nathalie Saintmard</td>
<td>Office Manager</td>
</tr>
<tr>
<td>Thérèse Mac an Airchinnigh</td>
<td>Office Administrator</td>
</tr>
<tr>
<td>EFRAG would like to thank Paul Ebling for his tremendous contribution to the high quality level of EFRAG’s technical work.</td>
<td></td>
</tr>
<tr>
<td>EFRAG would like to thank Charlotte Nerve and Frederik Vermueken for their valuable contributions as project managers and support in the daily operations of EFRAG.</td>
<td></td>
</tr>
<tr>
<td>EFRAG welcomed in its management staff Saskia Slomp as Director and Pieter Dekker as Technical Director in the beginning of 2010.</td>
<td></td>
</tr>
</tbody>
</table>
TABLE 6 - MEMBERS OF THE FINANCIAL INSTRUMENTS WORKING GROUP

Mike Ashley – TEG Member and Working Group Chairman (KPMG); David Bradbury – Preparer (UBS Investment Bank); Pierre-Henri Damotte – Preparer (Société Générale); Laure Guégan – Auditor (E&y); Armin Hausmann – Preparer (Novartis International); Petri Hofste – Preparer (ABN Amro Bank); Gordon Ireland – Auditor (PwC); dennis Jullens – User (UBS); Roberto Monachino – TEG Member (UniCredit Banca Mobiliare); Cynthia Mustafa – Preparer (deutsche Bank AG); Nicolas Patrigot – Preparer (BPCE); Henricus Seerden – Preparer (EIB); Brendan van der Hoek – Preparer (BNP Paribas); Thierry Veyssière – Preparer (Banca IntesaSanpaolo); yvonne Wiehagen-Knopke – Preparer (dZ Bank AG);

Representatives of the EC, CESR and the Committee of European Banking Supervisors (CEBS) are invited to participate as observers.

The Working Group member, Agnes Tardos – Auditor (PwC), resigned during 2009.

TABLE 7 - MEMBERS OF THE SMALL/MEDIUM ENTITIES WORKING GROUP

Stig Enevoldsen – EFRAG Chairman; François Flores – EFRAG Vice-chair; Jean-Charles Boucher – Auditor (Tufill Audit); José María Bone – Auditor (Instituto de Contabilidad y Auditoría de Cuentas); José Carlos Bentolila – Academic (Asociación Española de Experto Contable); Roberto Moreno – Auditor (Deloitte); Eduardo Peralta – Auditor (KPMG); José Luis Pérez – Auditor (Acciona); Alfonso Ruiz – Auditor (Deloitte);

Representatives of the EC, CESR and the Committee of European Banking Supervisors (CEBS) are invited to participate as observers.

The International Credit Insurance & Surety Association (ICSA), the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) and representatives of the Re-insurance industry are associate members of the working group, in which they are invited to participate in meetings of interest to their respective industries.

TABLE 8 - MEMBERS OF THE INSURANCE ACCOUNTING WORKING GROUP

Hans Schoen – Working Group Chairman (Former Audit Partner, KPMG); Bernard Bolle-Radot – Preparer (BNP Paribas); Michel Colotel – CSAF observer; Alexander Dolphof – Actuary (Toomers Watson); Hugh Francis – Preparer (KPMG); Hella Gade – Preparer (Danish Insurance Association, Forikningsopgaveriet); Benoît Jaspar – Preparer (General); Edouard Fossat – Preparer (AFA); Jacques Le Doux – Preparer (AXA); Francesco Nagler – Auditor (Deloitte); Sabrina Pucci – Academic (University of Rome); Gail Tucker – Auditor (PwC); Carsten Zellke – TEG Member (Societa' Generale).

Representatives of the European Commission, the Committee of European Securities' Regulators (CESR), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and EEA are invited to participate as observers.

The International Credit Insurance & Surety Association (ICSA), the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) and representatives of the Re-insurance industry are associate members of the working group, in which they are invited to participate in meetings of interest to their respective industries.

TABLE 9 - MEMBERS OF THE TAX ADVISORY PANEL

Andrew Lennard – Advisory panel Chairman (UK ASB); Carl-Eric Bohlin – Swedish Standard Setter (Swedish Financial Reporting Board); Elizabeth Crispin – Auditor (Deloitte); Matthew Curtis – Auditor (EY); Stig Enevoldsen (EFRAG Chairman); Eduard Fossat – Auditor (Mutand); Prof. Dr. Norbert Herzig – academic (University of Cologne); Peter Holger – Auditor (PwC); Matthias Jaryasch – Preparer (Deutsche Telekom AG); Andrew Jones – User (Makinson Cowell); Lessel Kron – German Standard Setter (DSSC); Oliva Larmannad – Preparer (PSA Peugeot Citroen); Ugo Marinelli – Academic (IC); Joanna Osborne – Auditor (KPMG); Thomas Senger – Auditor (Warth & Kient); Hugh Shields – Preparer (Deutsche Bank); Ahmed Smilacher – Preparer (Siemens AG); Arne McGonigle – observer (AAB); Mitsuhiko Takemura – observer (AAB).

TABLE 10 - MEMBERS OF THE BUSINESS COMBINATIONS UNDER COMMON CONTROL ADVISORY PANEL

François Flores, Chairman of the Advisory Panel (EFRAG TEG Vice Chair); Olivier Behys – Auditor (KPMG); Michelle Grop – UK Standard Setter (UK ASB); Mike Davies – Auditor (EY); Eoghart Shefkin – Auditor (KPMG); Henrik J. Hansen – Auditor (Deloitte); Jorge Hemosos – Auditor (KPMG); Erich Kandler – Auditor (Deloitte); Didier Rimbaud – Auditor (Matra); Bjørn Emar Strandberg – Auditor (PwC); Stig Enevoldsen (EFRAG Chairman); Christiane Ohlig – Preparer (SAP).
A ‘GREENER’ OFFICE – PUTTING SUSTAINABILITY INTO PRACTICE AT EFRAG

• During 2009 EFRAG has implemented a ‘green’ purchasing policy at an organisational level, including the use of recycled or recyclable paper, biodegradable packaging and the use of fair-trade foodstuffs.

• EFRAG recycles paper and seeks to restrict printing.

• EFRAG offers a wide range of employee transportation options, with strong emphasis placed on the use of public transport and particularly on sustainable travel options, such as walking and cycling.

TABLE 11 - MEMBERS OF THE CONSULTATIVE FORUM OF STANDARD SETTERS (CFSS)


* changed into ANC (Autorité des normes comptables) at the beginning of 2010.