



European Financial Reporting Advisory Group ■

Feedback statement – EFRAG Letter to the IASB on enhancement of IASB quality control procedures

October 2014

Introduction

Objective of this feedback statement

This feedback statement summarises the main comments received from EFRAG's public consultation and how those comments were considered by EFRAG's Supervisory Board (EFRAG SB) in its discussions on its letter to the IASB.

EFRAG's draft letter

On 6 June 2104, EFRAG launched public consultation to seek constituents' views on EFRAG's proposals to enhance IFRS quality control procedures. The [draft letter](#) is available on EFRAG's website.

In its draft letter EFRAG acknowledged the IASB's arguments for rejecting running public fatal flaw reviews in the past, however expressed the view that amendments and clarifications that may appear necessary when implementation efforts begin should benefit from a lighter due process than that imposed for any amendment to IFRS. EFRAG considered it appropriate for the IASB to introduce a specific "implementation stage"¹ that would start after publication and be conducted for a defined period.

Comments received from constituents

Fourteen comment letters were received from constituents and considered by EFRAG SB in its discussions. These comment letters are available on the EFRAG [website](#).

The comment letters were provided by 4 National Standard Setters, 9 stakeholder organisations amongst which five EFRAG Member Organisations (banking, insurance, accounting and other industry associations) and 1 individual person. In addition user input was

obtained through conference calls with representatives of users' organisations and some individual users. The respondents to EFRAG's draft letter are listed in the Appendix.

Constituents concurred with EFRAG that despite the IASB's high quality standard-setting process, some IASB publications issued cause difficulties of interpretation and implementation which lead to high implementation costs and divergence in the application of IFRS. Thus, constituents concurred with the EFRAG's view that enhanced quality control is necessary to facilitate and reduce the cost of implementation of new requirements and supported the common objective of consistent application of IFRS.

However, the proposals by EFRAG of another possible post publication light due process through an additional 'implementation stage' was mostly rejected. The majority of constituents were not sure if an additional 'implementation stage' was suitable to reduce major flaws and raised concerns of a delay in the finalisation process of a standard. Instead, a majority of constituents suggested that EFRAG recommend again public fatal flaw reviews being a mandatory due process step of the IASB in the finalisation of a new standard or major amendment. While we noted that there were also constituents that were not supportive of public fatal flaw reviews, all constituents who are supportive are those who are not currently involved in the private fatal flaw reviews.

EFRAG's final letter

On 30 September 2014, EFRAG followed the majority view of its constituents and recommended again to the IASB to include a public fatal flaw review as a formal step in the IASB due process as a way

¹ For further details on EFRAG's proposal for a specific 'implementation stage', please refer to page 4.

to enhance its quality control procedures prior to finalisation of a standard or a major amendment to a standard.

The IFRS Foundation Trustees' Due Process Oversight Committee (DPOC) responded to EFRAG's letter by stating that the DPOC discussed the recommendation in EFRAG's letter. DPOC requested the IASB Staff and the IASB to review the optionality to make public a draft for editorial review in the current *Due Process Handbook* and provide DPOC with advice as to whether recent experience has altered the current stance. They intend to contact EFRAG again when this is done. The letter is available on EFRAG [website](#).

Constituents comments – Specific ‘implementation stage’

EFRAG’s tentative views and constituents’ comments

EFRAG’s views in its draft letter

In its draft letter, EFRAG recommended that the IASB could consider inserting a specific ‘implementation stage’ that would start after publication and be conducted for a defined period. EFRAG suggested that such implementation phase should be carried out by a dedicated team set up by the IASB, and working in close coordination with Regional Groups and National Standard Setters. The team should have sufficient authority to handle all understandability and implementation issues, similar to agenda decisions of the IFRS IC.

EFRAG also envisaged that formal adoption processes, i.e. endorsement of the final standards, would be expected to be completed only after the implementation phase has ended, and the text of the standard reflects all changes that have been deemed necessary. With this proposal, EFRAG expected that jurisdictions would have the comfort that the final standard is ready to be applied without major difficulty. Further, EFRAG expected that the number of requests to the IFRS IC for interpretations would be significantly reduced.

Constituents’ comments

EFRAG’s proposal of introducing a specific ‘implementation stage’ to deal with post-issuance amendments to final standards was rejected by the majority of constituents. The proposals for an additional ‘implementation stage’ was mostly rejected as the disadvantages were considered to outweigh the advantages of introducing it and might not lead to the desired outcome but to further delay the implementation process. Concerns expressed included delay in the EU endorsement process; introduction of a new body would lead to more bureaucracy; unnecessary delay in the standard-setting process and confusion with the role of IFRS IC. Moreover, constituents observed that the IASB introduced relatively recently new procedures (post-implementation reviews and Transition

EFRAG’s response to constituents’ comments

On balance, we observed that constituents were not supportive of EFRAG’s idea of a ‘specific implementation stage’. Therefore EFRAG has not maintained its proposal of introducing a specific ‘implementation stage’ in its final letter.

Instead EFRAG chose to follow the recommendation of a majority of its constituents to reiterate its request that major changes be subject to public fatal flaw reviews. The objective remains to reduce the costs and timing of constituents at large (preparers, auditors, national endorsement mechanisms) in the implementation of final proposals and not on the contrary. As highlighted in EFRAG’s draft letter, public fatal

EFRAG's tentative views and constituents' comments

Resource Groups) and should first gain experience with those and assess their effectiveness.

A number of constituents supported EFRAG's proposal of introducing an 'implementation stage' as a mandatory due process step. Those constituents expressed the view that an additional 'implementation stage' would be an efficient way to deal with editorial and wording clarifications of final standards and thus making final rules more stable over time, while reducing the costs and efforts of actual implementation. However, those who supported the proposal, also pointed out some disadvantages, their main concern being that implementation might be delayed and another interpretative body would be established.

A majority of constituents suggested that EFRAG recommend again public fatal flaw reviews being a mandatory due process step of the IASB in the finalisation of a new standard or major amendment. All constituents who were supportive are those who are not currently involved in the private fatal flaw reviews. Those believed that public fatal flaw reviews would help the IASB to more directly identify any implementation and understandability issues and thus minimise the number of implementation issues with new or revised standards.

Some constituents were not supportive of public fatal flaw reviews. The main concerns expressed included the risk of reopening of issues that have already been decided and substantially prolonging the standard setting process.

EFRAG's response to constituents' comments

flaw reviews allow their outcomes to be considered as part of the initial standard setting process, hence permit the introduction of minor amendments and wording and language clarification without having to go through the full due process and thereby encourage these amendments to be made. This would result in a final text that is more stable over time without unnecessary post-issuance amendments which, as pointed by constituents, is unsatisfactory for preparers, auditors, endorsement mechanisms, enforcers and the users at large.

In contrast, EFRAG observed that neither the Transition Resource Groups for two recent standards nor the post-implementation reviews provide the same advantage.

In EFRAG's view 'public fatal flaw review drafts', as also noted in our final letter, remain within the responsibility of the Board who should discuss the outcome of the fatal flaw review in a public meeting and decide on the changes to be made in the final wording, limiting its scope of discussion and decision to issues arising from the fatal flaw review process. Good discipline would eliminate the risk of re-opening of issues.

EFRAG does not agree that 'public fatal flaw review drafts' may substantially prolong the standard setting process. Constituents can in this public step raise the issues about clarity and understandability that otherwise would be subject to a more time consuming annual improvement or interpretation process. Considering the time and costs that will be saved to preparers and national endorsement mechanisms to deal with less post-issuance interpretation issues and minor amendments with the related full due process, we believe that the advantages of introducing it would outweigh the disadvantages. This will also meet the need by users to have any new standard being introduced in a more consistent way.

Appendix – List of respondents

National Standard Setters

Accounting Standards Committee of Germany (ASCG)
Autorité des normes comptables (ANC)
Organismo Italiano di Contabilità (OIC)
Instituto de Contabilidad y Auditoria de Cuentas [Institute of Accounting and Audit] (ICAC)

EFRAG Member Organisations

Federation of European Accountants (FEE)
BUSINESSEUROPE
Insurance Europe
European Association of Co-operative Banks (EACB)
European Banking Federation (EBF)

National Stakeholder organisations

German Insurance Association (GDV)
Institute of Chartered Accountants in England and Wales (ICAEW)
Association of Certified Chartered Accountants (ACCA)
Wirtschaftsprüferkammer (WPK)

Users

Representatives of users' organisations (UK CFA and EFFAS) and individual users – views obtained through conference calls

Individual person

Denise Silva Ferreira Juvenal