

**EFRAG's comment letter on the
Request for Views *Trustees' Review of Structure and
Effectiveness: Issues for the Review***

Objective

- 1 The objective of this session is to:
 - (a) explain the input received from constituents regarding EFRAG's draft comment letter; and
 - (b) discuss and approve EFRAG's final comment letter on the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*.

Background/ Introduction

- 2 The IFRS Foundation's Constitution requires the Trustees to undertake a review of the structure and effectiveness of the organisation every five years. Previous reviews, published in 2005, 2010 and 2012, recommended significant enhancements to the governance, accountability and operational efficiency of the IFRS Foundation and the IASB, while a Governance Review by the IFRS Foundation Monitoring Board was completed in 2012.
- 3 The 2015 Request for Views (RfV) indicates that the outcomes of these reviews have led to significant enhancements and improvements in the IFRS Foundation's governance and effectiveness.
- 4 The IFRS Foundation issued the 2015 RfV on 7 July, with a deadline for comment of 30 November. The RfV addresses three main areas: relevance of IFRS, consistent application of IFRS, and governance and financing of the IFRS Foundation.

EFRAG Board previous discussions, feedback received and advice to the EFRAG Board

EFRAG Draft Comment Letter

- 5 EFRAG Board discussed the RfV at its 21 September meeting and published for comments its draft letter on 5 October.
- 6 EFRAG's letter addresses the issues in relation to the primary strategic goals 1 to 3: development of a single set of standards, global adoption of standards, and consistency of application and implementation (Questions 1 to 6 in the RfV).
- 7 EFRAG did not deal with governance and financing issues, which are covered in questions 7 to 14, as these issues have already been considered by the European Commission in its report on the *Evaluation of the IAS Regulation*. The European Commission submitted its contribution to the IFRS Foundation on 1 December.

Feedback from constituents and EFRAG Secretariat's proposals¹

- 8 EFRAG received feedback from twenty constituents (six business organisations, seven National Standards Setters, four professional organisations, one regulator, and two user organisations). Two letters were received in draft form.
- 9 Letters from constituents are available on the EFRAG [project page](#), except for draft letters that are treated as confidential by EFRAG Secretariat and will be uploaded when final letters are received. The list of respondents is provided in the appendix. The subsections below provide a high-level summary of the comments received per question.
- 10 A separate feedback statement will be published, outlining the comments and feedback received by EFRAG, together with the way they have been considered and taken into account.

Question 1

- 11 In its draft comment letter, EFRAG believes that the IFRS Foundation/IASB should not enter into the domain of public sector or not-for-profit sector standard setting.

[A large majority] of respondents supported EFRAG's initial position. While [a few three] respondents [ACCA, ICAS, ICAEW] supported the extension or at least the examination by the Trustees of the extension of the IASB's remit for the not-for-profit sector they also recognised this as a longer-term goal and underlined that whatever decisions were taken about the remit, they should not distract the IASB from its focus on setting standards for the for-profit sector. [One] respondent [ASCG] advised the Trustees to monitor the developments in the not-for-profit reporting area.
- 12 [Some/Four] respondents [ESMA, FRC, ACTEO, AFME] referred to the ongoing project of developing a Capital Market Union in the EU. [Two] respondents [ESMA and FRC] recommended that the IFRS Foundation stands ready to work with the European Commission in considering the financial implications of this project. [One] respondent [FRC] considered it an opportunity to develop a differentiated disclosure framework for smaller listed companies. [Two] respondents [ACTEO, ANC] stated that, at this stage, there was no evidence that a dedicated international set of standards would be useful.
- 13 EFRAG Secretariat does not propose to alter the drafting of the comment letter, given the high level of support for the messages included.

Question 2

- 14 In its draft comment letter, EFRAG was of the view that the IASB, although its primary focus should remain on financial reporting, should be fully aware of the developments across the whole range of corporate reporting, so that it can take

¹ In the analysis below, EFRAG Secretariat has defined the terms as follows:

- (a) a few: below 25%;
- (b) some: above 25% and below 50%;
- (c) majority: above 50% and below 75%;
- (d) large majority: above 75%; and
- (e) almost all: above 90%.

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- steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate.
- 15 EFRAG asked its constituents in its draft comment letter what forms of monitoring the IASB should take to ensure that financial reporting is always kept at the forefront of all reporting developments. No feedback was received on this matter.
 - 16 [The large majority] of respondents supported the messages in EFRAG's draft comment letter.
 - 17 [A few/Four] respondents [FEE, ACCA, DASC, ICAS] were of the opinion that the IASB should play a more active and leading role in the wider corporate reporting agenda.
 - 18 [One] respondent [ASCG] stated that, as long as the outcome of all the initiatives undertaken in the broad context of integrated reporting impact on financial reporting, the IASB should venture into such territories; whereas in initiatives that do not directly affect financial reporting, the IASB should continue to monitor such cases. A similar view was expressed by another respondent, [ESMA] who recommended that the IASB further develop a long-term vision on the developments in corporate reporting, to maintain the relevance of financial reporting in the context of technological developments. [One] respondent [ANC] believed that the IASB should ensure that corporate reporting developments do not overlap with the Disclosure Initiative project activities and result in similar and consistent concepts.
 - 19 [Some/ Seven] respondents commented on the importance of ensuring transparency on the use of alternative performance measures (APMs) and other non-IFRS information [ESMA, IE, FRC, ACTEO, ACCA, ANC, SEAG, BE draft]. It was recommended that the reasons entities consider the presentation of APMs necessary should be examined.
 - 20 EFRAG Secretariat does not propose any major changes to its draft comment letter, considering the level of support for its initial position.

Questions 3, 4, and 5

- 21 In its draft comment letter, EFRAG acknowledges the importance of the IFRS Foundation in continuing to develop and maintain an IFRS taxonomy, in order to control the quality of the taxonomy and the use of the "IFRS" brand name. However, EFRAG is highly supportive of the Trustees' statement that taxonomy considerations should not dictate the standard-setting process. EFRAG also welcomes the IASB's shift to focus more on the taxonomy itself, leaving the development of the appropriate computer language/ software to another entity.
- 22 [Almost all] respondents supported the messages contained in EFRAG's draft comment letter.
- 23 [One] respondent [ANC] expressed different views, reflecting the constraint faced by the IASB in drafting new standards to take into account the need for language that is easily translatable into a consistent taxonomy. This respondent expressed the view that taxonomy developments should be coordinated with the Disclosure Initiative project to ensure that the approach and requirements are consistent.
- 24 [Some/Four] respondents [ESMA, GDV, FEE, ASCG] recommended that the IFRS Foundation and the IASB monitor and participate in the ongoing consultations that

ESMA is carrying out on the European Single Electronic Format and liaise with the European Commission. These respondents believe that this is needed to ensure that no inconsistencies arise regarding the globally consistent digital implementation of IFRS, when digital reporting will, from 1 January 2020, be required for issuers in the EU. ESMA is seeking views on introducing these requirements, subject to a dedicated endorsement process in the EU. However, [one] respondent [SEAG] commented that the Foundation should direct its efforts towards catering for primary users' needs, instead of regulators' requests.

- 25 [One] respondent [ACTEO] recommended that the IFRS Foundation set out new educational campaigns to educate entities on the IFRS taxonomy given that the taxonomy at present is applied purely on a voluntary basis.
- 26 [Some/Six] respondents [ESMA, FRC, DASC, ASCG, CFA UK, ANC] supported the establishment of a network of experts to assist and provide advice on how to monitor and assess changing technology; however, it was recommended that the IFRS Foundation clarify the link between this network of experts and the existing IFRS Taxonomy Consultative Group [ESMA]. One respondent [DASC] commented that setting up a network of experts only represents a start and not the end goal for the Foundation and the IASB that should be at the forefront on understanding how technological developments affect corporate and financial reporting.
- 27 [Some/Two] respondents [FEE, ICAEW] suggested that the Foundation undertake a stakeholders' analysis to assess whether the IFRS taxonomy would be embraced by different countries, before committing resources and efforts. However, EFRAG does not propose to include this comment, given the ongoing activities undertaken in the European area.
- 28 A large majority did not comment on the role of the IASB in relation to the IFRS taxonomy. [Two] respondents [DASB, DASC] agreed with EFRAG's preliminary view that the IASB Board should not have a role in the approval of the IFRS taxonomy. [One] respondent [FRC] believed that the IASB Board should provide oversight of the taxonomy to ensure its development does not constitute an interpretation of standards, or undermine the philosophy of principles-based standard setting.
- 29 EFRAG Secretariat proposes to refine the existing messages conveyed in its comment letter, considering the high level of support received for the views outlined in its draft comment letter.

Question 6

- 30 In its draft comment letter, EFRAG made the following comments:
- (a) EFRAG believes that post-implementation reviews should now be regarded as a useful tool in the IASB's Research activities, helping to identify what works and what should be improved in current practice, regardless of the date at which a standard has been issued.
 - (b) EFRAG calls on the Trustees to examine and reconsider the effectiveness of its due process oversight, in relation to addressing the substance of the complaints.
 - (c) EFRAG recommends that the IFRS Foundation commissions an independent review of the effectiveness of its standard-setting process, including the due

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process oversight process, but also the evaluation of the project work on the main standards.

GUIDANCE CONSISTENT WITH A PRINCIPLE-BASED APPROACH TO STANDARD SETTING

- 31 [Almost all] respondents provided comments consistent with those in EFRAG's draft comment letter.
- 32 [Some/Six] respondents [ESMA, ICAEW, ANC, SEAG, FEE, DASB] welcomed the efforts to make the effects analysis process more robust, while considering that the quality control procedures on the IASB standards should be further improved.
- 33 [Four] respondents [ASCG, FRC, DASB, ICAEW] commented on the strategic goal set in the RfV of developing a single set of high quality, globally accepted accounting principles. These respondents considered that there were situations where the IASB should not engage its standard setting efforts, because they could result in uniformity rather than consistency and comparability, and inconsistencies in application and diversity in practice are inherent to the design and purposes of IFRS, namely where:
- (a) management is required to exercise judgement (requirements of a standard dictate the application of judgement or a standard permits flexibility): it will more often than not be the case that two entities with comparable or identical fact patterns would arrive at different outcomes by merely exercising judgement, and there is no yardstick against which one could argue that the exercise of judgement of one entity was inferior to the other's (let alone erroneous); and
 - (b) different accounting outcomes are likely to occur in situations in which there is a gap in the current literature. Therefore, entities are required to develop an accounting policy based on the principles contained in other standards or the Conceptual Framework that would lead to a faithful presentation of the economics.

TRANSITION RESOURCE GROUPS (TRGs)

- 34 [About half / nine] of the respondents provided specific comments regarding the use of TRGs [ESMA, IE, SEAG, FEE, ICAEW, ACCA, AFME, FRC, and SFRB]. In summary, it was recommended that the Trustees formalise (a) the structure and the use of TRGs within the organisation and standard-setting process; (b) define the circumstances in which the use of TRGs is deemed useful; (c) the timing and the status of TRGs' outputs as part of the implementation of a new standard; and finally (d) the interactions of TRGs' deliberations with those issued by the IFRS Interpretations Committee. By clarifying these, the risk should be avoided that TRGs could have a disproportionate influence on the application of a new standard before proper experience has been gained and that the role of the IFRS Interpretations Committee would be overridden.
- 35 Some [SFRB, IE, ACCA, FEE, SEAG, ICAEW] respondents believed that the IASB should be restrictive in the use of TRG, since their activities may be counteractive to principles-based standard setting. TRGs should aim to educate preparers and users in the application of new standards, but should not routinely generate clarifications and amendments to standards.

IFRS INTERPRETATIONS COMMITTEE

- 36 [A few/ Two] respondents [ESMA, AFME] provided comments on the role and the composition of the IFRS Interpretations Committee (the 'IFRS IC'). These respondents called on the Trustees to further enhance the functioning and effectiveness of the IFRS IC, in order to better respond to the implementation issues identified in practice and provide any necessary guidance on a timely basis. Issues mentioned included: the need to streamline communication between the IFRS IC and the IASB, on how to agree to proceed with particular issues; the IFRS IC should not be prevented from considering issues related to topics for which a research project exists; and examining where the expertise of the IFRS IC can help the IASB in collecting issues for the preparation of the Post-Implementation Reviews (PIR) of existing standards.

QUALITY CONTROL SYSTEM

- 37 About half of the respondents [FEE, ICAEW, DASB, ANC, SEAG, SFRB, BE, ACTEO, ESMA] supported the enhancement of the IASB's quality control system before the publication of final standards.

POST-IMPLEMENTATION REVIEWS (PIRS)

- 38 Respondents that provided feedback on this topic were generally supportive of the proposals in the RfV and of comments included in EFRAG's draft comment letter [ESMA, IE, GDV, FRC, SEAG, DASC, DASB, FEE, ACCA, ANC]. Generally, respondents agreed with EFRAG's call [ESMA, IE, DASC, DASB] that a PIR should not be undertaken before three years of experience following the implementation of a standard.
- 39 Furthermore, [ESMA, IE] there was agreement with EFRAG that the findings of a PIR should provide direct input to the standard-setting agenda and that issues identified should not be pushed back to the research phase.
- 40 [One] respondent [ANC] believed that a PIR should be initiated once it was deemed necessary and that the decision to set up a PIR should be transferred to a third party. Two respondents [FEE, ACCA] suggested that Trustees should have a more active role in the PIRs.

EDUCATION ACTIVITIES IN SUPPORT OF CONSISTENT APPLICATION

- 41 Respondents that provided feedback on this topic were generally supportive of the proposals in the RfV and of comments included in EFRAG's draft comment letter [ESMA, FRC, DASB, ACCA].
- 42 [Some/Four] respondents [SEAG, DASC, NASB, ASCG] stated that this means is not an effective medium to achieve consistency in the application of standards. One respondent [ASCG] would rather see the role of the education initiative to continue to provide university teachers training the next generation of accountants.

EFRAG SECRETARIAT PROPOSALS ON QUESTION 6

- 43 EFRAG Secretariat proposes to include comments in the drafting of the letter on pursuing the goal of consistent application of IFRS, rather than of uniformity (paragraph 33 above); on the TRGs (paragraphs 34 and 35 above), and on the IFRS Interpretations Committee (paragraph 36 above).

- 44 EFRAG Secretariat does not propose other main changes, as it believes that the input collected is either already included in the EFRAG draft comment letter or not sufficiently representative of respondents' views.

Question for the EFRAG Board

- 45 Do EFRAG Board members approve the comment letter?

Agenda papers

- 46 In addition to this paper, the agenda papers for this session are:
- (a) Agenda paper 7.01: this paper is the same as the underlying paper but does not contain in the analysis of the comments **no** reference to the respondents to facilitate the review of the EFRAG Board and is in the public domain;
 - (b) Agenda paper 07.02a – EFRAG Secretariat proposals for a final comment letter clean;
 - (c) Agenda paper 07.02b – EFRAG Secretariat proposals for a final comment letter marked up;
 - (d) Agenda paper 07.03 –Draft Feedback Statement (*for publication together with the final letter and to be updated comments in the meeting – this paper is not provided to the public since it is largely the same as paper 7.01*) (**for background**);
 - (e) Agenda paper 07.04 – Comment letters received (**for background**) (also to be found at the project page, click [here](#) :and
 - (f) Agenda paper 07.05 – IASB RfV (**for background**);

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(h)

Appendix – List of respondents

Respondent	Country	Nature
European Securities and Markets Authority (ESMA)	Europe	Regulator
Insurance Europe (IE)	Belgium	Business Organisation
German Insurance Association (GDV)	Germany	Business Organisation
Financial Reporting Council (FRC)	UK	National Standard Setter
ACTEO – AFEP – MEDEF	France	Business Organisation
Confederation of Swedish Enterprises (SEAG)	Sweden	Business Organisation
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
FEE	Belgium	Professional Organisation
NASB	Norway	National Standard Setter
ICAEW	UK	Professional Organisation
ACCA	UK	Professional Organisation
AFME	UK	Business Organisation
Accounting Standard Committee of Germany (ASCG)	Germany	National Standard Setter
SFRB	Sweden	National Standard Setter
CFA UK	UK	User Organisation
ICAS	UK	Professional Organisation
ANC(*)	France	National Standard Setter
Business Europe(*)	Belgium	Business Organisation
CRUF(*)	UK	User Organisation

(*) letters in draft