

EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

RÅDET FÖR FINANSIELL RAPPORTING

EFRAG

STOCKHOLM – 9 NOVEMBER 2011

PANEL

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- Carl-Eric Bohlin - *Executive member of the Swedish Financial Reporting Board*
- Anders Ullberg – *Chairman of the Swedish Financial Reporting Board*
- Wayne Upton - *IASB Director of International Activities*

OTHER PARTICIPANTS

- Caroline af Ugglas - *Head of Equity, Skandia*
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- Peter Malmqvist - *Chairman of the Association of Swedish Financial Analysts*
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In addition to the participants, nine observers attended the meeting which was held at Rådet för finansiell rapportering, Regeringsgatan 38, Stockholm.

PREPARATION OF THE FEEDBACK STATEMENT

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

Introduction

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

This feedback statement summarises the comments made at the outreach event arranged in co-operation with the Swedish Financial Reporting Board on 9 November 2011 in Stockholm.

The discussion focused on the issues related to:

- General issues
 - The standard setting process
 - A period of calm
 - The need for improvements
 - Evidence-based agenda setting
 - The need for an urgent issues task force
 - XBRL
 - The role of research
 - The role of convergence
- Specific projects
 - The Conceptual Framework
 - Other comprehensive income
 - Post-employment benefits (including pensions)
 - Islamic (Shariah-compliant) transactions and instruments
 - Country-by-country reporting

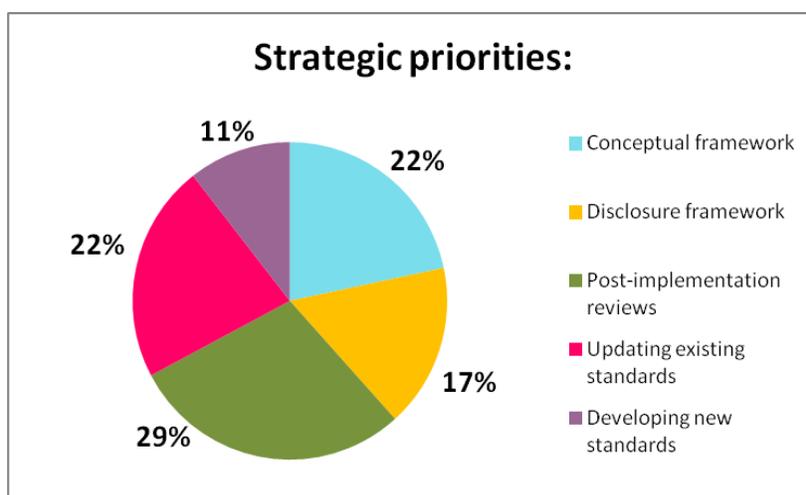
- Agriculture, particularly bearer biological assets
- Inflation accounting (revisions to IAS 29)
- Liabilities – amendments to IAS 37
- New project suggestions
- Other issues

General issues

The IASB's agenda consultation document asks constituents what the IASB's strategic priorities should be, and how the IASB should balance these over the next three years. The document identifies five strategic areas and groups these into two categories: developing financial reporting and maintaining existing IFRS standards.

In its draft comment letter, EFRAG expresses that it does not think it is beneficial to group the IASB's activities in this manner when considering agenda setting. In EFRAG's view the activities are inter-related and should therefore not be grouped into artificial groups.

At the event, participants were asked in a survey, how they would allocate a total of 100 points to various strategic priorities in relation to IASB's resource efforts. The following graph shows the results obtained based on ten participants that completed the questionnaire:



The standard setting process

At the event, the Executive member of the Swedish Financial Reporting Board asked when the IASB intended to complete the projects to be included on the agenda for the forthcoming three years.

The IASB Director of International Activities replied that it was the intention to finalise the projects within the forthcoming three years. However, it would probably not be possible to finalise all the projects within that timeframe.

A period of calm

In its draft comment letter EFRAG highlights the importance of a period of calm when it comes to amending existing or issuing new accounting standards. EFRAG considers a 'period of calm' to be necessary in order to achieve what it thinks should be the first and foremost objective of the IASB in the near future, namely to mitigate the risk that evolutions and changes to IFRS are not well understood by users and preparers, and that IFRS are not implemented in a consistent manner by those already applying IFRS or moving (or having recently moved) to their adoption.

The Executive member of the Swedish Financial Reporting Board thought it was important to wait with a period of calm until the four main projects currently being considered by the IASB were completed. Several participants agreed.

Another participant did not think it was beneficial to have projects finalised in bundles followed by periods of calm. Instead the participant thought the IASB should try to plan for a more stable stream of output. This would likely require a longer planning horizon of, for example, five to ten years. However, firstly the IASB should perform an internal review of its project management. It seemed as if it currently spent much of its own time and constituents' time on projects that were never finalised.

A third participant agreed and thought that 'a period of calm' indicated that another busy period would follow. The participant thought it would be more beneficial to ask more generally for the IASB to issue fewer documents. The participant experienced that many people had still not understood the changes made in 2005.

A fourth participant thought that a good reason for introducing a period of calm would be if the IASB thought it needed to consider more fundamental issues, for example the role of judgement. It was, however, important that a period of calm was introduced for a purpose.

A fifth participant thought that a period of calm was needed. In addition, the participant thought that in the future the IASB should plan its agenda and categorise its projects based on what could be finalised in the short, medium and long term. By doing that, the stream of output could become more stable.

A sixth participant agreed that a period of calm was needed. Not only because it had been hard to keep up with all the IASB's projects, but more importantly because the IASB should perform more outreach activities in order to understand what its constituents thought about its standards and the implication of the standards. It should, for example, be examined what effects measurement at fair value had. In addition, the IASB should, during a period of calm, work on the Conceptual Framework.

A seventh participant noted that a period of calm was necessary for board members of entities to be able to develop an understanding of IFRS reporting. Currently, many board members applied figures derived using the previous GAAP, because IFRS was not sufficiently understood.

The Executive member of the Swedish Financial Reporting Board asked how much time a period of calm should last.

A participant with a preparer background did not think it should be specified when the period of calm should end. It should depend on when constituents were ready for new standards and amendments.

A participant with a background as a user of financial statements replied that users could probably cope with many more changes than preparers. Users were affected if the presentation of financial statements was changed. Other changes did not have much effect.

The need for improvements

The comment that most changes did not have much effect led to a discussion on the need for the IASB to amend and develop new standards.

A participant noted that only few users understood the notes to the financial statements. In addition many users thought the financial statements had become too complex, and accordingly they did not make use of the financial statements.

A participant with a background as a user of financial statements thought a distinction should be made between credit analysts and equity analysts. The participant thought that credit analysts spent a significant amount of time on the financial statements. Equity analysts, on the other hand, focused only on earnings and were therefore, for example, not interested in balance sheet items. In addition, equity analysts, at least in Sweden, thought that the figures in the income statement were quite reliable and they did therefore not spend time on note disclosures. After all, events, like the sovereign debt crisis, had more significant effects on the valuation of an entity than whether certain figures were presented in conformity with IFRS. Therefore, as the participant only used a limited number of pieces of information from the financial statements, the participant had no problems in dealing with the complexity in IFRS. On the other hand, the participant had no use of complex and repeatedly amended standards.

Another participant with a background as a user of financial statements agreed. However, the participant thought the use of financial statements could change in the future. The participant thought it was likely that equity analysts would start using some of the techniques of credit analysts and thus become more interested in balance sheet items.

A third participant with a background as a user of financial statements thought that financial statements were more sophisticated than needed. The most important information was information about the effects of changes in accounting practice. These notes were used to reverse changes made in the accounting standards. Analysts tried to forecast future cash flows. Financial statements were used to get the right starting point. However, in reaching the starting point, many of the adjustments required by IFRS were reversed.

One of the participants with a user background emphasised that the comments reflected above were only related to analysts' use of financial statements for non-financial entities. When analysing financial institutions, the situation was different.

A participant with an academic background thought that the quality of financial statements was much better under IFRS than before. However, it should be considered whether improvements were really needed.

Evidence-based agenda setting

In its draft comment letter, EFRAG argues that the IASB should only include projects on its agenda when a need for further development has been demonstrated by evidence and the benefits from improving existing standards (or filling a gap) justify the development and implementation efforts. When there is evidence that a new standard or an amendment is needed, the next step should be to develop a detailed project proposal. The proposal should specify the evidence of the need. In addition, it should specify the objectives and scope of the proposals in order to, at a later stage, be able to assess whether the application of the resulting standard or amendment will result in high quality and improved information.

Detailed project proposals should be subject for public consultation before a specific project is started to ensure that the needs, including the objectives of the future project, are well understood and supported by the IFRS community.

The IASB Director of International Activities explained that the IASB had always only included projects on its agenda when it had evidence that a problem existed. In retrospect, it was perhaps not a surprise for the IASB that so many projects had been stopped.

A participant noted that evidence could only be used to identify problems, not to identify solutions.

Another participant thought that in all cases it would be helpful if the IASB could explain why it had included a particular project on its agenda and what problems the project should address.

The need for an urgent issues task force

A participant thought that the IASB needed an urgent issues task force. The participant thought that the group that was established to deal with issues related to the financial crisis (the Financial Crisis Advisory Group) had been very useful. However, the task force that should be established should be permanent and be something different from the IFRS Interpretation Committee.

The IASB Director of International Activities explained that the US had reduced the work of its emerging issues task force. However, it was still a question how that task force and the idea of convergence could work together. The Director thought that in the future ad hoc groups could be established to deal with particular issues – similar to how the Financial Crisis Advisory Group had dealt with financial crisis issues.

XBRL

A participant assessed that if the integration of XBRL was not considered by the IASB, it would be more costly for entities to report under XBRL.

Another participant thought that integrating XBRL into the standard-setting process could be detrimental to the idea of drafting principles based standards, especially in relation to disclosures.

The IASB Director of International Activities thought that if XBRL was not considered by the IASB, the outcome could be that many different tags would be invented by companies for identical figures.

The role of research

The Executive member of the Swedish Financial Reporting Board asked what the IASB was going to do about research.

The IASB Director of International Activities replied that the IASB was considering the question. The IASB could benefit from some of the research currently performed by academics – but not from all. It was, for example, difficult to find any direct use of event studies. If Islamic accounting was a project that would be included on the IASB's agenda, this could be an area where the IASB could benefit from research.

The role of convergence

In its draft comment letter EFRAG states that the IASB's resources should be spent on improving IFRS, and that the IASB should therefore focus on those jurisdictions having adopted IFRS (or in the process of doing so).

At the event, a participant considered that convergence with US GAAP was impossible. US GAAP was rules based whereas the IFRS was principles based. Therefore it had to be decided whether the world should move ahead using US GAAP or IFRS. In addition, the participant considered convergence to be low on the list of priorities of the US.

The IASB Director of International Activities thought that 'condorsement' could be the recipe for a long and painful process. However, it was difficult to ignore the US as it was the biggest financial market in the world. In addition, the intellectual resources of the FASB could be of benefit to the IASB. Many in the United States and elsewhere therefore thought the FASB should be considered as more important than other constituents.

A participant thought that institutional issues in the US had been underestimated. These issues, for example the link to taxation and not the specific requirements included in IFRS, seemed to be the main problem for the SEC when considering IFRS.

Another participant thought the IASB's focus should be on developing good principles based standards. The focus should therefore not be on convergence.

A third participant thought that if just the IASB and FASB were working together on new standards, identical regulation would eventually be reached.

Specific projects

Participants were asked to complete a questionnaire asking for views on what projects to include on the IASB's agenda, and what projects were least important for the IASB to consider. Each participant could choose five projects to be included on the IASB's agenda and five projects that the participant thought were least important to include on the agenda.

The questionnaire was prepared based on the list included in the IASB's agenda consultation document of projects previously added to the IASB agenda but deferred, and new project suggestions.

Participants thought the following projects where the most important for the IASB to consider (the number of participants that included the project among the top five projects is provided in the brackets – in total ten questionnaires were returned):

- The Conceptual Framework (6)

- Other comprehensive income (6)
- Post-employment benefits (5)
- Presentation and disclosure standard (5)

The least important projects were considered to be:

- Islamic (Shariah-compliant) transactions and instruments (5)
- Country-by-country reporting (5)
- Agriculture (4)
- Inflation accounting (4)
- Liabilities (4)

A participant noted that it was interesting that three of the top four projects were dealing with conceptual issues.

Participants were asked to comment on their views.

The Conceptual Framework

A participant with an academic background thought the Conceptual Framework should explain the assumptions applied by the IASB when developing standards.

Other comprehensive income

A participant thought that it would be interesting to know when the IASB thought something should be included in other comprehensive income.

Another participant pointed out that, until stringent definitions of what profit and performance were, it was not possible to determine what should be included in other comprehensive income.

The Executive member of the Swedish Financial Reporting Board thought that clear principles on what should be included in other comprehensive income were important as it affected EPS.

A participant thought that other comprehensive income was one of the best things that had been included in IFRS since 2005 although it was unclear why some entries were recycled and others were not. It would be more consistent if everything would be recycled. The participant thought that OCI should be used for all unrealised fair value changes and therefore also for value changes in investment properties and biological assets. Another participant agreed.

Post-employment benefits (including pensions)

A participant explained that one of the issues with post-employment benefits was the requirement regarding the discount rate. The participant suggested that instead of a rule a principle about what discount rate to apply should be introduced.

Another participant thought that when the standard had been developed, it had probably not been anticipated that the interest rate would be as volatile as it had recently been.

A third participant considered that the Swedish ten-year government bond did not show the long-term development in the Swedish economy but the current supply and demand of the bonds.

A fourth participant noted that the volatility would not affect quarterly profit as it would be included in other comprehensive income.

Islamic (Shariah-compliant) transactions and instruments

The IASB Director of International Activities was not surprised that a project on Islamic transactions and instruments was not considered important in Sweden. However, the director noted that the IASB also had to take the views of other parts of the world into consideration when deciding on the projects to include on its agenda.

Country-by-country reporting

A participant noted that the European Commission had presented a proposal on the issue.

The Executive member of the Swedish Financial Reporting Board thought the issue was a legislative issue that should not be considered in relation to the financial statements.

Agriculture, particularly bearer biological assets

A participant thought that IAS 41 *Agriculture* was important for three major, and one smaller, Swedish forest companies. However, the issue was not how to deal with bearer biological assets, but how to measure fair value. The participant did not think a standard on agriculture was necessary as measurement at fair value of biological assets was not needed.

The IASB Director of International Activities explained that for some agricultural assets measurement at cost did not make sense as historical cost did not exist. The director thought that the standard did cause some problems for bearer crops and the scope of the standard could therefore be considered.

Inflation accounting (revisions to IAS 29)

The Executive member of the Swedish Financial Reporting Board considered the low inflation in Sweden to be the reason for the low priority participant assigned to inflation accounting.

Liabilities – amendments to IAS 37

The Executive member of the Swedish Financial Reporting Board asked why members had rated the project on liabilities so low.

A participant explained that the ranking reflected the chances of the IASB to successfully complete the project.

New project suggestions

The survey distributed at the event, allowed participants to include projects they thought were important but not mentioned in the IASB's agenda consultation document. Participants had mentioned the following new projects:

- Leases
- Organic growth
- Comply or explain
- Total return outside profit and loss

The Executive member of the Swedish Financial Reporting Board noted that a project on leases was already included on the IASB's agenda and that it was assumed that this project would be completed.

A participant with a background as a user of financial statements explained that a project on organic growth was important as the organic growth rate was an important factor when valuing companies. Some entities reported about the organic growth, but this was not done in a consistent manner as there was no standard on the issue.

A participant with an academic background considered the issue should be left to market participants given the limited resources of the IASB.

Another participant with an academic background thought the project would be “an opposite IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*” as it would deal with continued operations. A participant with a background as a user of financial statements agreed. IFRS required disclosures about discontinued activities, but not about new activities. The participant thought this was problematic.

A participant explained that a project on 'comply or explain' should make it easier for entities to apply IFRS as it should be possible for an entity not to comply with all of the IFRS. Instead it could be explained what standards the entity did not comply with.

The IASB Director of International Activities assessed it to be unlikely that the IASB would find such a system beneficial.

A participant argued that the financial statements should include a total result as the income statement was difficult to analyse.

The Executive member of the Swedish Financial Reporting Board explained that a total result was included in total comprehensive income.

Other issues

A participant enquired about the status of the financial statement presentation project.

The IASB Director of International Activities replied that it was uncertain what would happen. It seemed as if some IASB members wanted parts of the project brought back for discussion.

A participant thought it was a pity that the project on the financial statement presentation had become too ambitious, as a project on the issue was needed.

The Executive member of the Swedish Financial Reporting Board considered it problematic that an entity now could not apply equity accounting on equity interests less than 20 percent, but at the same time could consolidate these interests.

A participant with a background as a user of financial statements thought that it was very important to have information about non-controlling interests.

The IASB Director of International Activities noted that the IASB had discussed the problem of disclosing non-controlling interests.