

EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

NORSK REGNSKAPSTIFTELSE

EFRAG

OSLO – 1 NOVEMBER 2011

PANEL

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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 Norwegian Accounting Standards 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 Norwegian Accounting Standards Board on 1 November 2011 in Oslo.

The discussion focused on the issues related to:

- General issues
 - The standard setting process
 - The role of convergence
 - Country-by-country reporting
 - A period of calm
 - Evidence-based agenda setting
- Specific projects to be included on the IASB's agenda
 - Extractive activities
 - Rate-regulated activities
 - The Conceptual Framework
 - Presentation and disclosure standard
 - Country-by-country reporting
 - Agriculture, particularly bearer biological assets
 - Other projects
- Next steps

General issues

The standard setting process

At the event, the IASB Director of Implementation Activities presented the views expressed and the questions raised in the IASB agenda consultation document regarding the agenda setting process. The EFRAG PRC / Supervisory Board Member presented EFRAG's preliminary response as expressed in EFRAG's draft comment letter.

From the presentation of the IASB's agenda consultation document, a participant got the impression that the IASB was considering more fundamental aspects of standard setting. The participants felt that in the past seven years, standard-setting had been driven by a balance sheet approach and an assumption that fair value was the optimal measurement basis.

The IASB Director of Implementation explained that the reflection in relation to the agenda consultation was more about what topics the IASB should consider, not the due process for standard-setting. However, the role of - and results of - the post-implementation reviews could result in changes in the due process for standard-setting.

A participant wanted to know how users of financial statements were involved in the standard setting.

The IASB Director of Implementation replied that the IASB tried to engage with users of financial statements differently from how it dealt with preparers and auditors. This was necessary as users of financial statements did not often have an accounting technical background. The IASB Director of Implementation thought that historically, users had been less represented than preparers and auditors in the standard-setting process which he found unfortunate.

The project success rate was considered. The Chairman of the Technical Committee on IFRS of the NASB thought that many of the projects the IASB had initiated had not provided results. The Chairman thought this low success rate affected the credibility of the IASB. Constituents had historically spent many resources on projects, for example income tax and financial statement presentation that were put to a hold. The Chairman thought the IASB should perform a review to examine the original ideas of its projects and the results in order to learn the reason for the low success rate. Perhaps a solution could be to suggest less radical changes in standards. For example, instead of trying to develop complete new requirements on financial statement presentation, it could be more beneficial just to make some improvements to the current standard.

A participant added that the IASB should consider including fewer projects on its agenda, but finalising the projects once included, and started, faster.

The role of convergence

It was discussed whether convergence should still play a role in agenda setting. It was noted that EFRAG's draft comment letter presented the view that it should not be a main driver in the agenda setting.

A participant understood that EFRAG thought it was important that financial statements of entities in different countries were comparable. The participant therefore wondered why EFRAG was against convergence.

The EFRAG PRC / Supervisory Board Member explained that EFRAG's preliminary position was that the IASB should ensure a consistent application of IFRS in jurisdictions applying IFRS. However, EFRAG did not think that IFRS should be amended for the purpose of convergence. IFRS should instead be amended when it would result in improved accounting standards.

The Chairman of the Technical Committee on IFRS of the NASB thought that if the US would not adopt IFRS, it could yet be necessary to continue with the convergence program.

Country-by-country reporting

Two participants asked how the requirements on country-by-country reporting that were included in the US Dodd-Frank act and suggested by the European Commission would influence the IASB.

The IASB Director of Implementation replied that the IASB's constitutional review had confirmed that the purpose of the IASB was to prepare standards for general purpose financial statements to help investors and other capital providers to make economic decisions. Probably some thought that country-by-country reporting went further than this. However, the IASB's agenda consultation was about listening to constituents. Participants who thought that country-by-country reporting should be considered by the IASB were therefore encouraged to submit a comment letter explaining the position and how the issue was related to general purpose financial statements.

At the event, the IASB Director of Implementation further explained that the IASB had previously focused on not making sector specific standards. For example, the project on insurance contracts was not a standard for insurance companies but about insurance activity. If the intention was that only entities within particular industries, for example the extractive industry, should prepare country-by-country information, the focus on activities rather than sectors would imply that all entities with extractive activities should prepare the information.

The EFRAG PRC / Supervisory Board Member noted that EFRAG had advised the European Commission over summer on some issues related to country-by-country reporting, and that there were some problems in relation to how the requirements should work.

A period of calm

Two participants thought that it was more important that the IASB was faster in completing the projects it included on its agenda than it was to introduce a period of calm. That could eliminate the long periods of uncertainty the IASB currently imposed to its constituents. A faster process did not mean that comment periods and implementation periods should be shortened but that the IASB had to work more efficiently on fewer projects.

A participant noted that it would be an improvement if the IASB could prepare more reliable time tables for its activities so that all parties could rely thereon in their planning.

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 thorough and specified 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 Chairman of the Technical Committee on IFRS of the NASB noted that evidence based standard setting would result in longer time before a project could be included on the agenda. The EFRAG PRC / Supervisory Board Member added that it would also require constituents to comment on specific agenda proposals.

A participant thought that it would only be possible to measure the effects of a new accounting standard or amendment after it had been implemented. It would therefore not be possible to include projects on the IASB's agenda based on the effects.

The EFRAG PRC / Supervisory Board Member explained that EFRAG's preliminary view was that a problem should have been identified before a project was included on the IASB's agenda. It was not the intention that all the effects of a new standard after the completion of the project should be known before initiating a project.

The IASB Director of Implementation Activities understood it was the view that if a particular issue should be included on the agenda, it should be explained why the project was included.

A participant also thought constituents should be consulted on the resources that the IASB should spend on a project. The IASB should therefore also estimate how many resources were needed to complete a project.

The IASB Director of Implementation thought it was very difficult to predict the resources needed to complete a project. However, periodically ongoing projects' progress could be assessed and it could then be decided to stop a project.

Specific projects to be included on the IASB's agenda

The Chairman of the Technical Committee on IFRS of the NASB explained that the IASB was interested in knowing not only what projects participants thought it should include on its agenda, but also why these projects should be included and the scope of the projects. For example, if participants thought that a project on extractive activities should be included on the agenda, it was important to specify whether the IASB should focus on disclosures or recognition and measurement issues as well.

The IASB Director of Implementation Activities explained that, when submitting comment letters to the IASB on the Agenda Consultation, participants should consider the arguments in favour of their views. The IASB would receive many comment letters suggesting different projects to be included on the IASB's agenda. Therefore the IASB would base its decisions on the arguments presented in favour of particular projects.

If participants thought that many projects should be included on the agenda, it should also be accepted that the completion of these projects would take longer time than if only a few projects were to be included. However, the IASB hoped that it would be able to do some work in co-operation with National Standard Setters, particularly in the discussion paper phases of new projects.

The EFRAG PRC / Supervisory Board Member repeated that EFRAG thought the agenda setting should be based on evidence. However, constituents' arguments for including a project on the agenda could be regarded as such. By providing good arguments for including a project on the IASB's agenda, constituents thereby helped the IASB achieving evidence based agenda setting.

At the event, participants were asked to complete a questionnaire asking for views on what projects to be included 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 were 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 28 questionnaires were returned):

- The Conceptual Framework (15)
- Business combinations between entities under common control (15)
- Financial instruments with characteristics of equity (11)
- Income taxes (9)
- Other comprehensive income (9)
- Presentation and disclosure standard (9)

The least important projects were considered to be:

- Inflation accounting (14)
- Islamic (Shariah-compliant) transactions and instruments (13)
- Country-by-country reporting (12)
- Presentation and disclosure standard (8)
- Earnings per share (7)

The Chairman of the Technical Committee on IFRS of the NASB thought the results of the survey reflected what many people thought. Participants were asked to comment on their views.

Extractive activities

The Chairman of the Technical Committee on IFRS of the NASB noted that a project on extractive activities was not among the top priorities of participants.

A participant from an oil company did not consider a standard on extractive activities as an urgent project. Until a standard was developed, US GAAP's requirements or IAS 38 *Intangible Assets* could be applied. The participant thought that instead of developing a standard on extractive activities, it would be preferable to have more general principles developed in IAS 38 *Intangible Assets* that could also apply to extractive activities. However, if the IASB thought it was necessary to develop a separate standard on the issue, the participant appreciated that the standard would focus on extractive activities rather than extractive companies.

Another participant agreed that it would be preferable to develop the general guidance in IAS 38 *Intangible Assets* instead of introducing more specific standards on extractive activities. Generally, the IASB had issued too many standards and the participants thought that it would be more suitable only to have 25 to 30 more principle based standards that could be applied by all industries.

Rate-regulated activities

A participant thought that the outcome of current requirements was that a too volatile income was reported from activities that, from an economic point, were to be considered as rate-regulated activities. The participant thought the current guidance on rate-regulated activities scoped out contracts that economically were to be considered as rate-regulated activities. The participant thought it was unfortunate that differences in regulation rather than the economic characteristics of an activity determined whether an activity was to be accounted for under the current standard on rate-regulated activities.

The Conceptual Framework

A participant thought the Conceptual Framework should consider what ‘a business’ and ‘a business idea’ were. The participant thought that the approach currently reflected in the Conceptual Framework gave a wrong reflection of what a business was. The participant thought it was about producing something. In addition, the participants thought that, at a conceptual level, the IASB should decide whether the characteristics of assets and liabilities, or an entity’s intention with the assets and liabilities, should drive the accounting.

Presentation and disclosure standard

A participant thought that the IASB needed to improve disclosure requirements. Disclosure requirements did currently not seem to be something the IASB was particularly interested in.

Country-by-country reporting

A participant thought that the low priorities participants had given to country-by-country reporting reflected that not many financial statements users had participated in the survey. Country-by-country reporting was very important for investors and other users as it enhanced cross border comparability. International requirements on country-by-country reporting would at the same time result in a level playing field. If more users had participated in the survey, country-by-country reporting would have been among the most important topics.

The EFRAG PRC / Supervisory Board Member asked whether the participant wanted IFRS financial statements to be published for more entities in a group than currently required.

A participant replied that companies should make more information public. Entities had much information that was currently not made public. Information about revenue and costs for each

segment of a group was for example important information for analysts and investors and this information should therefore be provided as part of the country-by-country reporting. Currently, IFRS 8 *Operating Segments* required segment information, but the standard did not result in information that was comparable between entities and some information also seemed arbitrary. Reporting on an entity level would be easier for companies, as the information was already available, and result in consistent information.

Another participant thought that country-by-country reporting was not related to financial statements and requirements should therefore be developed by another organisation than the IASB. The participant was also concerned that country-by-country information should be provided without considering materiality. This would compromise the general materiality principle of the IFRS.

Agriculture, particularly bearer biological assets

The Chairman of the Technical Committee on IFRS of the NASB noted that while the Norwegian forest industry had not complained about IAS 41 *Agriculture*, Norwegian fish farmers did not support the standard. Therefore, although the results of the survey did not indicate that a project on agriculture was considered to be important, some Norwegian constituents would consider it to be a very important project. The Norwegian fish farmers were said to find it very costly to estimate fair value of fish. The Chairman of the Technical Committee on IFRS of the NASB thought that the IASB should reconsider the standard, and not at least the scope. It followed that the project should be broader than what was suggested in the IASB's agenda consultation document where a project on agriculture should only deal with bearer biological assets.

The IASB Director of Implementation encouraged participants to write to the IASB if they thought the scope of the project on agriculture should be broader than suggested in the IASB's agenda consultation document.

Business combinations between entities under common control

A participant thought the list of projects included in the IASB's agenda consultation document had been prepared by auditors. The participant thought that it was more important that the IASB listened to users of financial statements, as the users were to be considered as the IASB's customers. The participant added that a project on business combinations between entities under common control was important from a Norwegian point of view.

Other projects

In addition to the projects included in the IASB's agenda consultation document, participants discussed what other project they considered important.

A participant thought that variable consideration outside business combinations was an important project that should be included on the list. The participant also thought that the IASB should consider projects on:

- Performance presentation
- Intangibles (including extractive activities and emission trading schemes)
- Put options on non-controlling interests.

Finally the participant thought that the IASB could split the project on presentations and disclosures into two projects.

Another participant thought that a revision of the IFRS for SMEs was important. The IASB Director of Implementation explained that the IFRS for SMEs would be reviewed every three years.

Next steps

The EFRAG PRC / Supervisory Board Member asked participants whether or not EFRAG in its comment letter to IASB should express a view regarding what projects the IASB should include on its agenda.

A participant thought that EFRAG should consider whether there would be any benefits in aggregating the views of European constituents if these views were also communicated directly to the IASB.

The EFRAG PRC / Supervisory Board Member explained that some European constituents only sent their comment letters to EFRAG, while others sent their comment letters to both to EFRAG and the IASB or only to the IASB.