

EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

**ICAC
EFRAG**

MADRID – 16 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 ICAC attending the event.

Introduction

In July 2011 the 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 Spanish Accounting Standards Committee (ICAC) on 16 November 2011 in Madrid.

The discussion focused on the issues related to:

- Agenda setting process
 - IASB's broad strategic direction
 - The role of convergence
 - Standard setting
 - IFRS' enforcement and interpretation
 - Request for a period of calm
 - Evidence based agenda setting process
 - Enhancement of the Conceptual Framework
- Specific projects to be included on the IASB's agenda
 - Projects suggested by participants

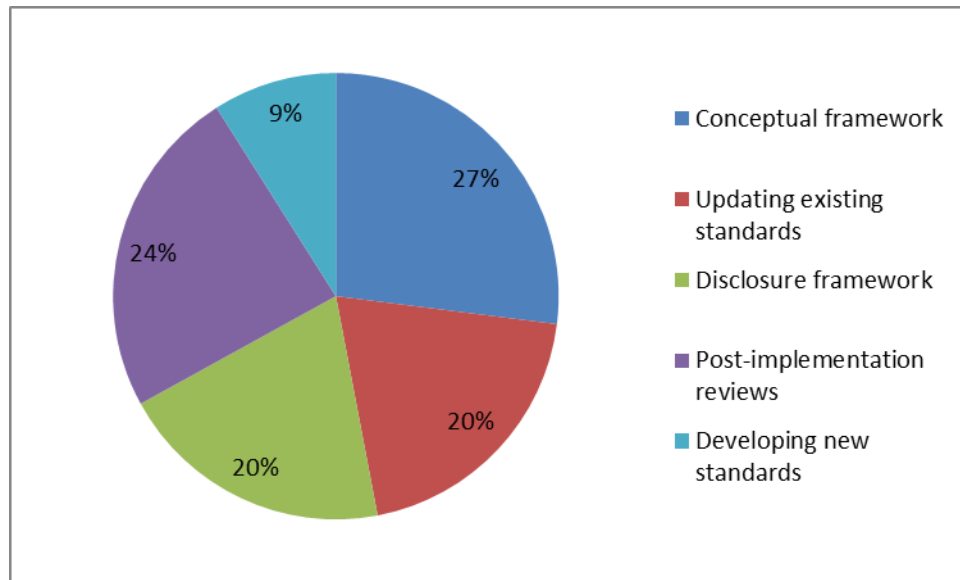
Agenda setting process

IASB's broad strategic direction

The IASB's agenda consultation document (hereafter referred to as the 'IASB's Request') asks constituents what the IASB's strategic priorities should be, and how the IASB should balance these over the next three years. The IASB Director present at the event highlighted the importance of European constituents' views to shape the IASB's broad strategic direction. In the last ten years the number of countries and companies using IFRS had increased significantly; therefore, the agenda should reflect the needs of the global constituents.

The IASB's Request identifies five strategic areas and groups them into two categories: developing financial reporting and maintaining existing IFRS standards. EFRAG's tentative views are that such a distinction into two categories is rather artificial since the activities are inter-related.

Participants in the event completed a short survey which invited them to balance IASB's resource efforts between various strategic priorities. The following graphic shows the results obtained based on 29 participants that completed the questionnaire:



In overall terms, participants believed the above strategic activities were highly interrelated. Updating the existing standards may not have sense without the completion of the Conceptual Framework and may not be consistent with the request for a period of calm. For the majority of participants it was important to perform post-implementation reviews; however, some believed that there could be tension between these reviews and updating existing standards, since until now it was felt that the project proposals included in the IASB's work program have not reflected the reality of companies' needs and demands.

The role of convergence

It was discussed whether convergence should still play a role in the agenda setting. It was noted that EFRAG's draft comment letter presented the view that convergence cannot be the driver of agenda setting. The EFRAG Director clarified that if high quality standards were the result of convergence between IFRS and different sets of accounting standards, EFRAG would support the process of convergence. Particularly, she noted that the IASB and the US Financial Accounting Standards Board (FASB) had been working together since 2002 to achieve convergence of IFRS and US GAAP; however, it seemed that this process of convergence has not in all cases led to high quality global standards. She stressed that one EFRAG's objective

was to ensure that European views on the development of financial reporting were properly and clearly articulated in the international standard-setting process.

A participant from an association that globally represents participants in derivative markets and promotes standards of commercial conduct (hereafter referred to as the 'derivative association') believed convergence should be a driver for setting the IASB's agenda and a high priority for both Boards, although achieved in the long term. He noted that the leaders of the G-20 had called on international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards. The participant referred to the project on Financial instruments, for which the IASB and FASB in certain areas had reached different tentative decisions. From his point of view, there should be consistency in the presentation and measurement of similar financial instruments under both sets of accounting standards.

Another participant representing a banking association supported convergence and believed it should be mandatory for the IASB and FASB to find a single solution in certain cases. The participant referred to the measurement of software and the differences between IFRS and US GAAP which had implications in capital requirements of financial entities.

A participant with an academic background noted that from the academics' point of academics, convergence was important but should not be the unique approach in agenda setting.

The EFRAG Director noted that EFRAG supports a single set of high quality standards; however, convergence should not be the only driver for setting the IASB's agenda.

Standard setting

A participant, who was a board director of the Spanish Stock Exchange and Financial Markets Supervisory Body (hereafter referred to as the 'Supervisory Body'), believed current IFRS did not provide relevant information for users. IASB's standards are too complex, not understandable and difficult to apply. The number of investors complaining about the huge amount of irrelevant accounting information included in financial statements is increasing. Investors would prefer financial statements with fewer pages, more focused on the main important drivers for companies, and better comprehension. The participant referred to the results obtained in a study carried out by a Spanish University professor, which showed that after two years of applying IFRS, 40% of companies declared to understand IFRS, and one year later, only 10% declared to understand them.

A participant from the Spanish Financial Entities Supervisory Board agreed with the previous statements. He expressed the view that users are focusing their analysis on the profit or loss account, while the information included in the notes is completely disregarded. He urged the IASB to address this situation.

From the point of view of academics, a participant believed the IASB should provide a better explanation to preparers of changes introduced in IFRS. If preparers understood the main

purposes of the standards, they would apply them more consistently and, as a consequence, users would find more relevant information in the financial statements.

The IASB Director noted that users are the primary stakeholders of IFRS and agreed on the idea of improving the communication on IASB's objectives.

From a more general point of view, the participant from the Supervisory Body did not support those past IASB's decisions that allowed companies to smooth profits, neither those standards which permitted different accounting alternative for transactions, as both impaired the information provided by financial statements.

A participant from a derivative association noted that one criticism to the IASB was the lack of transparency and believed financial statements should explain better the performance of companies.

IFRS' enforcement and interpretation

The IASB's Request does not identify among the five strategic areas the role of enforcement of IFRS since the IASB is not the competent authority for ensuring IFRS application. In relation to interpretation of standards, the IFRS Interpretations Committee (IFRSIC) has a responsibility in maintaining IFRS by developing interpretations and proposing amendments through annual improvements. However, the IASB's Request does not clarify whether the IFRSIC should be more involved in the agenda setting process, neither does it articulate on the future responsibilities in the forthcoming years of IFRSIC. The IASB Director referred to the review of IFRSIC which may result in changes to the number of IFRS interpretations that will be issued.

A participant from a derivative association believed the IASB should develop a mechanism to deal with issues which needed an urgent solution, preferably through the IFRSIC. However, the participant noted that this Committee had limited responsibilities and sometimes could not deal with certain urgent issues, e.g. those related to the amendment of IFRS principles.

The IASB Director noted that one of his responsibilities was to look after the IFRSIC. He highlighted that the IFRS Trustees were reviewing the work of the committee. The request is made that IFRSIC should provide more guidance and more help to the IFRS community. The Director noted that although urgent issues were tentatively assigned to the IFRSIC for its analysis, there was an option to redirect certain issues directly to the Board. He referred to the IFRS 10 *Consolidated Financial Statements* transitional provisions, as an example. The Board had decided the day before to make a narrow scope amendment to IFRS 10 which would be available before the standard was in place.

A participant from an academic background suggested the IASB could allocate some resources to build up a team which should be in charge of issuing sometype of 'initial positions' on specific topics. The underlying idea was assisting preparers on the implementation of standards. These 'initial positions' issued by the IASB would not be regarded as official pronouncements. The participant thought on a role similar to ICAC's accounting consultations process for local

accounting standards. Another academic present in the event did not support this suggestion since such 'initial positions' would risk to undermine the principles-based nature of IFRS.

The IASB Director noted that there was a risk some could deem those 'initial positions' as having authority.

ICAC's Chairman asked about IASB's opinion on those situations where local accounting standards boards provided guidelines or were interpreting IFRS. It would be troublesome if each European country developed a national body focusing on IFRS interpretations.

The IASB Director noted the IASB would not support such type of local interpretations body. Semi-official interpretations will not ensure consistent application of standards. He referred to an issue related to IAS 19 *Employee Benefits* raised by the German Accounting Standards Board ('GASB') the week before the issuance. The IFRSIC discussed the issue and was able to provide GASB with some useful global views. In this way they had avoided the situation where GASB could have issued a local interpretation with a different conclusion. However, the IASB Director noted the IASB could not stop national interpretations; for this reason, a close and fluent dialogue with local regulators is fundamental.

Request for a period of calm

The IASB Director noted that Board's initial view on the development of financial reporting included the selection of certain standards - projects. In addition to identifying the projects that should be included on the agenda, deleted or postponed, the IASB would also appreciate participants' views regarding the need for a period of calm. Constituents may want a stable platform of standards before further substantial projects are undertaken.

The EFRAG Director highlighted that a period of calm was a precondition for achieving what EFRAG argued should be the most important objectives of the IASB: (i) to mitigate the risk that evolutions and changes to IFRS standards would not be well understood by users and preparers, and (ii) to mitigate the risk that IFRS standards would not be implemented in a consistent manner by those already applying them or moving to their adoption.

An ICAC member expressed ICAC's view which was fairly aligned with EFRAG's thoughts. The IASB should ensure a period of calm. Before this period, the IASB should focus its work - and allocate the available resources - on finalising the Conceptual Framework. This would allow for a stable platform of standards before further substantial projects were undertaken. ICAC also believed that the IASB should describe more precisely and accurately the explanations and motivations underlying the decisions to amend or issue a new standard, since the IFRS community needed to understand why a standard was amended or issued.

Participants in the event generally agreed that a period of calm would be appreciated once the four main projects currently included in the IASB's agenda would be finalised (i.e. the standards on Revenue from Contracts with Customers, Leases, Financial Instruments and Insurance Contracts). Progress on the completion of the Conceptual Framework is important. Particularly,

a participant from a derivative association noted that this period was needed in order to achieve stability.

This period of calm was also very important from a standard setter perspective. In Spain the local accounting legislation was converged to IFRS in 2007 and it was very difficult to amend the local accounting legislation every time there was a change in IFRS.

The EFRAG Director noted that a period of calm did not mean that the IASB should not do anything in the forthcoming period, it means that the IASB as a principle should not finalise projects having pervasive effects on financial reporting within this period, unless there is wide consensus among those who apply IFRS that the pervasive change is needed. The IASB would be able to focus during this period on the finalisation of the Conceptual Framework and the current four main standards. The current crisis seems an additional reason for support for a period of calm.

Evidence based agenda setting process

In its draft comment letter, EFRAG states that agenda decisions should be based on an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. When there is evidence that a new standard, or amendment to an existing standard, is needed, the next step should be to develop a specified project proposal. Possible evidence may include a gap in the existing IFRS requirements, situations where information becomes less relevant or may be a result of post-implementation reviews.

EFRAG suggests in its comment letter that the project proposals should specify the evidence of the need for the new standard or amendment as well as its objective and scope in order to, at a later stage, be able to assess whether the application results in high quality and improved information. The project proposals should be subject to public consultation.

The IASB Director noted that the IASB's agenda setting process also included an element of consultation through the IFRS Advisory Council, although this is not a public consultation as envisaged in EFRAG's preliminary views in its Draft Comment Letter. The IFRS Advisory Council meets three times per year to advise the IASB on a range of issues, including the IASB's agenda and work programme.

A preparer agreed with EFRAG's proposals since she felt they would enable the IFRS community to better understand why a project was included in the agenda and why it was necessary.

A participant with an academic background noted that an evidence-based process seemed to be adequate; however, she was afraid that an additional layer of public consultation could overextend the timeframe for developing new standards. Although the process should be based on evidence, there was a risk of complicating it too much if the underlying idea on EFRAG's proposal was some type of a full replication of the due process at project proposal stage. This participant also highlighted the role of academics in the post-implementation reviews and

suggested they should work closely with the IASB and EFRAG in order to take advantage of the research done so far.

Post-implementation reviews were generally welcomed by participants in the event.

The EFRAG Director explained that EFRAG's initial thought is that it would be beneficial to publicly consult on the project proposals and not only on the agenda, although this could extend the period. It seemed that in the past some projects had changed their scope over time; this fact could indicate that, perhaps, projects had not been initially scoped well. If the IFRS community did not understand the need for a proposed amendment or new project during the public consultation process, it would mean that the potential issue, its scope or any other specific fact needed to be readdressed.

A participant from EFRAG TEG noted that maybe they needed to balance the process. She was in favour of an evidence-based process; however, she believed that it was not necessary to replicate in full the due process on project proposals. She also agreed the IASB should better explain in its discussion papers and exposure drafts why it had undertaken the projects.

Enhancement of the Conceptual Framework

In its draft comment letter, EFRAG agrees with the IASB's request that one of the projects and priorities of the IASB should be the enhancement of the Conceptual Framework. EFRAG also states that unless there is strong and convincing arguments for the contrary, new standards that are in conflict with the Conceptual Framework should not be issued until a more fundamental debate has been had on the issue in question. It should be noted that proposals for enhancing the Conceptual Framework also included the development of a Disclosure Framework.

The IASB Director explained that the IASB had only completed the first steps towards a new Conceptual Framework. The project's overall objective was to create a sound foundation for future accounting standards. It was a joint project conducted in different phases and only two chapters were completed during last years.

The majority of the participants, including academics, users, preparers and auditors agreed that completing the Conceptual Framework should be a priority since its incompleteness was unhelpful for the discussions and due process. One participant asked the IASB representative whether it was possible to prioritise this project and whether the IASB would review all the standards once the Conceptual Framework would be finalised in the order they were aligned.

The IASB Director noted that one of the decisions of the Board was how to prioritise the resources between projects. One choice could be to devote significant resources to an individual project, like the Conceptual Framework, allowing for a faster progress. The IASB is open to consider any recommendations derived from constituents' comment letters on this matter. He noted that, in fact, some members of the Board would prefer to finalise the Conceptual Framework as soon as possible, and believed the IASB should be able to complete it in two or three years' time.

Regarding the possibility of reviewing the standards, the IASB Director noted that the Conceptual Framework was essential for setting new standards and for those circumstances where there was no guidance in IFRS for a particular transaction which needed to be accounted. The updating of the Conceptual Framework should not lead to a requirement of replacing all existing standards, since it did not, in itself, impose new financial requirements on reporting companies. Instead, he suggested that one idea may be that some standards could be redrafted through a clarity project, which should be focused on making standards clearer and working out contradictions, in a similar way as the IAASB had done for the auditing standards.

Various participants with an academic background also noted that the IASB should not issue new standards if they were in conflict with the Conceptual Framework.

Specific projects to be included on the IASB's agenda

Projects suggested by participants

The IASB Director noted that the IASB's Request was based on the presumption that the IASB was going to finalise the four main projects. He also noted that it was the first time the IASB addressed its agenda setting through a public consultation and this would be an on-going process every three years. The IASB would add new projects as needs arrive, or decide to take some projects off or defer them. However, the IASB could also react to changes in economic and business reality changing in the meantime in a work plan previously defined if needed, i.e. the agenda is alive and would be adapted depending on specific circumstances.

The position of the ICAC was that the number of items to be included on the IASB's agenda, after the finalisation of the referred four main projects, should be limited. The IASB should prioritise the projects on the Conceptual Framework and on Business Combinations under Common Control.

Participants completed a short survey on what specific projects they thought should be included on IASB's agenda and what projects should not be included. The survey was based on the list included in the IASB's consultation document of projects previously added to IASB's agenda, but deferred, and new project suggestions. However, participants could also include other projects they thought were important. The survey was completed by 29 participants.

The top projects to be included were (in descending order):

- Conceptual Framework (20);
- Business combinations between entities under common control (15);
- Financial instruments with characteristics of equity (14);

- Financial statement presentation (excluding other comprehensive income) (12); and
- Other comprehensive income (10), Discount rate (10) and Presentation and disclosure standard (10).

Participants noted that the project on financial instruments with characteristics of equity was needed for at least two reasons:

- (i) The structure of a cooperative is very commonly used in Spain. These organisations were owned and ran jointly by its members, who shared the profits or benefits obtained. There is widespread issue on how to present the members' economic contributions in the balance sheet, i.e. as a liability or equity; and
- (ii) Spanish banking entities were facing a restructuring process with certain levels of capital required. There was also a public debate regarding which types of financial instruments should be considered equity, e.g. convertible bonds.

One participant believed this project was also highly related to the discussions on the Conceptual Framework; therefore it should be postponed until the IASB updated the Framework. The IASB Director noted that the project was also considered important in Oslo.

A preparer believed that the IASB should focus on resolving inconsistencies between IFRS before other projects were undertaken in the agenda. The participant noted that significant transactions were not covered by IFRS while in other situations various standards were dealing with them in a different way. He referred to the inconsistencies existing between IFRS 11 and IAS 27, when subsidiaries were contributed to a joint controlled entity, and areas where there was a lack of guidance such as put options over minority interests and certain assets specific to utilities companies. He believed there was a high risk of leaving certain transactions to the interpretation of third parties such as tax authorities.

The IASB Director noted the request that IASB should revisit the standards and review them when the Conceptual Framework was finished.

A preparer wondered why a project on liabilities had not been included as a top project. EFRAG staff noted that this project received 6 votes on favour and 3 against its inclusion in the IASB's work program.

Regarding the role of EFRAG's proactive projects, it was clear that participants were almost unanimously in favour of a project on business combinations under common control and generally agreed on the need for a disclosure framework. The EFRAG Director asked participants' views on the project on income taxes; participants seemed to be neutral towards this proactive project.

A participant in the event asked whether EFRAG was taking into consideration the current Conceptual Framework when developing its proactive projects.

A participant from EFRAG TEG noted that proactive projects usually are built up considering different assumptions and included different alternatives to stimulate the debate among constituents. When developing proposals, these projects include references to the current Conceptual Framework and to the fact that certain chapters are incomplete. The possible implications are also considered.

Participants thought the least important projects to be included on the IASB's agenda were:

- Islamic transactions and instruments (21);
- Agriculture (13);
- Inflation accounting (13); and
- Country-by-country reporting (10).

Participants did not made special comments regarding the above projects.