

EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

DI

FSR – DANSKE REVISORER

EFRAG

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PANEL

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- Jan Peter Larsen – *Chairman, Danish Accounting Standards Committee*

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, DI - Confederation of Danish Industry and FSR – danske revisorer (The Institute of Danish Public Accountants) 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 DI – Confederation of Danish Industry and FSR – danske revisorer on 31 October 2011 in Copenhagen.

Before opening the discussion, the associate professor from Copenhagen Business School present at the event presented the results of a study on users' and preparers' views on annual report disclosures.

The discussion focused on the issues related to:

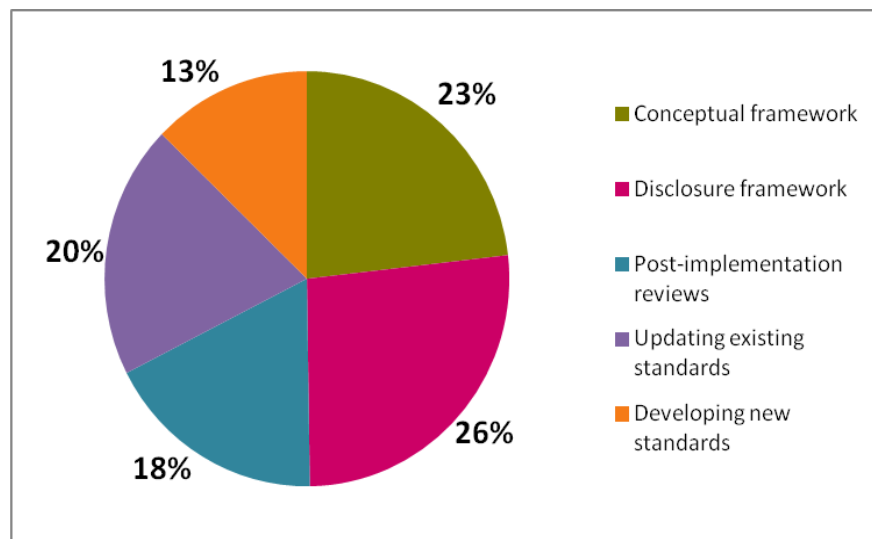
- General issues
 - The standard setting process
 - Industry specific standards
 - Evidence-based agenda setting
 - Research activities
 - The role of convergence
 - The role of the Conceptual Framework
- Specific projects to be included on the IASB's agenda
 - The Conceptual Framework
 - Presentation and disclosure standard
 - Liabilities – amendments to IAS 37
 - Other Comprehensive Income
 - Financial statements presentation
 - Government grants
- Next steps

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 assess the importance of various strategic priorities in relation to IASB's resource efforts. On average, participants allocated the priorities as illustrated below:



The standard-setting process

At the event, the IASB member present explained that the IASB had separated the strategic areas for practical reasons. Assuming that the IASB had to "maintain" current standards it would have only limited resources for new projects. This limitation was illustrated by grouping the strategic areas into the two categories: developing financial reporting and maintaining existing standards.

The DI Senior Advisor asked how many new projects could be included on the IASB agenda.

The IASB member replied that the preferred number of new projects was more likely three than five. However, the exact number would depend on the available resources. For example, the IASB would have more resources for new projects if post-implementation reviews could be done by regional and national bodies instead of by the IASB. In addition, it was still to be determined

how many resources would go to the IFRS Interpretation Committee and how many resources needed to be spared for ad hoc projects. By stating that the preferred number of projects was more likely three than five, the IASB member also wanted to stress that it was preferable to have fewer projects on the agenda, but to complete these projects in time, rather than having more projects on the agenda for a longer time.

A participant wanted to know how the IASB would deal with the increased number of constituents. The IASB member replied that, to cope with the increased number of constituents, it was necessary for the IASB to focus on what the vast majority of constituents thought were the right things to do. The IASB could not and should not spend its resources on the views expressed by small, but sometimes loud, minorities. Acting on the global scene, it was also necessary to keep the focus on principles-based standard setting. It would be impossible to make rules-based standards that could be successful on a global level.

The IASB member explained that the IASB would continue to develop standards following a due process, including issuing draft documents and considering constituents comments despite the increased number of constituents.

Industry specific standards

A participant asked whether future standards would be industry specific. Another participant thought there could be some merits in considering some issues from an industry specific point of view. For example, it would make sense to have less sophisticated requirements on impairment of financial instruments for a cement factory compared to a financial institution.

The personal view of the IASB member was that the US had shown that the way forward was not to introduce industry specific standards. Instead principles based standards, a sound concept for materiality and post-implementation reviews should ensure that a standard worked well for all industries, and that entities did not spend resources on preparing non-material information.

A participant thought that the IASB should help local regulators interpret 'materiality'. The interpretation seemed to be an issue in many jurisdictions. It could be argued that in Europe such an interpretation should be performed by ESMA. However, it was the participant's perception that ESMA did not manage to enforce equal implementation of the IFRS within the EU.

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 justifies 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 to 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.

At the outreach event, the EFRAG Chairman explained that the evidence based agenda setting procedure suggested by EFRAG should prevent situations similar to what had happened with the IASB's recent project on amendments to IAS 37. The scope of this project had changed as the project was carried out. The EFRAG Chairman thought that it was important for the IASB to define the objectives of a project and then to stick to this objective.

A participant agreed with EFRAG's position. The participant mentioned that also the scope of the lease project had been extended as the project was carried out. The participant thought that it was important to know exactly what the purpose of a project was before the project was initiated.

Another participant agreed and added that it would be more efficient to have a discussion about the objectives of a project before the project was finalised. From a preparer perspective it would also be easier to assess the effects of a project when its objective was clearly defined.

Research activities

In its draft comment letter, EFRAG notes that the IASB should make proper use of research in liaison with the academic community and other organisations that undertake or sponsor research (such as EFRAG). However, EFRAG thinks the IASB's activities should in most areas be limited to monitoring developments as far as these may influence financial reporting.

At the event, it was discussed how the IASB could benefit from academics.

A participant working as a professor in accounting thought academics could be helpful in relation to improving the Conceptual Framework and perhaps also in relation to post-implementation reviews.

The associate professor from Copenhagen Business School thought it was important for the success of the co-operation that the IASB was very specific about what should be done.

A participant thought it was important for the IASB to co-ordinate research by academics instead of spending its own resources on this.

The IASB member thought that the co-ordination of research activities should be done by regional and national organisations rather than by the IASB. The IASB should ask the questions,

but most likely would not have the resources to co-ordinate the local research activities. In relation to post-implementation reviews, the IASB member explained that it would be efficient if the IASB could liaise with national standard setters as well as enforcers as the IASB did not have sufficient resources to perform post-implementation reviews on a broad scale.

The EFRAG Chairman agreed that the IASB should not carry out the post-implementation reviews by itself. The Chairman explained that EFRAG's view was that post-implementation reviews could provide evidence that an issue should be addressed by the IASB. However, EFRAG did not suggest that the IASB should initiate post-implementation reviews of all its standards, starting with IAS 1 *Presentation of Financial Statements*.

Then the scope of IASB's work was discussed.

A participant agreed with EFRAG that the IASB should not consider integrated reporting but focus on financial statements.

Another participant was concerned that the IASB could get a secondary role in the future if it would only be involved with issues related to financial statements. In that case, organisations dealing more broadly with entities' reporting would define the broad guidelines that the IASB would then have to adhere to. The participant did not think the IASB should be leading non-financial statements projects, but that it had to be somehow involved.

The IASB member explained that the IASB was watching topics like "integrated reporting" and "country-by-country reporting" carefully and was engaged in different bodies. However, the member's personal opinion was that the IASB's key focus should remain financial reporting.

The DI Senior Advisor thought the IASB should be involved in defining some overarching principles for company reporting. The principles could, for example, provide guidance on materiality.

The role of convergence

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

At the event, different views about the role of convergence with the US were expressed. Some participants thought that the US should be considered as a constituent in line with other constituents. Others thought that, although convergence should not drive IASB's standard setting, much should be done to have the US to move to IFRS.

The role of the Conceptual Framework

EFRAG suggests in its draft comment letter that only in exceptional cases, a standard that conflicts with the Conceptual Framework should be issued. In the event that a new standard

conflicts with the Conceptual Framework, a debate on the relevant concepts would be needed. Without strong and convincing arguments for the contrary, the standard should not be finalised before the content of necessary amendments to the Conceptual Framework have been decided.

Different views on this issue were presented at the event. A participant thought that the current Conceptual Framework was not sufficiently developed. It would therefore not be sensible to assess new standards against the principles included in this framework. However, when the Conceptual Framework was enhanced, new standards and amendments should follow the principles of this new framework. Another participant thought that it would make sense to assess new standards and amendments against the principles included in the current framework until the Conceptual Framework was enhanced.

Specific projects to be included on the IASB's agenda

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. In addition to the projects listed in the IASB's agenda consultation document, participants thought the following projects should be considered for inclusion on the IASB's agenda: cash flow statements; performance measures; the IAS 8 hierarchy; and management commentary.

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 22 questionnaires were returned):

- Presentation and disclosure standard (15)
- Conceptual Framework (13)
- Financial statement presentation (excluding consideration of OCI) (12)
- Business combinations between entities under common control (9)
- Financial instruments with characteristics of equity (9)
- Intangible assets (9)
- Liabilities – amendments to IAS 37 (9)
- Other comprehensive income (7)

The least important projects were considered to be:

- Agriculture, particularly bearer biological assets (14)
- Islamic (Shariah-compliant) transactions and instruments (13)
- Inflation accounting (revisions to IAS 29) (11)
- Country-by-country reporting (8)
- Rate-regulated activities (8)
- Government grants (6)
- Earnings per share (6)
- Emissions trading schemes (5)
- Post-employment benefits (including pensions) (5)

Participants were asked to comment on their views.

The Conceptual Framework

A participant noted that the Conceptual Framework was currently not sufficiently developed to deal with contemporary issues as other comprehensive income and financial liabilities with characteristics of equity. It was therefore important to develop the Conceptual Framework.

Another participant agreed and thought that if the basis was not clear, it was difficult to develop standards, and those standards that were developed would likely have to be revised. A robust Conceptual Framework would result in more robust standards. The participant also thought that standards should be developed in a more conceptual manner that could prevent the application to result in important information drowning in less important information.

The EFRAG Chairman thought that the IASB could probably not complete all parts of the Conceptual Framework within three years, and it would therefore be necessary to decide which parts were the most important. The EFRAG Chairman thought it was important to define the boundaries of financial reporting and develop recognition principles.

A participant replied that also the definitions of assets and liabilities were important.

Another participant agreed that the most important parts to be developed should be identified in order to be able to finalise these parts within two years. Otherwise the project could go on for 20 years, which would be unfortunate.

The IASB member agreed that it could take five to ten years to finalise the complete Conceptual Framework.

Presentation and disclosure standard

The IASB member personally agreed with participants that the amount of disclosures should be reduced. However, at the same time the IASB received many wishes from users for more disclosures. The IASB member also thought materiality should be considered more. It was the member's perception that many entities included immaterial information in financial statements because it was as easy to include the information as it was to discuss materiality with auditors and enforcers.

A participant thought that a project on disclosures was important and principles on disclosures should be included in the Conceptual Framework.

Another participant thought that a two-step approach was necessary. First it should be considered what disclosure requirements could be removed from the current standards and then a disclosure framework should be developed.

The IASB member agreed with the suggested two-step approach. If disclosure requirements were not reduced before a disclosure framework was issued, it could just result in more disclosures. The IASB member added that it would also be relevant to consider where it would be most appropriate to disclose certain information. The member thought that in some cases disclosures considered would be more suitable located in management commentary.

The Chairman of the Danish Accounting Standards Committee thought that in Denmark a good distinction was made between information that should be included in the notes and information that should be included in management commentary.

Liabilities – amendments to IAS 37

The EFRAG Chairman was surprised that participants thought that the project on liabilities was an important project.

A participant thought too little had been done about liabilities in general.

Another participant thought the important aspect about the project was to know whether it would result in a new standard or not. The project on IAS 37 had been paused which meant that constituents did not know if the ideas of the project had to be taken into account when considering the outcome of different events and transactions. A third participant from an accounting firm agreed. When this participant was explaining the accounting outcome of different transactions and events, it was always necessary to explain both what the current outcome was and what could be the outcome in the future if the IASB pursued the ideas it had expressed in relation to the project on IAS 37.

The IASB member agreed that the IASB had to establish some procedures for when to remove projects from the agenda and how to communicate whether the project was scrapped or re-opened.

Other comprehensive income

A participant thought it was important to include a project on other comprehensive income on the IASB's agenda as it was not sufficiently clear what the intention of that statement was, and therefore what should be included in it. Another member agreed.

Both the IASB member and the EFRAG Chairman were surprised that not more participants thought a project on other comprehensive income was important.

A participant explained that the relative low interest was caused by the fact that it was not an issue for most of the participants present at the event. The participant thought that if most participants had been from investment companies, the issue would have been considered to be more important.

Financial statement presentation

The Chairman of the Danish Accounting Standards Committee was surprised that participants thought the project on financial statement presentation was important. The Chairman noted that a preparer, Carlsberg, had concluded that it would be quite costly to apply the requirements included in the IASB's discussion paper on the issue.

A participant with a preparer background thought the issue was considered important because of the lack of consistency between the income statement, the balance sheet and the cash flow statement. However, the participant thought that minor adjustments, rather than the revision proposed in the IASB's discussion paper, could solve the issue.

Government grants

The Chairman of the Danish Accounting Standards Committee noted that participants did not consider a project on government grants to be important. The Chairman did not agree with the majority view as the Chairman thought the standard on government grants was an old standard which resulted in some problems.

The DI Senior Advisor, thought that the results of the survey indicated that participants had been able to find solutions for the problems arising from the standard. The IASB member considered that to be a valid explanation.

A participant added that "government grants" was not an important topic for many of the participants. The participant thought that the current standard resulted in some problems, but the project should await the finalisation of more important projects.

Next steps

A participant asked whether EFRAG would include a list of specific suggestions for agenda projects in its final comment letter. The EFRAG Chairman replied that it would depend on the

comments received in response to EFRAG's draft comment letter and the views expressed at the outreach events.

Another participant asked whether EFRAG thought the IASB should gather input on what specific projects to include on its agenda by launching a survey. The EFRAG Chairman replied that a survey would be most beneficial if it was also possible to hear the arguments for respondents' selections.

The IASB member explained that it would be difficult for the IASB to balance the different views on specific projects it would receive. In some jurisdictions, projects on government grants, agriculture and Islamic accounting were considered the most important, while others thought the IASB should not include these projects on its agenda. The member thought that some of the projects that were particularly important to some regions could be carried out by regional organisations. This could, for example, be relevant for the project on Islamic accounting.