

Michel Prada  
Chairman  
IFRS Foundation  
30 Cannon Street  
London  
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United Kingdom

21 December 2015

Dear Michel,

**Re: Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am responding to the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* (the 'RfV') of July 2015. We welcome the opportunity to share our suggestions and observations on the structure and effectiveness of the Foundation.

Our letter addresses the issues in relation to the primary strategic goals 1 to 3: development of a single set of standards, global adoption of standards, and consistency of application and implementation (Questions 1 to 6 in the RfV). We do not deal with governance and financing issues, which are covered by Questions 7 to 14 of the RfV, as these issues have been addressed by the European Commission in its letter to the IFRS Foundation of 1 December 2015.

EFRAG considers that the IFRS Foundation/IASB should not extend the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector, since such activities would require substantial additional resources, as well as different knowledge, expertise and capacity.

Furthermore, EFRAG is of the view that, although the IASB's focus should remain financial reporting, the Trustees should ensure that the IFRS Foundation is at the forefront in terms of vision and consistency of all reporting developments, so as to maintain and enhance the relevance of financial reporting under IFRS in the wider corporate reporting arena.

EFRAG acknowledges the importance of the IFRS Foundation, itself continuing to develop and maintain an IFRS Taxonomy, in order to control the quality of the Taxonomy and the use of the 'IFRS' brand name. However, EFRAG is highly supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. EFRAG also welcomes the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/ software to a different entity.

EFRAG also calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. A due process oversight which also addresses the substance of the complaints would be a major step forward in building the buy-in of the various jurisdictions around the world.

We would also like to emphasise that, in EFRAG's view, Post-Implementation Reviews should now be regarded as a useful tool in the IASB's research activities, helping to identify what works and what needs to be improved in current practice, regardless of the date at which a standard has been issued. Standards with many interpretations or clarification requests tend

*EFRAG letter on Trustees Structure and Effectiveness Review*

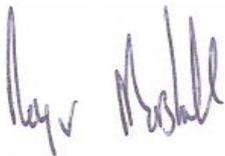
to qualify as candidates for Post-Implementation Reviews. At the time a Post-Implementation Review is completed, the IASB should communicate on its action plan to provide improvement where needed and discuss the level of priority the related standard-setting efforts should receive.

EFRAG appreciates that the IFRS Foundation has undertaken an internal Operational Review and that, in addition, the Trustees have commissioned an external review of operational expenditure and cost-management effectiveness. The results of this external review have not been made public. EFRAG recommends that the IFRS Foundation, in addition to the operational and cost effectiveness reviews, commissions an independent review of the effectiveness of its standard-setting process, including the due process oversight, since the funders of the IASB rely on the IASB's effectiveness.

Our main suggestions and observations are further detailed in the appendix to this letter.

If you would like to discuss our comments further, or if we can assist in any other way, please do not hesitate to contact Saskia Slomp or me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Roger Marshall'.

Roger Marshall  
Acting President  
EFRAG Board

## Appendix

### **Relevance of IFRS**

Should the IASB extend its remit beyond the current focus of the organisation, either in terms of the types of entity covered or the types of reporting?

**Q1 Request for Views: Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?**

- 1 EFRAG strongly believes that, given its restrictions in resources and a tight budget, the IASB should not extend the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector. Entering into these domains would require substantial additional resources, as well as knowledge, expertise and capacity, not currently present within the IASB Board or staff.
- 2 In terms of public accountability and governance, we recognise that there may be a need for international reporting standards for the not-for-profit sector. However, the absence of international standard setting for the not-for-profit sector is, in our view, not a convincing argument for the IASB to take on this activity. Moreover, the number of not-for-profit entities that operate cross borders on a worldwide scale, and which are potentially in need of international reporting standards, is relatively limited. Therefore, developing international not-for-profit entities' financial reporting is, in our view, not a priority for the IFRS Foundation.
- 3 In conclusion, EFRAG agrees with the Trustees that the IASB should not address public sector accounting standards. In addition, EFRAG is strongly of the opinion that the IFRS Foundation's mandate should not be expanded to encompass not-for-profit entities.

**Q2 Request for Views: Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?**

- 4 EFRAG believes that the IASB's primary focus should remain to be financial reporting. However, EFRAG is of the view that monitoring corporate reporting developments is essential to the work of the IASB, as financial reporting needs to fit well in the larger context of corporate reporting.
- 5 EFRAG underlines the importance of the IASB in addressing non-IFRS information, in particular alternative performance measures as part of the Disclosure Initiative project. Recent surveys that EFRAG has undertaken with analysts, investors and other users show the importance of alternative performance indicators in their analyses and decisions. EFRAG recommends that the IASB considers the reasons why entities consider their presentation of non-IFRS information necessary and identify lessons to be drawn for performance reporting.
- 6 Integrated reporting, and corporate reporting in the wider sense, are topics that are increasingly referred to in financial reporting discussions. An example of a paper fostering debate is the FEE Cogito paper *The Future of Corporate Reporting- creating the dynamics for change*. Users of financial statements increasingly take Key Performance Indicators on a wide range of issues, including non-financial performance measures, into account in their considerations and assessments. We appreciate that the IFRS Foundation has played a role in the development of the <IR> Framework and is involved in the various IIRC bodies and in the CRD (Corporate Reporting Dialogue). Through these co-operations, the IFRS Foundation is actively monitoring the developments in the corporate reporting field.

- 7 EFRAG believes that it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate. Therefore, the IASB should continue to closely monitor the developments and continue to be involved in all relevant bodies — IIRC and beyond — to ensure that financial reporting evolves in a way that maintains or increases its relevance within corporate financial reporting. The IFRS Foundation’s strategy applied to financial reporting should place the IFRS Foundation at the forefront in terms of vision and consistency of all reporting developments.

Seeking views on the Foundation's strategy for the IFRS Taxonomy

**Q3 Request for Views: Do you agree with the IFRS Foundation’s strategy with regard to the IFRS Taxonomy?**

**Q4 Request for Views: How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?**

- 8 The IASB’s standards are developed on the basis that entities are required to prepare a general purpose financial report, whether that report is printed or in electronic format, ranging from a PDF version to one that is ‘tagged’ (in a computer-readable code that identifies specific items) using a structured data format. EFRAG appreciates that one of the reasons the IASB produces the IFRS Taxonomy is to assist with the accurate digital representation of IFRS in a structured format and to facilitate electronic filing.
- 9 EFRAG agrees that it is important that the IFRS Foundation itself continues to develop and maintain an IFRS Taxonomy, in order to control the quality of the Taxonomy and the use of the ‘IFRS’ brand name. This is the only way the IASB can avoid that the technology sets limitations on the IFRS filing in electronic format. However, developing the IFRS Taxonomy in-house should be considered in the context of budgetary restrictions and balanced against other priorities.
- 10 EFRAG has expressed on several occasions<sup>1</sup> the view that the development of the IFRS Taxonomy should not drive the IASB standard-setting process, because it risks moving away from a principle-based approach, in particular in the area of disclosures. Standards being developed by the IASB should be sufficiently clear to allow for the development of a relevant IFRS Taxonomy. The IFRS Taxonomy development could, in this respect, help to improve the clarity of the definitions and disclosure requirements, but should not direct the standard-setting process. Therefore, EFRAG welcomes the Trustees’ statement in the RfV that Taxonomy considerations should not dictate the standard-setting process.
- 11 EFRAG welcomes the IASB’s shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/ software to somebody else. The regulators could then decide which computer language should be followed in their jurisdictions. EFRAG supports that the IFRS Foundation’s goal is now focused on having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report, rather than on the development of a computer language. The IFRS Taxonomy should continue to be developed in close co-operation between technical accounting teams and taxonomy teams, so that the standard-setting process can benefit from the questions posed on the

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<sup>1</sup> EFRAG letter of 5 August 2011 on report on the Trustees Strategy Review.

draft standard in the taxonomy process, without the taxonomy process driving the standard-setting process.

- 12 Regarding how the IASB could best support regulators in their efforts to improve digital access to general purpose financial statements, EFRAG notes that ESMA is at present carrying out consultations on the European Single Electronic Format. In EFRAG's view, a proper coordination and cooperation between the IFRS Foundation, ESMA and other regulators in the world should be ensured, so that no inconsistencies arise with the globally consistent digital implementation of IFRS, when digital reporting is developed in jurisdictions. One example is the European Single Electronic Reporting format that will be required from 1 January 2020 for issuers in the EU.

**Q5 Request for Views: Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology, in ways in which it can maintain the relevance of IFRS?**

- 13 The IASB should be open minded and monitor closely technological developments. Technology is changing continuously and is driving and affecting the way financial information is handled in practice and how information is communicated. EFRAG welcomes the Trustees' suggestion to establish a network of experts to assist and provide advice on how to monitor and assess changing technology and how the Foundation and/or the IASB should respond to, and where appropriate exploit, those changes. However, while recognising that their remit may be different EFRAG recommends that the IFRS Foundation clarifies the relationship between this network of experts and the existing IFRS Taxonomy Consultative Group.

***Consistent application of IFRS***

Considering whether the IFRS Foundation is doing the right things to support the consistent application of IFRS and whether there is anything more it could, and should, be doing in this area.

**Q6 Request for Views: What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?**

*High quality principles-based standards*

- 14 EFRAG supports the Trustees ultimate goal of developing a single set of high-quality, globally accepted financial reporting standards. EFRAG believes that the best way to achieve consistent application is to develop clear, high-quality standards. Quality control including field testing and effects analyses before finalisation of a standard is essential to ensure that the resulting standard is stable and less open to divergence in practice.
- 15 EFRAG is of the opinion that standards should articulate clear principles and be written in a way that makes them capable of being applied in practice, without the need for extensive further interpretations or guidance, or excessive additional work by those using them. Although the primary responsibility for consistent application rests in particular with preparers, auditors and regulators, it is the IASB that bears a risk if IFRS is not consistently implemented. Standards capable of being applied in practice require a proper due process and due process oversight.
- 16 EFRAG would caution the Trustees to set up any initiatives that would limit the exercise of professional judgement, aiming at uniformity of financial information, rather than consistency in application of the standards. Allowing for judgement is an inevitable cost of having a principles-based system. There are circumstances where inconsistencies and,

thus, diversity in practice are inherent to the design and purposes of IFRS. This is the case when:

- (a) management is required to exercise judgement (requirements of a standard dictate the application of judgement or where a standard permits flexibility): it will more often than not be the case that two entities with comparable or identical fact patterns would arrive at different outcomes merely by exercising judgement, and there is no yardstick against which one could argue that the exercise of judgement of one entity was inferior to the other's (let alone erroneous); and
  - (b) different accounting outcomes are likely to occur in situations in which there is a gap in the current literature and therefore entities are required to develop an accounting policy based on the principles contained in other standards or the Conceptual Framework that would lead to a faithful presentation of the economics.
- 17 Diversity as such should not be taken as an excuse to regulate each and every standard, as this undermines principles-based standard setting and might ultimately lead to jurisdictions turning away from the concept of global standards.
- 18 Our above comments should not be read as a lack of support for the objective of consistent application of IFRS. To the contrary. We do recognise that a lack of guidance resulting in unwarranted diversity may trigger the need for an interpretation or a research or standard setting project. One example is the Business Combinations Under Common Control project or how we promote that the IASB addresses the diversity in practice that has arisen in the implementation of the equity method of accounting. We wish to warn the IFRS Foundation about latest developments that tend to foster uniformity and rule-based requirements when those would be best avoided.

*Due process oversight*

- 19 EFRAG acknowledges that the IASB has an extensive due process that takes considerable time and that, at this stage, it would be counterproductive to seek improvement to the definition of the IASB due process.
- 20 However, EFRAG calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. This oversight process is, at present, limited by the Trustees' Due Process Oversight Committee to compliance with the due process procedures and steps as laid down in the IASB and IFRS Interpretations Committee *Due Process Handbook*. However, the Committee does not consider the technical contents of the complaints submitted by the IASB's constituents. EFRAG believes that a due process oversight, addressing not only the undertaking of the necessary due process steps, but also the substance of the complaints, will be a major step forward in building the buy-in of the various jurisdictions around the world. This would give additional credibility to the standard-setting process.
- 21 EFRAG recommends that the IFRS Foundation commissions an independent review of the effectiveness of its standard-setting process, including the due process oversight process, but also the evaluation of the project work on the main standards (see our input to the 2015 IASB *Agenda Consultation* [here](#)). In this way, ameliorations to the process could possibly be identified, resulting in a more accountable due process oversight.

*Quality control system*

- 22 EFRAG considers that greater consistency in application and implementation is of high priority. We are persuaded that having a strong system of quality control in the finalisation of standards before publication is the best way to achieve this objective and reduces the need for subsequent amendments and clarifications. EFRAG has asked the IASB on several occasions to improve its system of quality control and has stressed the importance of public reviews and field testing. EFRAG has made several suggestions including a public fatal flaw review and publication of a staff document of the nearly final standard.

- 23 Quality control, including field testing and effects analyses before finalisation of a standard, is essential to ensure that the resulting standard is stable and less open for divergence in practice. EFRAG would see field tests, effects analyses and quality control as essential elements of the standard-setting process (that should be carried out during the standard-setting process), thereby ensuring that final standards are less open to interpretations and divergence in practice. EFRAG believes that this should be mentioned in the secondary, strategic goals listed under the primary strategic goal 1, development of a single set of standards.

*Transition Resource Groups (TRGs)*

- 24 EFRAG believes that the IASB should be restrictive in the use of TRGs, since their activities may be counteractive to principles-based standard setting. EFRAG refers in this respect to the need for a proper quality control system before a standard is issued as discussed in the previous section. TRGs could aim at educating preparers and users in the application of new standards, but should not routinely generate clarifications and amendments to standards.
- 25 EFRAG recommends that the Trustees formalise (a) the structure and the use of TRGs within the organisation and standard-setting process; (b) define the circumstances in which the use of TRGs is deemed useful; (c) the timing and the status of TRGs' outputs as part of the implementation of a new standard; and (d) the interactions of TRGs' deliberations with those issued by the IFRS Interpretations Committee. Such clarification would avoid the risk that TRGs could have a disproportionate influence on the application of a new standard, before proper experience has been gained and that the role of the IFRS Interpretations Committee would be overridden.

*IFRS Interpretation Committee (IFRS IC)*

- 26 Furthermore, EFRAG suggests that the Trustees continue monitoring the functioning and effectiveness of the IFRS IC, in order to better respond to the implementation issues identified in practice and provide any necessary guidance on a (more) timely basis. The Trustees should ensure that where appropriate the exercise of professional judgement is not limited and the principles-based nature of IFRS is not undermined (please see our comments in paragraphs 14-18 above) This could include the communication between the IFRS IC and the IASB on how to agree to proceed with particular issues; consideration of issues that relate to topics for which research projects exist; and using the expertise of the IFRS IC to assist the IASB in collecting issues for preparation of the Post-Implementation Reviews (PIRs) of existing standards.

*Effects Analysis*

- 27 The EC Report on the Evaluation of the IAS Regulation of June 2015 urges the IASB to strengthen its impact analyses, to consider the specific needs of investors with different investment time horizons, and to provide specific solutions, in particular to long-term investors, when developing their standards.
- 28 EFRAG is of the opinion that effects analyses and impact assessments are an essential part of the standard-setting process. We understand that the RfV is not discussing effects analyses, since the IASB is currently working on implementing the recommendations of the Effects Analysis Consultative Group so as to further embed field testing and effects analyses in the IASB's due process. EFRAG will closely monitor the implementation by the IASB of the effects analysis methodology, as supported by the Trustees in 2014.

*Education Initiative*

- 29 The 2015 Request for Views states that the IFRS Foundation has an Education Initiative with the objective of reinforcing the organisation's goal of promoting the adoption and consistent application of IFRS. To achieve its objective, the Education Initiative makes available an appropriate range of high-quality, understandable and up-to-date material and services about standard setting and IFRS, all of which is available on the IFRS Foundation's website. It is also organising IFRS events. In the section on finance, the

Trustees refer to the need to maintain an appropriate balance between raising revenue from self-generated resources and the IFRS Foundation's public interest mission. We wonder whether the objective of the Education Initiative of generating revenue is compatible with the public interest mission of fostering consistent application.

- 30 EFRAG wonders to what extent education material is of help in implementation efforts, in particular when it is not publicly available. Preparers and users may not invest in examining education material. In practice, auditors are often the first source of assistance for preparers in implementing new or amended IFRS, rather than education material. EFRAG believes that IFRS Foundation education material should be available to ease implementation of standards in practice.

*Post-Implementation Reviews (PIRs)*

- 31 EFRAG welcomes that the Trustees will undertake a review of the process in relation to PIRs when the IASB has gained further experience of conducting a number of PIRs. EFRAG is of the opinion that a period of two years of full implementation of a standard is often too short for both preparers and users to be fully familiar with a standard and would recommend to extend the period to at least three years, or longer, depending on the nature and complexity of the standard or the major amendment to the standard. Although there is no presumption that a PIR will lead to any changes in a standard, it may nevertheless result in the amendment of a standard. Both preparers and users call for stable standards. Over time, PIRs will become more effective and result, where appropriate, in more meaningful amendments.
- 32 EFRAG is of the opinion that the findings of PIRs should provide direct input into the standard-setting agenda. Constituents use time and resources to provide their input to these reviews and it is important that the IASB shows itself to be responsive and address promptly the concerns raised and how they are dealt with in the work programme. The feedback statement that is published should include the IASB action plan and clearly indicate the IASB's decisions of what the next steps are — *start research activities, work on amendments, do nothing* — so that constituents know what to expect. Currently, constituents find out after the fact, at least in the case of the PIR on IFRS 8; the only communication tool in use being the IASB Update.
- 33 EFRAG recommends that the Trustees consider where the expertise of the IFRS IC can help the IASB to collect the issues for preparation of the PIRs of existing standards.
- 34 The IASB may also wish to consider undertaking PIRs on older existing standards on which several interpretation issues have been raised and that are candidates for a complete overhaul. We believe that the IASB should consult on which of the older existing standards should be subject to a PIR and what the priority should be on the more recent standards for PIRs in the Agenda Consultation (we refer also to our response on the 2015 IASB Agenda Consultation). This would be consistent with the call for stability, while maintaining high-quality financial reporting.
- 35 Finally, EFRAG believes that PIRs are useful ways of gathering evidence for the IASB's evidence based standard-setting activity and constitute a powerful approach to research activity. Therefore, EFRAG recommends that PIRs are identified as such, instead of being considered as a due process obligation.