



Ms. Françoise Flores
TEG Chair
EFRAG
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E-mail: commentletters@efrag.org

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Ref.: ACC/AKI/HBL/PPA

Dear Ms Flores,

Re: EFRAG Getting a Better Framework – Complexity Bulletin

- (1) FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments on the EFRAG Getting a Better Framework – Complexity Bulletin (the “Bulletin”).
- (2) We support EFRAG’s initiative, together with that of the national standard setters involved, to stimulate debate on key issues related to the IASB Conceptual Framework and to ensure that the European views are influential in this debate.
- (3) FEE agrees with the definition of complexity as described in the Bulletin and with the concept that there is a direct relationship between complexity, the costs to preparers and the benefits to users of financial statements. FEE believes that the main sources of complexity affecting financial reporting are the complex business environment and the divergent needs of users. In some aspects the standard setting process could also add to complexity.
- (4) However, FEE considers that attempting to distinguish avoidable and unavoidable complexity is a judgmental exercise and we question whether this is necessary in order to address the issue.
- (5) FEE believes that, in itself, complexity should not be considered as a primary factor in establishing the principles underlying accounting standards. The main purpose of the financial statements is to provide relevant and faithful information about the financial position and performance of the reporting entity to the users. The qualitative characteristics of the Conceptual Framework (“CF”) are those which define how the financial information should be presented. In this context, financial statements inevitably incorporate complexity in order to portray complex transactions in a relevant and faithful manner. For that reason, avoiding complexity is not, in itself, considered an appropriate qualitative characteristic to be explicitly included in the CF.

- (6) Instead, assessing whether undue complexity was introduced in a standard should be considered as part of the field testing conducted in the standard-setting process and should be taken into account as part of the costs and benefits analysis of that standard. Further, as much as possible, accounting standards should be developed and written with an objective of providing clarity.
- (7) Finally, FEE is of the view that the only way to achieve a meaningful reduction in complexity is to use the already existing tools included in the CF, being the qualitative characteristics. In addition, FEE believes that considering the business model as part of the standard setting process would contribute to reducing complexity, as the entity's objectives and the way that it interprets its transactions would be better aligned with financial reporting requirements. As a result, the understandability and relevance of financial statements would be enhanced.

For further information on this letter, please contact Pantelis Pavlou, Project Manager from the FEE Team on +32 (0) 2 285 40 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

A blue ink signature of André Killesse, consisting of several loops and a long horizontal stroke at the bottom.

André Killesse
President

A blue ink signature of Olivier Boutellis-Taft, featuring a large, stylized initial 'B' followed by a long horizontal line.

Olivier Boutellis-Taft
Chief Executive

Encl.
Appendix – FEE response to specific questions

Please find below FEE's response to the specific questions included in the Bulletin.

We would welcome your views on any aspect of this Bulletin. In particular:

- (i) Do you think there should be explicit discussion of the different aspects of complexity in the Conceptual Framework?

- (8) FEE does not believe that it would be appropriate to introduce “reducing complexity” as a separate element in the Conceptual Framework (“CF”). The main purpose of financial statements is to present relevant and faithful financial information. In this context, financial statements may incorporate complexity when portraying complex transactions in a relevant and faithful manner. For that reason, avoiding complexity is not, in itself, considered an appropriate qualitative characteristic to be included in the CF.
- (9) Instead, assessing whether undue complexity can be avoided or eliminated in a standard should be considered as part of the field testing conducted in the standard-setting process and should be taken into account as part of the costs and benefits analysis of that standard. In that respect, FEE agrees with the remark in the Bulletin that the general cost constraint on useful financial reporting (as included in Chapter 3 of the CF) already provides a proper tool to the IASB to address complexity issues and that this is corroborated by the fact that the Basis of Conclusions of several IFRSs indicate that complexity was considered by the Board's in its cost-benefits analysis.
- (10) Reducing complexity is also a necessary consideration in order to respect certain of the qualitative characteristics in the CF, in particular relevance and understandability.
- (11) For example, ensuring relevance of financial information can assist in reducing complexity in financial reporting by helping preparers to identify which information is relevant to the users of financial statements. In addition, relevance can assist the IASB in the standard setting process.
- (12) Understandability is a characteristic that applies on several levels. When presenting information, the preparers need to ensure that it should be understandable to the users, who are defined in the CF, as having a “reasonable knowledge of business and economic activities”.
- (13) As further explained below, the IASB can help in enhancing the understandability of standards by ensuring that these are based on clearly established principles, supplemented by distinct illustrative guidance explaining how to apply the principles (but solely when such additional guidance is deemed necessary).

- (ii) Are there any aspects of complexity in accounting not covered by this Bulletin that should be covered?

- (14) FEE believes that complexity arises from different sources, as discussed in more detail below.

Complex transactions

- (15) Modern business models include complex transactions, especially for large multinational entities. These transactions are often inherently difficult to understand and, consequently, the preparers of financial statements need to provide detailed disclosures to enhance the understandability and relevance of the financial statements.
- (16) Depicting the substance of these complex transactions, as well as the business model of the entity that undertakes them, in a relevant and faithful manner requires the use of different measurement bases for different items. As a consequence, accounting standards can require complex measurement methods or accounting treatments. Nevertheless, this complexity can be reduced if standards are established on clearly laid-out principles and if relevant illustrative guidance is provided to preparers and users on how these principles should be applied.

Divergent needs of the users

- (17) Responding to the divergent needs of users by adding disclosure requirements can contribute complexity. Currently, general principles are still lacking for a system that would provide necessary information but avoid disclosure overload. In our view, the Board could contribute to reducing complexity by including general guidance on how to establish minimum disclosure requirements at the standard level as well as a general provision as to the conditions under which additional disclosure requirements will be necessary. In this respect, the CF would explain the role of materiality and relevance in achieving the appropriate level of information required.

The standard setting process could add to complexity

- (18) The way that some IFRSs are structured does not always facilitate the reading of the standard by preparers or users of financial statements. The main problem is that the readers cannot easily identify or distinguish the main principles set out in the standards. FEE suggests that the standards should be structured in such a way that the principles, guidance and illustrative examples are easily identifiable, readable and understandable by preparers and users. Also, care should be taken to ensure that standards are written in plain English.
- (19) In addition, illustrative guidance provided in current IFRSs tends to be based on highly specific circumstances such that they may be difficult to transpose to the more common transactions encountered in practice. This contributes to the complexity of standards at the expense of their usefulness. In FEE's opinion, the key question that standard setters should ask themselves when they intend to include additional guidance in a standard is whether this guidance adds benefits for preparers and users of the financial statements. Furthermore, illustrative guidance should not be used to compensate for a lack of clarity in the principles established in the standard.
- (20) In conclusion, FEE also believes that the introduction of the business model concept in financial reporting would contribute towards the reduction of complexity in financial reporting. This development in the CF would facilitate the alignment of financial reporting, the entity's business model and its objectives; therefore the financial reporting would produce more relevant and understandable information for users.