

# **EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011**

**ASCG  
EFRAG**

**FRANKFURT – 7 OCTOBER 2011**

## **PANEL**

- Prof. Dr. Andreas Barckow - *GASB member*
- Hans van Damme - *EFRAG PRC / Supervisory Board member*
- Liesel Knorr - *GASB chairman / EFRAG PRC and TEG member*
- Dr. Elke König - *IASB member*
- Michael Stewart - *IASB staff*

## **PREPARATION OF THE FEEDBACK STATEMENT**

This note has been prepared for the convenience of European constituents by EFRAG staff. It has been reviewed by representatives of the IASB and has been jointly approved for publication by representatives of EFRAG and the ASCG 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 ASCG on 7 October 2011 in Frankfurt.

The discussion focused on the issues related to:

- Agenda setting process
  - The role of convergence
  - Request for a period of calm
  - Post-implementation reviews
  - Standard setting
  - Role of the Conceptual Framework
- Specific projects to be included on the IASB's agenda

### **Agenda setting process**

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 IASB member present at the event added that in addition to considering these issues, it could be beneficial to consider IASB's project management including how the IASB could avoid having a long list of uncompleted projects, and whether there should be criteria for when the IASB should stop considering a project.

In relation to the latter, the GASB chairman noted that perhaps it would be fair to close a project if the IASB could not reach agreement on a project within reasonable time.

### *The role of convergence*

It was discussed whether convergence should play a role in agenda setting. It was noted that EFRAG's draft comment letter presented the view that it should not. A GASB member thought that it was inappropriate to blame the IASB for considering convergence in the past. The member thought the wish for convergence was expressed by politicians. The question that should be considered was therefore what the IASB should do when politicians demanded convergence of standards.

The IASB member replied that the IASB could not disregard the US. It would not be beneficial for the world economy if the IASB only considered European constituents when setting the agenda.

The EFRAG PRC / Supervisory Board member commented that all standard setters should work with the IASB, but rather for the purpose of getting the best accounting standards – not for the purpose of convergence.

### *Request for a period of calm*

Some participants expressed that a period of calm was important. However, the IASB should still deal with particularly urgent issues. The IASB member thought that the IASB had not issued particularly many new standards recently. The member of EFRAG PRC noted that it was not only new standards constituents had to spend resources on, but on all the IASB's proposals and there were many exposure drafts in the past year. The period of calm should therefore also mean that the IASB should not issue fundamental proposals for a period of time.

### *Post-implementation reviews*

In relation to post-implementation reviews, the IASB Agenda Consultation 2011 states:

*“One objective of the IFRS Foundation and the IASB is to promote the use and rigorous application of IFRSs. This includes being responsive to implementation issues. Our due process commits us to undertake post-implementation reviews of new IFRSs and major amendments.*

*Post-implementation reviews will focus on important issues identified as contentious during the development of the IFRS and include consideration of any unexpected costs or implementation problems that have been encountered.*

*We will normally conduct these reviews after two years of implementation of the new requirements.”*

In its draft comment letter, EFRAG thought that the IASB's post-implementation reviews should have a broader scope than suggested by the IASB. According to the draft comment letter, the

review should focus on whether standards result in effective financial reporting taking the current economic context, the business environment and changes in these into consideration.

A GASB member agreed with the position expressed in EFRAG's draft comment letter. The GASB chairman thought that issues could have arisen that the IASB and its constituents were not aware of when the standard was developed. It would be beneficial if the post-implementation reviews could also capture those issues and not only consider the issues that were considered contentious when the standard was developed. The GASB chairman also questioned whether it would be too early to conduct the post-implementation reviews after two years as suggested by the IASB.

#### *Standard setting*

The IASB's consultation document does not include any discussion about standard setting. However, the issue was considered important by several participants. Some participants noted that the IASB's standards were too complex, not understandable and difficult to apply. These members thought that the IASB should take complexity into consideration when developing standards. The IASB member noted that the environment was complex and that some preparers were good at finding gaps in the standards whereby they could avoid presenting the information intended by the IASB. That was why the IASB had to write standards in the manner they did. However, the benefits of providing financial users with transparent information and the complexity of standard had to be balanced.

A GASB member agreed that the environment was complex, but the standards seemed utterly complex. The member believed the IASB should consider whether standards could be written in a manner that would be easier to understand. When the IFRS for SMEs had been developed, the IASB had tried to explain the main requirements of (full) IFRS in a simple way. The member argued that the lessons learned in doing that could also be used in making (full) IFRS more understandable. In making the standards more understandable, the IASB also had to consider how the standard would be translated into other languages. The IASB should, for example, try to be aware of and possibly refrain from using concepts that did not exist in other languages. 'Fair value' was an example of a concept that did not exist in German and it was therefore difficult to understand and translate in a meaningful manner.

The EFRAG PRC / Supervisory Board member noted that within the EU, national enforcers applied (and by law are only allowed to apply) the local language version of standards. It was therefore essential that translated standards communicated the same messages as the original English-language version.

The IASB staff member agreed that complexity of standards and translation issues should be considered. The member thought that costs of first time and ongoing application of standards could be reduced by writing standards more clearly.

The position of the GASB was that National Standard Setters and other organisations as national enforcers should be more involved in the standard setting in relation to research and questions regarding consistent application of IFRS.

#### *Role of the Conceptual Framework*

In its draft comment letter in response to IASB's agenda consultation, EFRAG had stated that unless there were strong and convincing arguments for the contrary, new standards that were in conflict with the Conceptual Framework should not be issued until a more fundamental debate had been had on the issue in question. Participants expressed scepticism since the Conceptual Framework will not soon be finalised; however, there will be issues that the IASB will need to address. A lack of Conceptual Framework context could not result in deferring publication of necessary accounting requirements. It was, however, noted that the Conceptual Framework should not be static but should be amended to reflect changes in the context.

The GASB chairman raised the question of what Conceptual Framework the standards should be compared against. Before it would make sense to compare new standards to the Conceptual Framework, the Framework should probably first be enhanced as the Framework currently did not (clearly) say anything about, for example, measurement.

#### *Specific projects to be included on the IASB's agenda*

The position of the GASB was that the IASB should complete the projects it had on its agenda regarding revenue recognition, leases, financial instruments and insurance contracts before including any new projects on its agenda.

The GASB also thought that the IASB should not include more than three major projects with global impact on its agenda at the same time. However, minor issues (for example a project on bearer biological assets) could be dealt with in parallel to the major projects.

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

- Other comprehensive income;
- Conceptual Framework;
- Presentation and disclosure standard;

- Financial instruments with characteristics of equity;
- Business combinations between entities under common control; and
- Foreign currency translation.

A GASB member thought that the projects on other comprehensive income and financial instruments with characteristics of equity were dealing with conceptual issues and should therefore be dealt with at a conceptual rather than standard level. Currently there was for example no conceptual basis for when to recycle items of other comprehensive income.

The IASB member considered that it would take longer time to deal with the issues on a conceptual level and assessed that constituents in general thought guidance on the issues was too urgent for a long-term project.

The EFRAG PRC / Supervisory Board member noted that EFRAG was doing pro-active work on a disclosure framework and indicated it to be important to have enforcers involved with the project. It would be essential to have the check-list mentality of the enforcers replaced in order for such a framework to become helpful.

A GASB member thought that two projects were needed on disclosures. One project should assess and reduce the number of current requirements. Another project should be to develop a disclosure framework. The latter should be linked to the Conceptual Framework in order to avoid a free-standing, non-integrated framework for disclosures.

The IASB member agreed there was a need for the IASB to tidy up disclosure requirements.

The GASB chairman considered a separate disclosure standard to be redundant if a strong conceptual framework was developed.

The IASB staff member envisaged that the disclosure framework would be part of the Conceptual Framework. The member also suggested including all disclosure requirements in one standard based on this disclosure framework. The IASB staff member agreed with the EFRAG PRC / Supervisory Board member that enforcers should be consulted to learn how they could use a disclosure framework.

GASB thought the following four projects were most important to consider for inclusion on the IASB agenda:

- Foreign currency translation;
- Intangibles;
- Post-employment benefits (limited to new plans); or

- Other comprehensive income (possible as part of the Conceptual Framework project).

According to the survey performed among participants at the event, the top six projects **not** to be included on the IASB's agenda were:

- Agriculture, particularly bearer biological assets;
- Inflation accounting;
- Earnings per share;
- Government grants;
- Islamic (Shariah-compliant) transactions and instruments; and
- Country-by-country reporting.

GASB's position was that the following projects were the least important:

- Country-by-country reporting;
- Earnings per share; and
- Financial statement presentation (this issue should instead be dealt with as part of the Conceptual Framework).