



## Accounting Standards Board

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Dear Françoise

### **EFRAG's Consultation on Proactive Work**

I am writing on behalf of the UK Accounting Standards Board (ASB) in response to EFRAG's paper 'Consultation on Proactive Work'

We welcome this consultation as, in our view, proactive work is an important part of EFRAG's activities. Unless EFRAG, national standard setters and other bodies engage in proactive work, original thinking will be dominated by the IASB. A healthy, vital debate benefits from contributions from a variety of perspectives. EFRAG's involvement in proactive work also enhances its other work: for example it increases the credibility of its input on proposals for changes to financial reporting standards.

We would hope and expect that proactive work will assume an even greater importance after the completion of IASB's convergence projects in 2011. The expectation that there will be no major new standards for some time after that will provide an opportunity for research and consideration of conceptual issues, and will provide greater opportunities for constituents to contribute to that work.

The paper draws a useful distinction (in paragraph 3.2) between:

- (i) Work that involves developing the concepts and principles that underpin IFRS and analysing specific financial reporting issues; and
- (ii) Short-term projects that address a particular aspect of proposals under development by the IASB.

It seems helpful to add a third category:

- (iii) Projects that address a part or feature of the standard-setting process. Examples of projects in the this category include the project on effects studies and the possible project listed in Table 2 on Post-Implementation Review Policy.

Whilst we believe that projects of all three types should continue to be undertaken, we agree that the emphasis should continue to be on the first type of project. Some such projects may have the prospect of improving financial reporting only in the long term. We would regard it as unfortunate if they were not to be undertaken for that reason, although we acknowledge that they may need to be balanced by other projects with a more immediate impact.

Although the opportunity for 'briefings' falling within class (ii) are likely to arise only occasionally, they can be of great value in alerting constituents to the implications of emerging proposals, particularly if they are produced expeditiously.

Our answers to the specific 'Questions to Constituents' are set out in the enclosed Appendix. I would highlight in particular the desirability of EFRAG involvement in the development of the conceptual framework, which we raise in response to question 4.

If you would like to discuss any of these comments, please contact Andrew Lennard on +44 20 7492 2430 or me on +44 20 7492 2434.

Yours sincerely



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**ASB responses to Questions to Constituents**

1. *Prior to this consultation were you aware of EFRAG's Proactive Accounting in Europe (PAAinE) publications? Did you find them useful and why or why not? In what ways do you think they could have been improved? Do you think they had a sufficient focus on European issues?*

1.1 The ASB is, of course, aware of EFRAG's proactive publications through our links with EFRAG and as a contributor to several of them.

1.2 Publications should have an appropriate balance between advocating the case for a particular point of view and reviewing impartially a number of possible opinions. The appropriate balance will inevitably vary from case to case.

1.3 Although it is more difficult to reach consensus on documents that focus on one solution with clear recommendations, if well argued, they may be more influential than those that simply give the pros and cons of a number of alternatives. For this reason, EFRAG should continue to be willing to be associated with well presented publications even if it does not agree with all their proposals, provided, of course, that EFRAG's position is clear.

1.4 Whilst it is obviously important for EFRAG to ensure that its work is carried out with due regard to European interests and perspectives, it should be recognised that, if the work is to be worthwhile, it will address difficult issues on which consensus even within one country, let alone within a large and diverse continent, is unlikely to be achieved. Furthermore, the considerations that affect many financial reporting issues are common to many countries rather than distinctively European.

1.5 The paper refers (in paragraph 1.3) to 'issues...that are likely to make a demonstrable improvement to financial reporting in Europe'. We do not believe EFRAG's focus should be exclusively on financial reporting in Europe, as, given the global nature of markets, European citizens are amongst the beneficiaries of improvements in financial reporting throughout the world.

2. *Based on the description above (under 'How we influence the IASB'), at what point in the standard-setting process should EFRAG focus its proactive work? Also are there specific aspects of financial reporting where we should concentrate our activities?*

2.1 In our view, the main focus of EFRAG's proactive work should be on issues where practice or the existing standard (if any) is unsatisfactory and IASB is not undertaking active work. Undertaking work at this stage permits adequate time for reflection and for the development of innovative and appropriate solutions. This contrasts with the reactive work of commenting

on proposals in the form of Discussion Papers and Exposure Drafts, where major changes in approach can be difficult to achieve.

2.2 We do not think it necessary in all cases to postpone undertaking a project until IASB has indicated interest in a topic. IASB's future agenda decisions are likely to be influenced by the existence of studies that put forward constructive suggestions for a solution, and so there may be a reasonable prospect of work on such topics providing the foundation for future accounting standards.

3. Table 2 'Proposed Proactive Projects' below identifies projects where EFRAG considers it may be useful to undertake proactive work. Can you rank the projects from most to least important based on EFRAG's strategic aims:

**Proactive Strategic Aims**

<i>Aim 1</i>	<i>Influence the development of global financial reporting standards;</i>
<i>Aim 2:</i>	<i>Engage with European constituents to ensure we understand their issues and how financial reporting affects them;</i>
<i>Aim 3:</i>	<i>Provide thought leadership in developing the principles and practices that underpin financial reporting; and</i>
<i>Aim 4:</i>	<i>Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.</i>

3.1 As noted in the covering letter, we distinguish between projects that address concepts and accounting standards and those that address the standard-setting process. The latter includes Post-Implementation Review ('PIR') Policy and the three proposals for work on such reviews. It would not be meaningful to rank projects in different categories, and so we comment first on PIRs, and then on the accounting projects, in the order we would rank them. We would stress that the rankings are subjective and our responses reflect the description of the projects given in the paper. Thus our rankings apply to the projects as described and not to the subject matter of the projects.

*Post-Implementation Reviews*

3.2 We agree that work on a policy (including a methodology) for post-implementation reviews would be valuable. However, we question whether there is, or should be, a distinct European perspective on the issue, given that the IASB will have to undertake and/or co-ordinate such reviews at the global level.

3.3 It is unlikely that helpful PIRs will be obtained by mechanically following a prescribed process. The focus will differ depending on the objectives of the standard, and in some cases one aspect (for example, the cost

of compliance) will demand more extensive work and consideration than in others. It is therefore important that the need for appropriate flexibility is built into the thinking on the methodology from the start.

3.4 We agree that the three topics listed in Table 2 are suitable candidates for PIRs. It may be helpful, if resources permit, to undertake one or two of these simultaneously with the development of the policy.

#### 1 *Share-based payments*

3.5 We agree that IFRS 2 requires a fundamental review. This should include a reconsideration of the grant date methodology of the standard: most other transactions are accounted for at values prevailing at the time of exchange, rather than at the time an agreement to exchange is entered into.

#### 2 *Government grants*

3.6 We also agree that work on a replacement for IAS 20 is required. We note the suggestion that a model developed for exchange-based transactions can be extended to non-exchange transactions and will be interested to follow progress on this.

#### 3 *Application of IFRS to individual financial statements*

3.7 This is a project of particular interest to Europe where, in contrast to some other parts of the world, the tradition of preparing individual financial statements is well established. The project should, however, seek to make the case that there are strong reasons for the preparation of such statements, rather than take it as an unquestionable axiom.

#### 4 *Performance Reporting – Phase 3*

3.8 Whilst we agree that further developments in performance reporting are urgently required, we are unclear as to the value of pursuing the two specific questions set out in the paper. The issue of what is to be included in net income cannot be separated from the reporting of components within that figure and the reporting of items that are excluded from it. The search for a conceptual basis for recycling will, in our view, be fruitless and news of a project to find it may raise false hopes.

#### 5 *Understanding the Decision Environments of Users of the Financial Report*

3.9 Before we can muster enthusiasm for a project on the needs of users of financial reports it needs to be specified in much more detail than it is in the paper. There is already a considerable literature on the needs of users and a first step (which would be useful in itself) would be a review of that literature. This might identify gaps that a proactive project might seek to fill.

3.10 Although it is specified that the focus of the project is to be on 'investors and analysts that support those making investment decisions', even within that class there is likely to be considerable variation in the information that is used for different purposes. For example, high level metrics (such as growth in earnings per share) might be used to identify companies that merit further investigation, and more detailed information would probably be used in arriving at an investment decision. Yet further information might be used by the same class of users when, for example, monitoring an investment that they hold, especially if there are constraints on their disposing of it.

4. *If there are other projects you consider more important include them in your ranking and provide a short description of them along with your reasons as to why you believe they are important for EFRAG to consider.*

4.1 We regret the omission of projects relating to the development of the Conceptual Framework. Given the current status of the project being carried out by the IASB and the FASB, there is an opportunity to facilitate progress and contribute to high quality solutions.

4.2 EFRAG should consider contributing to the project that is being considered by National Standard Setters (NSS) on the 'Unit of Account' issue. Examples of other topics within the Framework that might be considered are: recognition in financial statements; going concern; and the boundaries of financial reporting (and, within financial reporting between financial statements and other forms of report).