

**Public Consultation on EFRAG's Proactive Work**  
Feedback Statement



DECEMBER

2010



## Public Consultation on EFRAG's Proactive Work

### Feedback Statement

#### Executive summary

1. This executive summary highlights the key messages from EFRAG's public consultation on its proactive work for 2011 to 2012.
2. EFRAG sought input on:
  - (a) usefulness of its proactive activities publications in the past;
  - (b) how its proactive activities could best influence the standard-setting process and what aspects of financial reporting should be targeted going forward; and
  - (c) preferences of constituents for future proactive projects.
3. EFRAG received 20 responses to its consultation from companies, European and national professional and business associations and national standard setters (see Appendix 2). Overall respondents were supportive of EFRAG's proactive work and reinforced its importance as one of EFRAG's core activities. At the same time, respondents offered their suggestions for improving and strengthening EFRAG's proactive work.
4. Having considered recommendations for improvement from respondents, EFRAG notes the following key points to focus in the future:
  - (a) the need to review the performance of its proactive work to ensure it delivers against EFRAG's strategic aims and addresses the need for practical solutions;
  - (b) adoption of robust criteria for selecting items to include in the proactive agenda; such criteria would aim at responding to issues that are of particular relevance and importance to European constituents;
  - (c) achieving a balance in proactive work between projects that have a more immediate impact on practice and projects aimed at influencing conceptual developments in financial reporting;

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- (d) better articulation of the objectives of projects in order to set the appropriate expectations among constituents and also to provide a basis to measure their success;
  - (e) enhancing the visibility of proactive activities and to conduct outreach activities over the life of proactive projects; and
  - (f) focusing on the timeliness of output and ensuring it reaches the widest audience possible.
5. EFRAG will carefully consider all the comments it has received along with preferences for topics to be addressed in its future proactive work programme. It is expected that the EFRAG's Planning and Resources Committee will report on its decisions with regard to proactive work programme in the first quarter of 2011.

## Public Consultation on EFRAG's Proactive Work

### Feedback Statement

#### Introduction

1. At the end of June 2010 EFRAG launched a public consultation (included as Appendix A) aimed at getting views on, and directions for, its proactive work. In particular, the consultation document asked for input on the following questions:
  - (a) Were respondents aware of EFRAG's Proactive Activities in Europe (PAAinE) publications in the past and did they find them useful? How could publications have been improved? Did the publications have a sufficient focus on European issues?
  - (b) At what point in the standard-setting process should EFRAG focus its proactive work? Are there specific aspects of financial reporting where EFRAG should concentrate its activities?
  - (c) The consultation documents asked respondents to rank potential projects that EFRAG considered for its proactive work from most to least important based on EFRAG's strategic aims identified in the document.
  - (d) Are there other projects that EFRAG should consider for its proactive work and why?
2. The deadline for comments was 30 September 2010. EFRAG received 20 comment letters. A list of respondents is set out in Appendix 2.
3. This Feedback Statement outlines the main issues raised in the comment letters and provides an initial indication of how EFRAG intends to address them in its future proactive work.

#### Summary of comments and EFRAG's next steps

***(a) Were respondents aware of EFRAG's Proactive Accounting Activities in Europe (PAAinE) publications in the past and did they find them useful? How could publications be improved? Did the publications have a sufficient focus on European issues?***

4. All respondents, except for one, were aware of EFRAG's proactive publications either through links with EFRAG or as a contributor to some of the proactive projects that EFRAG conducted in the past. However, several respondents mentioned that further efforts are needed to increase awareness amongst European constituents.
5. The majority of respondents find EFRAG's proactive activities useful. ACTEO, AFEP, MEDEF mention that in their view "this is one of the most effective ways to construct a robust European reflection capable of influencing the IASB's work. ...A concerted European proactive reflection may be more likely to influence the development of global financial reporting standards than individual answers from each constituent."

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6. At the same time respondents made recommendations on how the work in this area could be improved. These recommendations focus on the following areas:

- (a) Proactive work to address issues encountered in practice; and
- (b) Proactive work to cover European issues.

### *Proactive work to address issues encountered in practice*

7. Several respondents state a preference for proactive activities to be responsive to financial reporting issues encountered in practice:

- (a) BUSINESSEUROPE points out: “Consultation on Proactive Work is couched very much in IASB language, with “thought leadership” and “debate” to the front. There is a risk that this reflects an overly intellectual, conceptual approach to matters which may limit the usefulness for European preparers and users.”
- (b) ACTEO, AFEP, MEDEF suggest: “To be highly effective and to be a real task force for accounting proposals, EFRAG should be able to provide not only high-level conceptual analysis but also concrete and practical proposals to the IASB, drawing on the experience of practitioners.”

8. On the other hand, several respondents believe that the emphasis of EFRAG’s proactive work should continue to be directed at development of the concepts and principles that underpin IFRS:

- (a) The UK Standard Setter notes that it would regard it as unfortunate if projects that involve developing concepts and principles that underpin IFRS were not undertaken because such work may only improve financial reporting in the longer term. At the same time, the UK Standard Setter acknowledges that projects of a conceptual nature “may need to be balanced by other projects with a more immediate impact.”
- (b) The Belgian Standard Setter notes: “We strongly encourage EFRAG to continue its proactive work, as we believe that within the current financial reporting environment, many stakeholders are often focusing on short-term and medium-term amendments to the current set of Standards without questioning the overall set of evolutions within the field of financial reporting.”

9. Other recommendations include:

- (a) to pay more attention to the timing and timeliness of output;
- (b) to reduce the size of publications to be able to reach to a wider audience;
- (c) to communicate better on the outcome and impact of these initiatives;

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- (d) to improve involvement of European constituents and to reinforce their perception of the usefulness and necessity of a robust European accounting position;
  - (e) to implement impact analysis of its proactive work.
10. At the same time, two respondents, the Norwegian Standard Setter and SwissHoldings, indicated that they did not find EFRAG proactive activities particularly useful. It seems, however, that the reason for the comments and recommendations of these respondents are different.
  11. The Norwegian Standard Setter notes that it is not clear whether EFRAG's proactive work actually influences the agenda of the IASB. In addition, they point out that in their view the quality of the projects has been somewhat variable. Their recommendation is for EFRAG to consider undertaking projects in agreement with the IASB noting that "Only very few national standard setters have the capacity to develop standards and drafts on behalf of the IASB. EFRAG would be able to pool resources from a number of European countries and by that making a powerful input."
  12. SwissHoldings' concerns are that from their perspective proactive papers tend to be rather academic and theoretical, without clear linkage to practical improvements in financial reporting from the viewpoint of preparers and users and lack useable conclusions. Furthermore, they noted that it was not clear whether the awareness of the proactive work was widespread among the preparers and users. Their recommendation for the future is "to support European capital market participants by focusing pro-active work exclusively on topics where practically useful output can be expected to emerge."

### EFRAG's next steps

13. EFRAG's Planning and Resource Committee in its *Strategy For European Proactive Financial Reporting Activities*<sup>1</sup> highlighted the importance of reviewing the performance of its proactive work to ensure it is delivering against its strategic aims. One of the strategic aims addresses the need for practical solutions. It will be important for EFRAG in reviewing proactive work to ensure that this strategic aim is satisfied.
14. At the same time EFRAG believes that it is difficult to resolve practical issues in any robust way without reference to sound principles. Working on concepts and principles is therefore important. Moreover, work of a conceptual nature is also essential for maintaining the dialogue with the IASB to ensure that needs of European constituents are understood and taken into consideration in the IFRS standard setting process. It is also essential for fostering debate on financial reporting issues in Europe.
15. EFRAG will, going forward, aim to balance its proactive work between projects that have a more immediate impact on practice and projects whose objective is to influence conceptual developments in financial reporting. Further thought will be also given to assessing the impact of proactive projects. In this regard it is important for EFRAG to clearly articulate the objectives and scope of its projects in order to set the appropriate

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<sup>1</sup> "Strategy for European Proactive Financial Reporting Activities, Focus on Improvement" can be found on EFRAG website [www.efrag.org](http://www.efrag.org).

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expectations among constituents and measure the success of the projects against those objectives.

16. The visibility of proactive work is another key point that EFRAG would like to emphasise in this context. It has been an established practice that EFRAG discusses its proactive work both at the development stage and the consultation stage with the IASB. EFRAG presented findings of its proactive work at public IASB Board meetings. In addition, there has been a section on EFRAG proactive work during joint meetings between EFRAG and the IASB held in public. Furthermore, EFRAG actively participates in the global National Standard Setters meetings where proactive projects are presented and discussed. Proactive projects are also actively supported by expert advisory panels. Nevertheless, more work could be done to publicise such activities and EFRAG intends to work on the ways to enhance the visibility of its proactive work in the near future with a special focus on the segment of the audience who are not standard setters.
17. Furthermore, EFRAG will consider enhancing its outreach activities and launching events at earlier stages of development of proactive projects. Further thinking needs to be given to how to improve the way EFRAG asks for comments and develops the input received from constituents recognising that it is not only the number of responses who support or disagree with a particular view that counts but also the argumentation that underlines those responses. This also includes reflecting on how EFRAG structures its dialogue with constituents especially during periods when there are heavy demands for input.
18. We also agree that attention needs to be given to the timeliness of output.
19. In addition, it is important that the output reaches the widest audience possible. In that regard, several commentators suggested the need to reduce the size of publications and provide an executive summary of the ideas developed in papers.

### *Proactive work to focus on European issues*

20. Some commentators express a strong preference for EFRAG proactive activities to focus on the needs of the European capital market to ensure that European interests and issues (including specific business and regulatory models) are properly reflected in IFRS.
21. Some think that EFRAG's proactive publications have already focused appropriately on European issues.
22. Some respondents, however, consider that focus should not be limited to financial reporting in Europe arguing that:
  - (a) "...given the global nature of markets, European citizens are amongst the beneficiaries of improvements in financial reporting throughout the world" (UK Standard Setter);
  - (b) "...there are few major issues that are exclusively or particularly European in nature. The intention should rather be to provide a

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European perspective on issues that will usually be of global interest.” (ICAEW);

- (c) “We see there being a restricted number of specifically European issues, as in general financial reporting faces much the same challenges across the world” (ACCA);
- (d) AFME considers that EFRAG has a critical role to play in ensuring progress towards convergence between IFRS and US GAAP pointing out: “...we believe such progress to be essential if the European markets are to remain competitive in an ever more integrated world”. Grant Thornton also emphasised benefits of convergence and
- (e) ACTEO, AFEP, MEDEF also see that one of the fundamental objectives of proactive work is to simulate a European debate on what should constitute high quality standards for financial reporting, for all IFRS preparers (European or others), with the aim of being fully integrated in an international process of standard setting.

### EFRAG’s next steps

- 23. Giving voice to European concerns within the global standard-setting environment is central to EFRAG’s mission and purpose. Accordingly, it is important to consider and understand European views and place them in a global context as part of EFRAG’s proactive work. While we acknowledge that it is sometimes challenging to formulate a European perspective on financial reporting issues, the aim of our proactive work is broader than just expressing a single position. As a first step in the process, the outputs of proactive work are intended to stimulate debate and to consider implication of various approaches. In our view that directly contributes to improving the quality of IFRS and financial reporting in Europe.
- 24. In that regard, we find the recommendation of the Italian Standard Setter consistent with the overall approach EFRAG attempts to take with its proactive work: “The outcome of the project should cover the most significant European views on the issue and make the attempt to explore pros and cons of each view: to promote debate among parties that have different views and to contribute to the work of the IASB with an unbiased analysis of the different positions.” EFRAG will continue working in this direction.
- 25. There is also perhaps a need to better articulate why certain reporting requirements would not be reflective of the European environment. In that context, the EAA recommends that EFRAG should “...explain to the rest of the world how European business works, how management strategies might be distinct, the way in which audits are conducted in Europe and the general approach of preparers to regulation.” EFRAG will consider this recommendation further when it will develop its proactive work programme.

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***(b) At what point in the standard-setting process should EFRAG focus its proactive work? Are there specific aspects of financial reporting where EFRAG should concentrate its activities?***

26. Many commentators argue that EFRAG should focus its work on early stages in the standard-setting process ahead of them being added to IASB's active work program. The following reasons are mentioned:
- (a) Early stage work allows adequate time for the development of innovative and appropriate solutions;
  - (b) By targeting accounting issues at an early stage, EFRAG will be in a much stronger position in terms of shaping the future direction of the IASB's work and
  - (c) Proactive work is a good opportunity to stimulate European debate on topics for which European constituents feel there is a need for change before they are taken up by the IASB and the directions are set.
27. Some recommend that EFRAG proactive papers should be in the form of a discussion paper rather than position paper.
28. Some commentators recommend a closer co-ordination of EFRAG proactive activities with the IASB agenda. For example, FEE suggests that "EFRAG needs to be ahead of the IASB's work programme in order to be most effective. We therefore recommend that EFRAG seeks, as much as possible, to align its timetable with that of the IASB, in consultation with each other."
29. At the same time, many commentators while being supportive of early stage initiatives mention that EFRAG proactive activities could:
- (a) include short-term projects that address a particular aspect of proposals under development by the IASB; and
  - (b) provide input at all stages of the development of standards. For example, ACCA recommends that proactive work should:
    - i. provide evidence that projects are needed before IASB begins to consider them;
    - ii. outline feasible solutions or issues that need to be explored;
    - iii. provide evidence of the likely impact of proposals as they develop through the IASB due process – to inform EFRAG's comment letters;
    - iv. assess the effect of changes after their implementation.
  - (c) consider balancing such factors as:
    - (i) if the work is undertaken too late it may be distorted by directions already adopted by the IASB;
    - (ii) if the work is undertaken too far in advance it may be difficult to engage constituents because of the potential effects will not be seen for years.

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### EFRAG's next steps

30. We believe that achieving a good mix of projects between those that respond to more immediate European concerns and those that aim at ensuring European influence on the development of global financial reporting.
31. It is anticipated EFRAG's proactive agenda will result in a series of outputs with different objectives and scope. Sometimes that could be a project that precedes the work of the IASB and sometimes it may be a topic that is already explored by the IASB but that would benefit from European input. Furthermore, in order to determine the most optimal mix of outputs it is essential to adopt robust criteria for selecting items into EFRAG's proactive agenda that would aim at identifying issues that are of a particular relevance and importance to European constituents (albeit in a global context).
32. Concerning the recommendation that proactive papers should always take the form of a discussion paper rather than a position paper, EFRAG notes that some proactive published in the past were discussion papers whereas others were position papers. EFRAG will give further consideration whether in the future EFRAG should develop a policy on what form proactive output should take.

### ***(c) Ranking of potential proactive projects by respondents.***

33. The Consultation on proactive work document included a list of projects that EFRAG considered to undertake as part of its proactive work. Constituents were requested to rank those projects from the most important to the least important based on EFRAG's proactive strategic aims which are as follows:

Aim 1: Influence the development of global financial reporting standards;

Aim 2: Engage with European constituents to ensure we understand their issues and how financial reporting affects them;

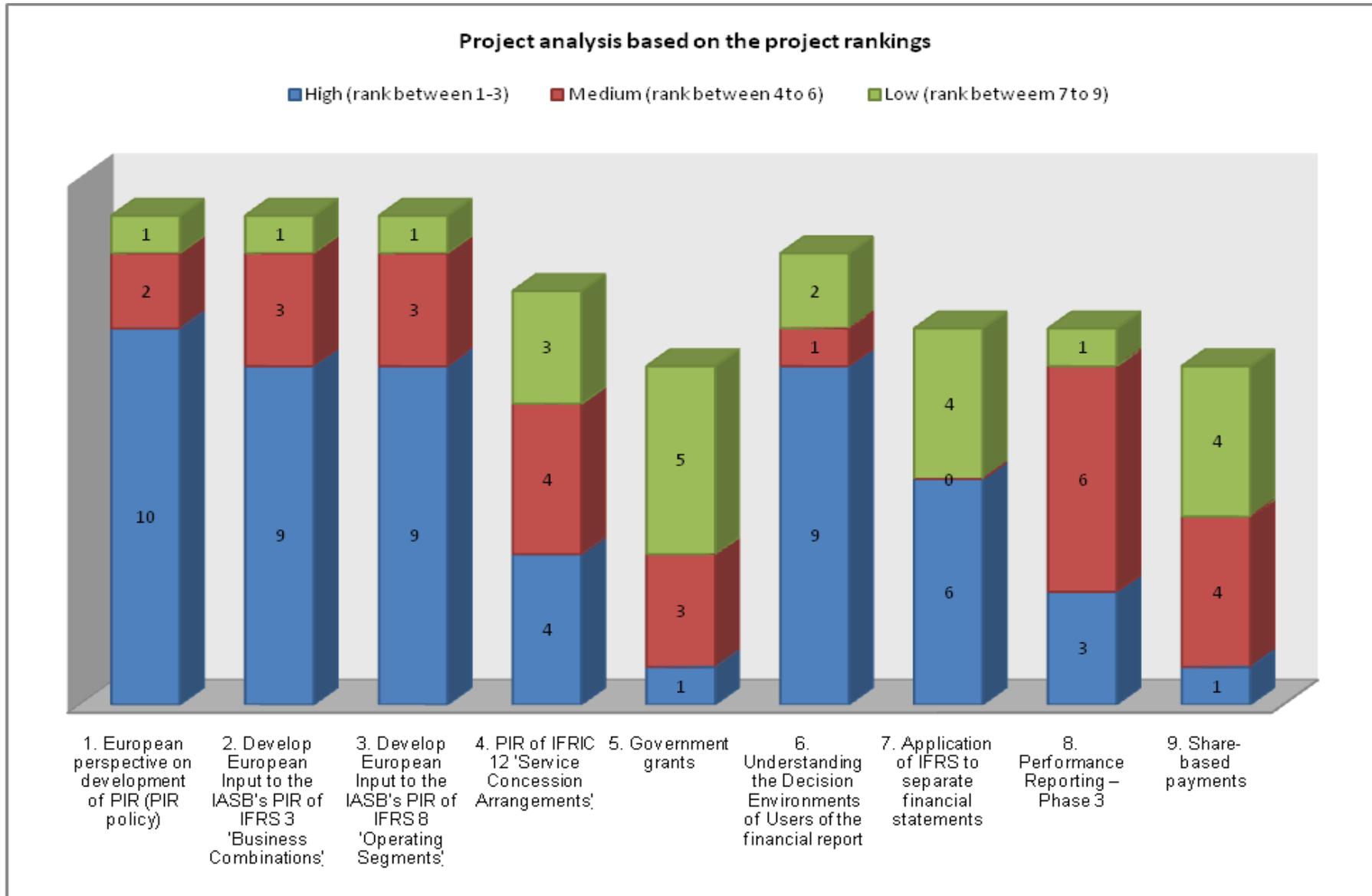
Aim 3: Provide thought leadership in developing the principles and practices that underpin financial reporting; and

Aim 4: Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.

34. The chart below provides an overview of projects ranking by respondents grouped as:
  - (a) Projects of high importance;
  - (b) Projects of medium importance; and
  - (c) Projects of low importance.

35. It should be noted, however, that not all the respondents ranked all the projects and some respondents did not rank the projects at all. The UK Standard Setter and ACTEO, AFEP, MEDEF note that proactive projects that address concepts and accounting standards should be treated separately from those that address the standard-setting process, such as post implementation reviews.
36. Therefore, in addition to summing up preferences for a particular project, we also analysed the underlying arguments or rationale that some respondents provided to support their views. That discussion follows the chart below.

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### Project 1: European perspective on development of post implementation reviews (PIRs) (Post-implementation review policy)

37. 10 out of 13 respondents who rated this project gave it high importance. The majority of respondents consider that the development of a post-implementation review policy is a significant issue that should be addressed for such reasons as:
- (a) having an important strategic role, as it would push the IASB to review the due process of the post-implementation review, and might help to reconsider improvements to the due processes or other functions of the IASB, such as the interpretation process; and
  - (b) being essential to the achievement of high quality, global standards.
38. Some respondents commented on the methodology of PIRs noting:
- (a) importance of flexibility: the focus may 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;
  - (b) the methodology for post-implementation review should naturally flow from the effects studies; and
  - (c) the reviews should both consider routine matters such as internal consistency and clarity and address broader matters such as complexity, costs and benefits, the relevance of the information in practice and an appropriate level of consistent application (subject to the normal constraints on that outcome).
39. The Italian standard setter points out that “A debate on the due processes of the IASB is paramount and, considering that this is something the IFRS Advisory Council is currently debating, any proactive project on this topic should be completed by the end of 2011.” Grant Thornton mentions that beyond 2011 the IASB's work should place greater emphasis on assessing the effectiveness of the major recent changes already made.
40. At the same time, some commentators questioned whether it is appropriate to undertake PIRs from “a European perspective”.
- (a) Grant Thornton comments: “Naturally we agree with EFRAG that post-implementation reviews must draw significantly on the experiences of European constituents. We also agree that EFRAG is in a strong position to gather the appropriate information to assess those experiences. However, we also believe it is essential that the IASB coordinates and takes ownership of the post-implementation review process. We see no benefit in the IASB and EFRAG undertaking "competing" reviews, possibly with different objectives, focus and terms of reference. We therefore recommend that EFRAG's work in this area should be designed and executed as a contribution to the IASB's own process.”

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- (b) The UK Standard Setter states: “...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.”

### Project 2: Develop European Input to the IASB’s post- implementation review of IFRS 3 ‘Business Combinations’

- 41. 9 out of 13 respondents who rated this project gave it high importance. Those constituents who give high importance to this project note:
  - (a) The potential issues could be highly significant in terms of the scale of the values involved. We may also be approaching another active time in M&A activity. This study could look at the effects of the two successive versions of IFRS 3;
  - (b) Many investors have expressed dissatisfaction with the IFRS 3 questioning the relevance of the resulting information; and
  - (c) Implementation of IFRS 3 could be used as a valuable test case for a proactive work on the topic.
- 42. AFME ranks this project as the most significant for its members (investment bankers and securities traders).

### Project 3: Develop European Input to the IASB’s post-implementation review of IFRS 8 ‘Operating Segments’

- 43. 9 out of 13 respondents who rated this project gave it high importance.
- 44. The not-for-profit organisations (Tax Research LLP, Tax Justice Network, Revenue Watch Institute, Intermon Oxfam) who responded to the consultations stated significant interest in this project. They specifically argue that country-by-country reporting must be incorporated into IFRS 8. Revenue Watch Institute points out: “In line with the US developments, and growing calls from the European Parliament for the IASB to be in line with its mission of promoting the ‘public good’ and accountable to that public, such a review should also ensure that the interests of the broader public, beyond investors and analysts, should be included in the criteria for determining its impacts.”
- 45. Other respondents point at issues with implementation of IFRS 8 and with the relevance of the resulting information.

### Project 4: Post-implementation review of IFRIC 12 ‘Service Concession Arrangements’

- 46. 8 out of 11 respondents who rated this project gave it medium to high importance.
- 47. The Italian Standard Setter notes that in the recent past, many stakeholders in Italy raised concerns with regard to IFRS 12.
- 48. ACCA noted that there is a view that IFRIC 12 could potentially have a detrimental impact on infrastructure projects although the overall impact would be not as significant as the impact of IFRS 3 and IFRS 8.

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### Project 5: Government grants

49. 4 out of 9 respondents who rated this project gave it medium to high importance.
50. Those respondents who believe that it would be good to undertake this project note:
  - (a) “This project could be helpful in assessing whether the IASB project should be restarted. EFRAG could do some preliminary assessment of the scale of a lack of comparability generated by different treatments.” (ACCA)
  - (b) “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.” (The UK Standard Setter)

### Project 6: Understanding the Decision Environments of Users of the financial report

51. 9 out of 12 respondents who rated this project gave it high importance
52. Those respondents that give this project a high importance comment:
  - (a) The decision environments of users of the financial report merits more research given that the IASB’s Framework for the Preparation and Presentation of Financial Statements emphasizes user decision-usefulness;
  - (b) The project could help for European users’ views to be better articulated and highlighted to the Board in a truly representative manner and without being unrepresentatively dominated by any one particular group; and
  - (c) Such a project would provide useful input to the IASB, considering that in the development of all the projects it is continuously seeking inputs from users, perhaps not always perfectly understanding how they engage with financial information.
53. At the same time, many commentators point out that a project of this nature is inherently difficult noting the following:
  - (a) User opinions are not always uniform;
  - (b) 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;
  - (c) It is not clear how any output of this project could be framed; and
  - (d) Such a project would need more time to be completed, as it needs much more discussion than projects on specific issues.

### Project 7: Application of IFRS to separate financial statements

54. 6 out of 10 respondents who rated this project gave it high importance.
55. Several commentators noted that this project is of a particular interest for the European constituents.

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56. The Italian standard setter identifies this project as the most important for Italy noting that since the mandatory application of IFRS in Italy for separate financial statements of listed companies, the number of accounting issues has multiplied. The Italian Standard Setter mentions that this might be because the role of the separate financial statement is different from the consolidated financial statements and, as a result, an accounting treatment valid for the consolidated financial statements is not necessarily valid for the separate financial statements. Therefore, they conclude that a project that investigates these potential differences in terms of user needs and management stewardship is critical.
57. Other comments concerning this project include:
- (a) This is a project of particular interest to Europe where, in contrast to some other parts of the world, the tradition of preparing separate 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; and
  - (b) Separate financial statements and common control transactions may be areas of difficulty that the IASB is unlikely to prioritise in the near future and which could therefore be usefully addressed by EFRAG.

### Project 8: Performance Reporting – Phase 3

58. 9 out of 10 respondents who rated this project gave it medium to high importance
59. In view of some respondents the performance reporting is an urgent and important issue under IFRS noting that:
- (a) A project that looks fundamentally at the issue of recycling is needed;
  - (b) Resolving the more fundamental issues with regard to performance reporting is important, in particular because it links in with many other areas of accounting (e.g. pensions, financial instruments, insurance accounting); and
  - (c) Deciding what in principle should be included in P&L and what in OCI is becoming an urgent matter.
60. Some respondents raise, however, the concern that the context in which the project is to be carried out would have to be clarified. Furthermore, some respondents are hesitant about whether this project should be a priority of EFRAG given that it has already issued two proactive papers on this issue and suggest whether it would be better if the issue would be directly tackled by the IASB.
61. Furthermore, the UK Standard setter cautions: “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.”

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### Project 9: Share-based payments

62. 5 out of 9 respondents who rated this project gave it medium to high importance.
63. The UK Accounting Standards Board suggests that a fundamental review of IFRS 2 is needed in particular with regard to a reconsideration of the grant date methodology of the standard.
64. ACCA considers that it may be helpful to have a post-implementation review on IFRS2, as this is acknowledged (e.g. by a recent ACCA survey of preparers) to be a difficult and complex area.

### EFRAG's next steps

65. The majority of the respondents believe that the projects listed in the consultation document have the potential to make a valuable contribution even though the preferences for particular projects differ.
66. Most respondents give high importance to projects related to post implementation reviews and the project on "Understanding the decision environments of users of the financial report". EFRAG notes that some of the reasons for such preferences are related to constituents' concerns about the complexity of some IFRS standards as well as doubts about the relevance of information that is required to be produced by those standards.
67. EFRAG will carefully consider preferences and the reasoning presented by respondents ensuring that their background (for example, a specific industry or geographical region) is well understood, and analyse them against EFRAG strategic objectives for its proactive work in setting up its future proactive work programme. It is expected that EFRAG's Planning and Resources Committee will decide what projects EFRAG will undertake as part of its proactive work in the first quarter of 2011 and will publish a separate statement in that regard.

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### ***Are there other projects that EFRAG should consider for its proactive work and why?***

68. The table below lists ideas for projects suggested by some respondents and rationale (if provided) to support the consideration of these projects.

Project ideas	Rationale
Discount rate for pension liabilities	As a small scale project in addition to bigger scale projects.
A project to explore how one could avoid corporates being tied in with extensive requirements more aimed at financial institutions, eg IFRS 7 and the proposed standard on impairment of financial assets.	Apart from the extra resources absorbed on the preparers' side, IFRS 7 <i>Disclosures: Financial Instruments</i> , as it currently stands, involves users in pointless work in locating what they need.
The development of the Conceptual Framework. (Examples of projects that could be considered are recognition in financial statements, going concern, the boundaries of financial reporting, boundaries within financial reporting between financial statements and other forms of report)	<ul style="list-style-type: none"> <li>• 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.</li> <li>• This is an important project to ensure consistency and high quality standard setting for the future.</li> </ul>
Unit of account	EFRAG should consider contributing to the project that is being considered by the National Standard Setters.
<p>What is financial reporting for:</p> <p>For valuations, for helping stability and maximising long-term added value;</p> <p>For investors and analysts or also for other user groups, suppliers, employees, citizens in host areas and host governments?</p>	<p>The financial crisis has highlighted the devastating effects of financial instruments and reports that have masked true value and where it is located. These were developed under a rubric of serving the needs only of companies and investors. Therefore there is a need for fundamental work to redefine what financial reporting is for.</p>
Assume a role to coordinate European accounting research	
<p>Development of Methodologies for:</p> <ul style="list-style-type: none"> <li>• identifying and measuring complexity in accounting</li> <li>• assessing gaps and problems in financial reporting</li> </ul>	
Carbon accounting and the wider issue of integrated reporting and accounting for the not-for-profit	

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sector	
A project on financial instruments	Since the Financial instruments area is a priority in the agenda of IASB and also a matter of concern of supervisors and regulators, this could be an issue to include in the list of topics to be addressed by EFRAG.
Negative IFRIC agenda decisions	As areas of potential practically useful work which the IASB does not currently have the time, ability or willingness to tackle.
Understanding the preparer/auditor environment of European companies	Members of the IASB – not limited to US members – have very little understanding of European business environment nor of how it differs in particular from the US business environment. This means that they do not understand the potential impact of standards.
The application of materiality in European financial reporting	It is a major issue for both regulators and auditors in determining whether IFRS have been applied in all material aspects.

### EFRAG's next steps

69. EFRAG will consider additional projects suggested by respondents in setting up its proactive work programme.

Appendix 1

Consultation on proactive work



Consultation on Proactive Work

Comments should be sent to [commentletters@efrag.org](mailto:commentletters@efrag.org) by 30 September 2010

**1. Introduction**

1.1 An important part of EFRAG's activities is to undertake proactive work to anticipate issues and signal ways to improve financial reporting in Europe. 'Proactive' in this context is about providing thought leadership and promoting debates on critical financial reporting issues in Europe. This is principally achieved through influencing the work of the IASB. Earlier this month EFRAG released its Strategy for its Proactive Activities *Focus on Improvement* which can be found on our website at [www.efrag.org](http://www.efrag.org). One of our strategic aims is to ensure that our proactive work leads to practical solutions to relevant financial reporting issues. It is, therefore, key that the work we do responds to the needs of European constituents. Accordingly, our efforts need to be targeted at the most important issues, offer thoughtful and well-researched analyses of the issues and promoting workable solutions. Our resources are limited so we need to ensure we deploy them wisely to have the greatest impact in serving our European constituents.

1.2 As our role is to listen and respond to our constituents, we would like your assistance in helping us to:

- ***identify the areas where you think we should undertake proactive work;*** and
- ***prioritise those areas of interest.***

1.3 We appreciate that there are many calls on your time at present with all the significant changes being proposed to IFRS so we have tried to keep our questions brief and focused. However, please feel free to add additional comments which you think would be helpful in improving our understanding of the issues that are most important to you, particularly, where they are likely to make a demonstrable improvement to financial reporting in Europe.

**2. How we will consider your input**

2.1 EFRAG will carefully consider the comments provided. We will identify common themes and issues and use it as a key input to shape our proactive work going forward.

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Your input will also be useful to inform our discussions with the IASB about their priorities post-2011.

Our intention is to publish a feedback statement in October setting out what you have told us and how we will propose to respond to the main issues and suggestions made. It is important to us to ensure that our decision-making is open and transparent and fairly reflects the views of our constituents.

### **3. How we influence the IASB**

3.1 To be a strong European voice in a global environment continues to be significant challenge for EFRAG. Whilst we are told that our comment letters are widely read and are influential in the standard-setting process we recognise the need to influence that process early and also to provide thought leadership across Europe on financial reporting matters. There are several ways we think we can make a contribution to improving financial reporting in Europe. In particular, EFRAG is of the view that it is important to undertake early-stage proactive work – that is, to identify issues and develop proposals well ahead of them being added to IASB’s active work programme.

3.2 Proactive work can take several forms but with an emphasis on developing work at an early stage in the process, it is likely that our emphasis will be on developing the accounting model (concepts and principles) that underpins IFRS or undertaking in-depth analysis of specific financial reporting issues. It may also be worthwhile to undertake, as we have done in the past, short-term projects that address a particular aspect of proposals under development by the IASB, for instance the work we did on the Expected Loss Model to support debate in Europe about an appropriate impairment model for financial instruments.

3.3 Whilst not driven by the active work programme of the IASB, EFRAG believes that it is important that its proactive work complements the current development of IFRS. That is, to be relevant our proactive work should not be restricted to developing cutting-edge proposals for changes in the accounting model but should also aim to address real and important issues encountered in practice within the European environment. It is also relevant to note that we expect our work to complement that of other bodies (such as CESR) that also have an interest in improving financial reporting in Europe.

3.4 EFRAG is committed to work with National Standard-Setters across Europe, particularly those that pool resources through the EFRAG Planning and Resources Committee (EFRAG PRC). That model of working promotes collaborative projects and the efficient use of resources.

3.5 We may also work with other partners on proactive projects where we have a common interest in addressing a financial reporting issue. Our way of working on proactive projects is driven by what we think will achieve the best possible outcome.

### **4. Current Proactive Projects**

4.1 EFRAG has undertaken proactive projects over the years on a range of topics such as performance reporting, accounting for pensions and revenue recognition. Table 1 ‘Current

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Proactive Projects' below sets out our active projects. Project status and developments are published in EFRAG PRC Summaries available at [www.efrag.org](http://www.efrag.org).

**Table 1: Current Proactive Projects**

Project*	Project Description
<b>Corporate Income Tax</b> (ASB/EFRAG/GASB)	The aim of the project is to critically examine key aspects of accounting for corporate income tax separately from the requirements in existing IAS 12, with a view to develop a Discussion Paper that starts from first principles and sets out proposals that may form the basis of a new standard on accounting for corporate income taxes.
<b>Business Combinations Under Common Control (BCUCC)</b>  (ANC/EFRAG/OIC )	<p>The project aims to identify, analyse and discuss the financial reporting practices used in the major markets to account for BCUCC and similar transactions in consolidated and separate financial statements.</p> <p>The intention is to propose a conceptual model to consider and evaluate the different accounting treatments for BCUCC.</p>
<b>Disclosure Framework</b> (ANC /ASB/EFRAG)	The aim of this project is to move beyond describing the problem of a lack of coherence and clutter in the financial statements to proposing a solution or model for the presentation and display of information in the notes to the financial statements.
<b>Effects Studies</b> (ASB/EFRAG)	<p>The main objective of the project is to develop proposals for a framework by which the effects of accounting standards can be considered by standard-setters, notably the IASB, in developing new standards and major amendments to existing standards. Standard-setters have for many years wrestled with ways in which they can determine the effect of accounting standards. To date such analyses have been restricted to a qualitative assessment of costs and benefits.</p> <p>In terms of content, the aim is to set out some principles and proposals for considering the effects of accounting standards, and how they might be embedded and articulated at each stage of the standard-setting due process.</p>
<b>Business Model</b> (ANC/ASB/EFRAG)	This project aims to explore the relationship between an entity's business model and financial reporting.

\* National Standard-Setters engaged in EFRAG Proactive projects: Autorité des Normes Comptables (ANC); UK Accounting Standards Board (ASB), German Accounting Standards Board (GASB) and Organismo Italiano di Contabilità (OIC).

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### 5. Possible Proactive Projects

5.1 Maintaining high quality in our proactive work remains a key goal. Accordingly, it is important that we prioritise our proactive work to make sure we make the best use of our limited resources. Our priorities must be guided by identifying those areas where we are likely to have the greatest impact.

#### Questions to Constituents

1. Prior to this consultation were you aware of EFRAG’s Proactive Accounting in Europe (PAAinE) publications? (Copies of publications can be found at <http://www.efrag.org/content/default.asp?id=4109>) 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?
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?
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

Aim 1: Influence the development of global financial reporting standards;

Aim 2: Engage with European constituents to ensure we understand their issues and how financial reporting affects them;

Aim 3: Provide thought leadership in developing the principles and practices that underpin financial reporting; and

Aim 4: Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.

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.

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**Table 2: Proposed Proactive Projects**

Rank	Project	Description
	European perspective on development of post implementation reviews (Post-implementation review policy)	The IASB has signalled that post-2011 it will devote a significant amount of its efforts assessing the effectiveness of extant IFRS. It is therefore important for European constituents to set out what the objectives of post-implementation reviews should be, how they should be conducted, what due process the IASB should follow and how the results from such studies should flow back into the standard-setting process. Accordingly, this project would be aimed at developing a policy (including a methodology) articulating the European view on how post-implementation reviews should be undertaken.
	Develop European Input to the IASB's post-implementation review of IFRS 3 'Business Combinations'*	The IASB has suggested that it will undertake a post-implementation review of IFRS 3 'Business Combinations'. It will be important that the European experience of applying that standard, and assessing the information that results from its application, feeds into and informs the IASB's review.
	Develop European Input to the IASB's post-implementation review of IFRS 8 'Operating Segments'*	Segment reporting is another major standard which the IASB has indicated it will conduct a post implementation review on. Disaggregated segment information is often cited by users to be a key aspect of the financial report that they rely on for decision-making. Again it will be important to capture the European experience in both applying the standard and in assessing the usefulness of information for users.
	Post-implementation review of IFRIC 12 'Service Concession Arrangements'*	IFRIC 12 has, according to some, pushed the accounting model to its limits and raised issues about accounting for long-term service concessions that involve the complex assignment of rights and obligations. Given the significance of IFRIC in setting out a framework for the financial reporting of such arrangements it would be useful to undertake a post-implementation review to understand how the standard has implemented in Europe and the reactions of users to the information reporting about such arrangement in the financial statements.
	Government grants	The IASB has had on its research agenda for sometime the development of work to replace IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. It is not clear whether the standard complies with the Conceptual Framework and it contains too many options which potentially impair comparability. Now that the IASB has developed its revenue recognition model for exchange-based transaction it would be appropriate to continue to develop that model to cover non-exchange transactions.

\* This project would ideally build on the principles established in the policy project above but may be undertaken even if EFRAG has not developed in a separate project the European perspective on the policy (and methodology) to be applied to post-implementation reviews.

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Rank	Project	Description
	Understanding the Decision Environments of Users of the financial report	The information needs of users are central to the objective of financial reporting. However, there is lack of intelligence about how users use information in the financial report to make decisions and assess the stewardship of resources. Users are often treated as a single group without adequate understanding of how they engage with financial information. In this context, our principal focus is on investors and analysts that support those making investment decisions. This project would attempt to discern from a practical study of European users how they decide what information is useful and how they use it in forming judgements about the performance, financial position and future cash generating ability of an entity.
	Application of IFRS to individual financial statements	IFRS currently do not distinguish the potential differences in user needs for individual and consolidated financial statements. Whilst there are strong accountability and stewardship reasons for preparing individual financial statements, it is not clear that IFRS are particularly well adapted to satisfying the needs of users at this level of reporting. This project would attempt to investigate the needs of users for individual financial statements and whether IFRS satisfy those needs and explore the possibility of different reporting models.
	Performance Reporting – Phase 3	<p>Performance reporting remains an aspect of financial reporting that is controversial and for which there still lacks clearly articulated principles to drive the presentation and display of information. This project has two key parts:</p> <ul style="list-style-type: none"> <li>• Establishing the principles that should drive the geography within the performance statement. In particular, identifying what should be included or excluded from net income (profit or loss).</li> <li>• Determining whether there is a basis for recycling and the circumstances under which it provides useful information to users of the financial statements.</li> </ul>
	Share-based payments	A number of commentators have suggested that IFRS 2 ‘Share-based Payment’ is difficult to understand and apply. Whilst work is being done to clarify the application of the standard, there is a growing consensus that the standard requires a fundamental review. This project would explore aspects of share-based payments from first principles.

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### Appendix 2 List of respondents

CL 01 Belgian Accounting Standards Board	Standard setter	Belgium
CL 02 AFME	Investment Banking Industry association	Pan-European
CL 03 BUSINESSEUROPE	Business association	Pan-European
CL 04 UK Accounting Standards Board	Standard setter	UK
CL 05 Grant Thornton	Accounting firm	International
CL 06 European Accounting Association (EAA)	Academic association	Pan-European
CL 07 Institute of Chartered Accountants of Scotland (ICAS)	Professional accountancy body	UK
CL 08 Institute of Chartered Accountants in England and Wales (ICAEW)	Professional accountancy body	UK
CL 09 Revenue Watch UK	Non-profit organisation	UK
CL 10 Norwegian Accounting Standards Board	Standard setter	Norway
CL 11 Danish Accounting Standards Committee	Standard setter	Denmark
CL 12 Task Force on Financial Integrity and Economic Development and Tax Research (Tax research)	Non-profit organisation	UK
CL 13 Association of Chartered Certified Accountants (ACCA)	Professional accountancy body	UK
CL 14 INTERMON OXFAM	Non-profit organisation	International
CL 15 SwissHoldings	Business association	Switzerland
CL 16 ICAC (the Spanish standard setter)	Standard setter	Spain
CL 17 OIC (the Italian Standard Setter)	Standard setter	Italy
CL 18 FEE	Accounting association	Pan-European
CL 19 ICJCE (the Spanish institute of chartered accountants and auditors)	Professional accountancy body	Spain
CL 20 ACTEO/AFEP/MEDEF	Business association	France

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