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2011-11-15

European Financial Reporting Advisory  
Group (EFRAG)

cc. Swedish Financial Reporting Board  
cc. Swedish Enterprise Accounting  
Group

Dear Sir/Madam,

## IASB's Agenda Consultation 2011, comments on Draft Comment Letter

The joint outreach event by you and the Swedish Financial Reporting Board took place in Stockholm on 9 November 2011, and I got the chance to attend it. It was a great opportunity to me to learn more on the future agenda of the IASB and to listen to good arguments by the participants. To prepare myself, I read i.a. your Draft Comment Letter (DCL), and of course IASB's publication Agenda Consultation 2011 (AC). Since I am a member of the Swedish Enterprise Accounting Group, I also read their draft comment letter.

Generally speaking, I agree with EFRAG's preliminary main messages. Reading the AC, I found it too circumscribed in certain aspects. It may be that the agenda consultation, each third year, shall be a circumscribed activity, but if so a broader frame of reference is needed. Therefore, I think that some further messages should be included or expanded in your final comment letter.

### *On a need for a period of calm or a stable platform*

A need for *recurrent* periods of calm should also be highlighted, possibly each period being three years.

It is easy to agree with a need now for a period of calm, and it may be needed to highlight it; but, considering the time it takes to develop new or revised standard, a period of calm will automatically follow after "the next bunch of four" (the standards on Revenue, Leases, Financial instruments and Insurance contracts). Hans Hoogervorst talks about "a stable platform before further substantial projects are undertaken", but the meaning of that is not clear to me. Reasonably, IASB will undertake further substantial projects as soon as "the next bunch of four" are finished.

Hans Hoogervorst further talks about the great number of changes during the past ten years, which is certainly true, and one could add that it has been more or less a stream of changes. It is a big problem for the preparers, and reasonably for the users too. From that point of view,

the need for recurrent periods of calm should be highlighted. Considering that the agenda consultation is intended to be repeated every third years, IASB should strive for making new or revised standards, or major or minor improvements, *effective* say only each third year.

#### *On the basis for agenda decisions*

A definition or explanation of the meaning of a *set* of financial reporting standards should be added and serve as one basis for agenda decisions.

It is said in the AC (p. 9) that financial reporting should be developed i.a. by "[f]illing gaps in the IFRS literature", which seems rather vague. However, according to Appendix A, the first objective is to develop "a single set of [...] financial reporting standards". On the contrary, you find that agenda decisions should be based on: "an assessment of the existing IFRS practice against the evolving needs for improved financial reporting" (DCL p. 3).

Probably, different bases should be used for decisions on standard-level projects, but it seems as if the concepts in the former paragraph here are not precise enough. I.a. whether it is gaps in the single set of financial reporting standards that should be filled. If so, a question is what is meant by such a set.

US GAAP should certainly not be the definition of a single set, but it is much more comprehensive than the present IFRS set, in addition to being more specific. In practice, US GAAP is always in the background when applying IFRS in the preparation of financial reports. So a definition or explanation of the meaning of a set of financial reporting standards should be included, and it should be related to the content of US GAAP.

#### *On convergence as a justification for agenda decisions*

Convergence should *remain* an important objective, even if it should not be the driving objective or a justification.

It is said in the Appendix A of the AC that one of the established agenda-setting criteria is: "the possibility of increasing convergence". It too seems vague. Regarding considering regional needs in achieving balance in the future agenda of IASB, it is said in the AC (p. 12) that much of the focus over the last ten years has been i.a. on the convergence goals with US GAAP. On the contrary, you believe that: "Convergence as such is not sustainable as the driving objective and cannot be a substitute for adoption" (DCL p. 4).

Ten years ago, before the cases of Enron and WorldCom and so on, convergence between IFRS and US GAAP was not even imagined. The process of convergence has certainly not been without drawbacks, but the achievements since the fall of 2002 must be regarded as great. Of course, convergence should not be the driving objective in the future, but it should remain one justification for agenda decisions. Otherwise, the risk of increasing *divergence* is obvious, and the problem with a playing ground that is not level returns. So the role of convergence with US GAAP in the future standard setting by the IASB should be developed.

*On the de facto norms by the big auditing firms, and on the de facto norms by enforcement bodies*

The IFRS as a part of a *wider set* of norms that the separate preparer meets should be added as a context for agenda decisions.

The whole AC seems to be written as if norms by the big auditing firms did not exist, but the auditing firms do fill gaps in the IFRS literature. Neither does the AC seem to treat the so called principles-based vs. rules-based issue. The enforcement bodies within the EU should not give interpretations of the IFRS or set additional norms, but only enforce the application of the IFRS.

However, "the cruel fact of life"<sup>1</sup> that the separate preparer meets is the IFRS literature together with the additional rules or *de facto* interpretations by its auditing firm. It is not uncommon that the additional rules diverge between the different auditing firms. Further, any decisions by the separate preparer's enforcement body function as additional rules. Finally, for the users of the reports of the separate preparer, the actual reports result from the principles in the very IFRS together with all additional rules. This context should be treated as part of the agenda conclusion. Possibly, such a treatment would imply another general improvement like the one in 2003 and 2004 of all the existing standards.

*On the XBRL activities*

*Consistency* with the XBRL-taxonomy for IFRS should be one objective in the standard setting process.

In the preamble to the letter from Hans Hoogervorst, new aspects of financial reporting such as electronic filing are mentioned. Regarding maintaining existing IFRSs, "consideration of the completeness and consistency of integration of XBRL with IFRSs" (AC p. 9) is mentioned. You are uncertain about how to interpret this view. Further, you are i.a. concerned "that integrating the development of the IFRS taxonomy in the IASB standard setting process would take the IASB away from a principle based approach to standard setting" (DCL p. 11). However, you find it important that the standards developed by the IASB are sufficiently clear to allow the development of a relevant IFRS taxonomy.

For the separate preparer, another cruel fact of life is or will soon be to have to report with XBRL. Experiences from the USA indicates that it is expensive and complicated, and almost anything that makes it easier should be tried. If integrating the development of the IFRS taxonomy in the IASB standard setting process has any effect on the principle based approach to standard setting, the obvious risk is that not integrating it makes reporting with XBRL even more expensive and complicated to the separate preparer. So integration of XBRL with IFRS should be made more clear, and especially effects for the reporting preparers should be considered.

Yours sincerely,

Sven-Arne Nilsson

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<sup>1</sup> Wording by Robert S. Kaplan and Michael E. Porter in: How to Solve the Cost Crisis in Health Care, *Harvard Business Review*, September 2011.