

21 December 2012

Michel Prada  
Chairman  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr Prada,

**Re: Proposal to Establish an Accounting Standards Advisory Forum**

On behalf of the European Financial Reporting Advisory Group (EFRAG) Supervisory Board, I am writing to comment on the Invitation to Comment, *Proposal to Establish an Accounting Standards Advisory Forum*.

EFRAG welcomes the overall spirit and main thrust of the Proposal to Establish an Accounting Standards Advisory Forum (ASAF or the Forum) as a multilateral technical discussion forum of an advisory nature. EFRAG appreciates the initiative by the IFRS Foundation and the International Accounting Standards Board (IASB) to formalise, rationalise and streamline the relationships with the National Standard Setters and regional bodies around the world, to engage with them on a collective basis on technical issues and to bring all of them on an equal footing without any of them having privileged access to the IASB. Taking into account comments from our constituents, we believe that further clarification is necessary in relation to the proposals, notably the purpose of the Forum, the scope of the technical discussions that should be held in the Forum, the relation with other advisory bodies of the IFRS Foundation and the operational processes of the Forum, including the Memorandum of Understanding.

We believe that ASAF has the potential of bringing significant improvement in the IASB due process and will help the IASB considerably in reaching its objective of greater acceptability of IFRS. This is because ASAF can give all participants a multilateral platform for technical discussion, where different views are being debated at an early stage and where participants gain the understanding of how possible requirements are being perceived by other members of the IFRS constituency. This is also the opportunity for the IASB to eliminate from its proposals areas of possible misunderstandings which are detrimental to the IASB standard setting process.

EFRAG welcomes the fact that the proposed activities of ASAF will run alongside and complement the roles National Standard Setters and regional bodies play in the IASB due process, research projects, seconding staff, IFRS Interpretations Committee input, outreach activities, field testing and post-implementation reviews. The proposals make it, in our view, also clear that IFASS will continue to be able to make its valuable contributions to the standard setting process notably in the upstream work. It is of the utmost importance for National Standard Setters in Europe that all these activities, not only are maintained, but are further enhanced.

## *IFRS Foundation: Proposal to Establish an Accounting Standards Advisory Forum*

EFRAG is ready, capable and willing to participate and help building a technically competent and representative delegation on behalf of Europe. EFRAG is willing to work in close cooperation and coordination within its Consultative Forum of Standard Setters and the European Commission on the best way to provide a contribution to the proper and effective functioning of the Forum. We believe this can be achieved on the basis of the experience acquired in the EFRAG-IASB meetings.

### *Timing*

The interaction with our constituents has evidenced that a 45-day comment period was extremely short for EFRAG for proper consultation and consideration. This period was probably too short for our constituents to provide a fully considered contribution to the EFRAG due process which, as a result of the tight IFRS Foundation deadline, only allowed for a three-week comment period.

### *Purpose*

According to our understanding ASAF is a technical discussion forum that is advisory in nature with active participation of all represented in the Forum, including the relevant IASB Board members. ASAF would engage in an exchange of views on technical subjects in order to expose the IASB to the main possible technical views held on a particular subject, including national and regional particularities, that are relevant to the IASB's work programme. All questions that our constituents have raised in the course of our due process have led us to acknowledge that the purpose of ASAF as presented in the proposals is in need of clarification; some elements therein are the type of projects that will be discussed (anticipated to be the active IASB projects, but to be determined at what stage, and not the pro-active work), and how the interaction with those not directly involved will be achieved.

ASAF is envisaged to have productive discussions on technical issues, in sufficient depth, that will contribute to the technical work of the IASB. Clarifications would be helpful as to what is meant by technical issues. In this respect we believe that the EFRAG and ASB position paper on *Considering the Effects of Accounting Standards* could provide helpful guidance, as it determines what is of the standard-setter's responsibility. We understand that the contribution of ASAF is to be understood within this remit. In contrast, we note that issues of a strategic nature are addressed in the IFRS Advisory Council in support to both the IFRS Foundation and the IASB, and that interactions between standard setting and politico– economic considerations are discussed within the Monitoring Board of the IFRS Foundation.

### *Scope*

The role of ASAF would in our view be to provide advice and views to the IASB on major technical issues related to its standard setting activities, and to provide input on national and regional issues. Our understanding is that ASAF will discuss issues that are on the IASB agenda, including standards that are revised following the IASB's maintenance activities resulting from issues raised with the IFRS Interpretation Committee.

However, ASAF is not meant in our view to actively contribute to achieving consistency in practice, since this relates to final standards. While we strongly support all efforts developed to that end, and consider that National Standard Setters should contribute to the overall effort, we agree that market security regulators under the leadership of ESMA in Europe and audit firms should be heavily involved in this effort, and that the participation of National Standard Setters runs alongside ASAF. Finally relevant contributions to this overall effort should obviously stem from jurisdictions where IFRS are applied in practice, a limitation that is rightfully not considered for ASAF. In this

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respect, we believe that the commitment set out in the proposal to support consistent application does not fit well with the scope of ASAF.

### *Institutional structure*

The proposals state that ASAF, “because of its advisory role as a representative group, is not required to be formalised in the institutional structure of the Foundation”, and mentioned in the Constitution. This could, however, be revisited at a later stage. We believe that the status of ASAF, and whether or not ASAF is part of the governance structure, may have implications in terms of accountability, chairmanship, commitments from the side of the IFRS Foundation and IASB. This also determines the distinction of ASAF from other representative or advisory groups where many of our constituents had questions on as to whether ASAF is part of these groups or has a distinct separate capacity. These factors are all important for the success of ASAF. In this respect ASAF seems to be a hybrid vehicle with elements of the IFRS Advisory Council (within the Constitution), and elements of other advisory platforms (outside the Constitution).

We believe the IFRS Foundation needs to consider how ASAF fits in the overall structure with the related responsibilities, commitments and accountability for those involved. In our view ASAF is the technical advisory group and the IFRS Advisory Council the strategic advisory group. Also ASAF should in our view be part of the institutional structure going forward and hence of the Constitution if the trial period of the first two year is successfully concluded.

### *Participation of the IASB*

EFRAG suggests that the representation of the IASB at ASAF should be extended to engage the IASB properly in the technical discussions. In our view the IASB should be represented in each ASAF meeting by the IASB Chairman, the IASB Vice-Chairman and the IASB Board members who are Board advisors on the projects. This is necessary, we believe, to ensure that ASAF becomes a strong technical discussion forum with direct interaction between the delegates and the responsible IASB Board members.

### *Commitments*

To ensure that ASAF is effective in its advisory role and a positive contribution to the IASB due process, EFRAG agrees that participants in ASAF should be asked to make specific commitments, in particular the commitment to support the IFRS Foundation’s mission to develop, in the public interest, a single set of globally accepted financial reporting standards and EFRAG can support the idea of formalising those commitments for each participant in ASAF in a Memorandum of Understanding. We believe, however, that the commitments as presented in the proposals are not appropriately aligned with the purpose and scope of ASAF, or respectful of the independence that participants in ASAF necessarily have in fulfilling the mandate received from their jurisdiction.

We believe that the initiative of the IFRS Foundation to launch the proposal in itself is a sign of the commitment from the side of the IASB as further evidenced by the overriding principles on which the relationship between the IASB and National Standard Setters and regional bodies is based. This includes the shared goal of a single set of globally accepted high-quality standards; independence; transparency and openness (including progress reporting to ASAF); and maintaining open relationships with other stakeholders.

We also recommend avoiding that the wording of those commitments, in their revised form as suggested above, be such as to impede representatives of certain jurisdictions from participating – for regulatory or political reasons – where they are both able and willing to participate positively and constructively in the public interest. The overriding

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common objective of creating one single set of high quality globally accepted financial reporting standards should be the criterion for such participation.

### *Operations*

We believe that further thought should be given to the structuring of the meetings, the ways the agendas are determined, preparation of agenda items and the transparency of ASAF. We welcome the fact that all ASAF members can be involved in the agenda setting and in the preparation of papers. This fact in itself provides a clear proof that being a delegate also requires a certain level of development of the participant's organisation. It is essential that the agenda and supporting papers are circulated well in advance of the meetings in order to allow each organisation to prepare for the discussion in a coordinated and cooperative manner in its region with appropriate consultation of the stakeholders.

### *Size*

EFRAG supports the IFRS Foundation's view that, to be technically effective and efficient in the discussions as well as globally representative, ASAF should be compact in size. ASAF can only be successful if the quality of the technical debate is high. However, EFRAG believes that Europe (EU) given its diversity and significance in the use of IFRS should be entitled to at least three seats in ASAF.

### *Composition*

EFRAG agrees that an appropriate balance in the composition of the Forum should support the ambition of the IASB of being the global standard setter while serving the objective of greater acceptability of the IASB's proposals and final standards in jurisdictions where IFRS have been adopted.

EFRAG believes that representativeness in ASAF is important. Therefore we believe that, although the IFRS Foundation should allocate seats to regions, the compositions of the seats within the regions or jurisdictions should be the responsibility of the region or jurisdiction concerned, provided that criteria set by the IFRS Foundation are met. This will allow bringing not only the right level of expertise and commitment to the discussion table in relation to the topics on the agenda, but a variety of possible views, more particularly in the early stages of projects. This should include the presentation of specific regional or national issues and concerns that need to be addressed. A single individual cannot, in our view, be an expert in every technical subject nor have the right understanding of each and every local specific circumstances.

Each jurisdiction or region would have the responsibility to organise itself in order to ensure that it is representative of the views held in the region or jurisdiction at different stages of the international standard setting process.

### *European representation*

Europe (EU) should be fully represented at the Forum. The European Commission (or if required any other of the European Institutions) should be involved in determining how the EU should be represented. EFRAG is ready, capable and available to participate and to help build for each meeting a technically competent and representative European delegation. EFRAG is willing to work in close collaboration with the National Standard Setters in Europe to ensure that no European constituent feels omitted. National Standard Setters are essential contributors to and partners in EFRAG. The four largest National Standard Setters have been members of the EFRAG delegation at EFRAG–

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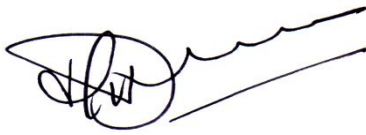
IASB meetings since 2006, and have together with EFRAG acquired the experience in preparing such meetings.

EFRAG, together with the National Standard Setters, has started to develop a process for seeking early input aiming to consider all possible views in the preparation of EFRAG's Draft Comment Letters. This process could, together with the EFRAG Consultative Forum of Standard Setters meetings, serve as a basis for the preparation of the European contribution to the ASAF meetings.

Our detailed comments and responses to the questions in the proposal are set out in Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Michel Sibille or me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line. The signature is stylized and includes a large loop.

Hans van Damme  
Acting Chairman

**EFRAG Supervisory Board**

## APPENDIX

### Question 1

Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

### EFRAG's response

**EFRAG agrees that participants in the ASAF should be asked to make specific commitments, and EFRAG can support the idea of formalising those commitments in a Memorandum of Understanding for each participant in ASAF. However, we believe that the commitments in the proposal are not appropriately aligned with the purpose and scope of ASAF.**

#### Commitments

- 1 EFRAG supports the creation of ASAF as a multilateral technical discussion forum of an advisory nature. We believe that ASAF has the potential of bringing significant improvement in the IASB due process and help the IASB considerably in reaching its objective of greater acceptability of IFRS worldwide.
- 2 To ensure that ASAF is effective in its advisory role and a positive contribution to the IASB due process, EFRAG agrees that participants in ASAF should be asked to make specific commitments.
- 3 We believe, however, that the commitments listed in paragraph 6.4 of the *Proposal to Establish an Accounting Standards Advisory Forum (the Proposal)* are not appropriately aligned with the purpose and scope of ASAF or respectful of the independence that participants in ASAF necessarily have in fulfilling the mandate received from their jurisdiction. We believe that participants should share commitments inspired by the overriding common objective of creating one single set of high quality globally accepted financial reporting standards. We agree that the relationship between the IASB and National Standard Setters and regional bodies is based on the overriding principles of independence, transparency and openness.
- 4 We have comments to make and suggestions for changing the proposed commitments:
  - 1) *“Supporting the IFRS Foundation’s mission to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.”*

Sharing that goal is in our view necessary to participate constructively in the technical discussions. We also think it might be useful to complete the text of the commitment with a reference to the objectives of the IFRS Foundation as set out in the Constitution, paragraph 2 a), or by adding the words *“which should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions”*.

- 2) *“Encouraging input from their jurisdiction/region to the technical activities of the IASB, in order to contribute to a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.”*

We do not see the need to repeat the objective in this second commitment (so text after the comma should be deleted). We believe that commitment 2) should be worded differently to reach a better focus on the need for ASAF to have

participants that are fully representative. We believe that participants should “organise their internal processes so as to have a legitimate representativeness of their jurisdiction and region in their participation to ASAF”; this representativeness should indeed be one of the keys to success of ASAF.

3) *“Supporting consistent application of IFRSs by jurisdiction and in the region.”*

We agree that regional bodies and National Standard Setters should encourage consistent application of IFRS and that this may relate to the activities in the ASAF, however we would not see that as the primary focus of ASAF. Identifying and helping to resolve application issues is an activity in which National Standard Setters, auditors and enforcers have a distinctive role to play to help the IASB to ensure consistency in practice in jurisdictions that use IFRS. ASAF is providing technical input to the standard setting process when the standards are developed (or revised). Discussing consistency issues at global level moreover is not relevant for jurisdictions that contemplate applying IFRS in some future period or jurisdictions that adapt IFRS and integrate IFRS in their National GAAP. In our view ASAF should therefore not deal with whether IFRS are applied consistently in practice. Hence we suggest this proposed commitment to be deleted in relation to ASAF. Having said that, we consider this commitment as highly relevant to the participation of National Standard Setters in the IFRS Foundation efforts for greater consistency in practice. These activities are running alongside the ASAF.

4) *“Making their best efforts to promote the endorsement/adoption of IFRSs in full and without modification over time (recognising that, at present, jurisdictions are at different stages in moving towards IFRSs and have adopted different mechanisms to achieve this).”*

We believe that this commitment should be explained as a shared goal and responsibility of the IASB and the participants in ASAF. If multilateral technical discussions are to be supported and encouraged, it is to create the conditions in which all participants strive to understand the needs of the various regions and take them into account in formulating positions and recommendations, so that final accounting requirements are well suited for all jurisdictions.

No participant with some form of responsibility in an endorsement process can commit to promote endorsement if their assessment of the requirements is that the relevant endorsement criteria of that jurisdiction are not met. EFRAG wants to make best efforts to contribute to the development of IFRS that can be endorsed in the EU. Any commitment beyond this would be contradictory to our mandate and the independent spirit in which we need to serve the public interest and advise the European Commission.

5) *“In addition, any member would need to have the resources and capability to play a full role in the ASAF’s technical work, including preparation for meetings and participation in substantive technical discussions. There is a wealth of experience and expertise within the community of NSS and regional bodies and the aim is to harness that to best effect.”*

We agree that this is necessary to guarantee the level of quality that the discussions in ASAF should reach. Each jurisdiction or region would have the responsibility to organise itself in order to ensure that it is representative of the views held in the region or jurisdiction at different stages of the international standard setting process.

- 5 We believe that the initiative of the IFRS Foundation to launch the proposal in itself is a sign of the commitment from the side of the IASB as further evidenced by the overriding principles on which the relationship between the IASB and National Standard Setters and regional bodies is based. This includes the shared goal of a single set of globally accepted high-quality standards; independence; transparency

and openness (including progress reporting to ASAF); and maintaining open relationships with other stakeholders.

- 6 We also recommend avoiding that the wording of those commitments, in their revised form as suggested above, would impede representatives of certain jurisdictions, that have not yet adopted IFRS, from participating – for regulatory or political reasons -, where they are both able and willing to participate positively and constructively in the public interest. The overriding common objective of creating one single set of high quality globally accepted financial reporting standards should be the criterion for such participation.
- 7 EFRAG supports the idea of formalising the commitments for each member in a Memorandum of Understanding since this would bring solemnity to the commitments and transparency to the outside world. We see in the IFRS Foundation proposals a strong commitment in engaging in a constructive technical discussion with regional and national accounting standard bodies. We believe the IASB could formalise that commitment in the Memorandum of Understanding to provide a good balance in the commitments of all participants in the Forum, including the IASB.
- 8 For the avoidance of doubt, our recommendation above does not contradict our full support for the emphasis put on the advisory role of the Forum.

## **Question 2**

The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

### **EFRAG's response**

**EFRAG supports the IFRS Foundation's view that, to be technically effective and efficient in the discussions as well as globally representative, ASAF should be compact in size.**

**EFRAG believes that the composition of the seats within the regions or jurisdictions should be a shared responsibility between the IFRS Foundation and the region or jurisdiction concerned. EFRAG believes that Europe (EU), given its diversity and significance in the use of IFRS, should be entitled to at least three seats. EFRAG believes that each jurisdiction or region would have the responsibility to organise itself in order to ensure that it is representative of the views held in the region or jurisdiction at different stages of the international standard setting process.**

### *Size*

- 9 EFRAG thinks that, to be technically effective and efficient as well as globally representative, ASAF should be compact in size. A large number of participants would lead to a loss of benefits in terms of technical discussions, without bringing a supplementary array of views or arguments to the debate. The ASAF can only be successful if the quality of the technical debate is high.
- 10 EFRAG believes that Europe (EU) given its diversity and significance in the use of IFRS should be entitled to at least three seats in ASAF.

### *Composition*



- 11 EFRAG agrees also that an appropriate balance in the composition of the Forum should support the ambition of the IASB of being the global standard setter while serving the objective of greater acceptability of the IASB's proposals and final standards in jurisdictions where IFRS have been adopted.
- 12 As regional organisations involve in their structures most or all National Standard Setters in their region, large and small, they are in a position to have a process to gather and discuss a wide variety of views and issues that may exist in the countries within their region. Therefore regional organisations are well positioned and available to bring those in a 'well-considered' way to the ASAF early in the technical discussion process before a majority or single view may have eventually emerged. National Standard Setters are closest to their constituents and have a good knowledge of local, regulatory, economic and cultural factors that they can share within their regional organisation. Early consideration of all possible views and circumstances would give the resulting standards higher chances of acceptability and endorsement.
- 13 EFRAG believes that the representativeness in ASAF is important. Therefore EFRAG believes that the composition of the seats within the regions or jurisdictions should be the responsibility of the region or jurisdiction concerned, provided that criteria set by the IFRS Foundation are met. This will allow bringing not only the right level of expertise and commitment to the discussion table in relation to the topics on the agenda, but a variety of possible views, more particularly in the early stages of projects. This should include the presentation of specific regional or national issues and concerns that need to be addressed. We would not be able to reach this conclusion, however, if the IFRS Foundation decided to limit appointment to a strict number of individuals rather than organisations as a single individual cannot, in our view, be an expert in every technical subject, or have the right understanding of each and every local specific circumstance.
- 14 Each jurisdiction or region would have the responsibility to organise itself in order to ensure that it is representative of the views held in the region or jurisdiction at different stages of the international standard setting process. The IASB should in our view report to ASAF on the progress on main issues discussed. This will significantly contribute to the ability of participants from regions or jurisdictions to keep up to date and contribute appropriately to the discussions.
- 15 ASAF will discuss major technical issues throughout the standard setting process and provide advice and a variety of views to the IASB to enrich the IASB discussions and to ensure that the IASB fully considers all alternative views including national and regional issues.
- 16 *European representation* Europe (EU) should be fully represented at the Forum. The European Commission (or if required any other of the European Institutions) should be involved in determining how the EU should be represented. EFRAG is ready, capable and available to participate and help build for each meeting a technically competent and representative European delegation. EFRAG is willing to work in a collaborative process within its Consultative Forum of Standard Setters so that no European constituent feels omitted. National Standard Setters are essential contributors to and partners in EFRAG. The four largest National Standard Setters have been members of the EFRAG delegation at EFRAG–IASB meetings since 2006, and have together with EFRAG acquired the experience in preparing such meetings.
- 17 Where Europe is concerned, EFRAG notes that the ASAF is intended to replace the bilateral EFRAG-IASB meetings that were held three to four times a year since 2006. The EFRAG Chairman is accompanied to these meetings by the Chairmen of the National Standard Setters of France, Germany, Italy and the UK, each of

them being a non-voting member of EFRAG Technical Expert Group and hence participating directly to EFRAG internal technical discussions.

- 18 In concluding the limited governance review it conducted in the first half of 2012, EFRAG, together with the National Standard Setters, has started to develop a process for seeking early input aiming to consider all possible views in the preparation of EFRAG's Draft Comment Letters. This process could, within the EFRAG Consultative Forum of Standard Setters meetings, serve as a basis to identify the technically competent and representative delegation to the ASAF meetings. This process in seeking early input from – primarily but not only – National Standard Setters, in such a way that this early input would not emanate only from the four major National Standard Setters, but also from all other National Standard Setters in the European Economic Area (EEA). EFRAG invites in its Consultative Forum of Standard Setters all National Standard Setters from the EEA to participate in its meetings and activities. The EFRAG Consultative Forum also includes National Standard Setters from Switzerland and Turkey. EFRAG is ready to open up its Consultative Forum of Standard Setters to some form of involvement of other National Standard Setters of Europe (as geographically defined).
- 19 EFRAG would therefore be in a position to well prepare for the ASAF meetings in a collective manner involving all National Standard Setters in Europe. With the operational and due process improvements identified in the limited governance review, that are in the process of being implemented, the involvement of and cooperation with the National Standard Setters in Europe will be further enhanced.
- 20 ASAF providing early input to the IASB on main technical issues would bring an overall added efficiency since many comments that at present only come to the surface in the consultation phase will be identified, discussed and addressed at an earlier stage in the standard setting process.
- 21 EFRAG believes that participation in the ASAF will satisfy the European Commission's concern<sup>1</sup> that Europe is not enjoying, despite EFRAG's best efforts, the level of influence it should enjoy.

## **EFRAG's further comments**

### *Purpose*

- 22 Paragraph 6.3 of the proposal states that "the role of ASAF would be to provide advice and views to the IASB on major technical issues related to its standard setting activities and to provide input on national and regional issues."
- 23 Therefore according to our understanding the ASAF is a technical discussion forum that is advisory in nature with active participation of all represented in the Forum, including the relevant IASB Board members. ASAF would engage in an exchange of views on technical subjects in order to expose the IASB to the main possible technical views held on a particular subject, including national and regional particularities that are relevant to the IASB's work programme. Questions

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<sup>1</sup> On 11 October 2012, EFRAG and the Trustees of the IFRS Foundation held a joint conference in Brussels to discuss an 'EU perspective on the move towards global accounting standards', involving a large range of prominent speakers. Please refer to the speech at the conference of Olivier Guersent, Head of Cabinet of Michel Barnier, Commissioner Internal Market and Services at the EFRAG website:

[http://www.efrag.org/files/News%20related%20documents/121016\\_PR\\_EFRAG\\_joint\\_conference\\_11\\_October\\_FINAL.pdf](http://www.efrag.org/files/News%20related%20documents/121016_PR_EFRAG_joint_conference_11_October_FINAL.pdf)

raised by our constituents have led us to acknowledge that the purpose of ASAF as described in the proposals is in need of clarification. Some elements therein are: the type of projects that will be discussed (expected to be the active IASB projects, but to be determined at what stage, and not pro-active work), and how the interaction with those not directly involved will be achieved.

- 24 ASAF is envisaged to have productive discussions on technical issues, in sufficient depth, that will contribute to the technical work of the IASB. Clarifications would be helpful as to what is meant by technical issues.
- 25 We believe that the EFRAG and ASB position paper on *Considering the Effects of Accounting Standards* of June 2012 could provide helpful guidance in identifying the boundaries of technical issues, as it determines what is the standard setter's responsibility. Effect analysis should be integrated into the standard setting due process over the life-cycle of projects. Paragraphs 3.7 and 3.8 of the position paper focus on the micro as well as macro-economic effects of accounting standards.
- 1) *Micro-economic effect*: the scope of the 'effects' to be considered, for the purposes of performing effect analysis, should include those effects that are within the remit of the standard setter – that is, the objective of improved financial reporting. The standard setter should identify, analyse and take into account the effects that the new accounting standard or amendment is expected to have on investors' decision making process and reporting entities; this includes cost/benefits analyses and ensuring that the intended requirements can translate well in practice.
  - 2) *Macro-economic effect*: the standard setter should, nevertheless, endeavour to be aware of effects that go beyond the objective of the standard setter, such as macro-economic effects (e.g. financial stability impacts, the more efficient allocation of resources, redistributive effects within society, etc.)
- 26 We understand that the contribution of ASAF is to be understood within the remit of the standard setter responsibility as described in our joint position paper. In contrast, we note that issues of a strategic nature are addressed in the IFRS Advisory Council in support to both the IFRS Foundation and the IASB, and that interactions between standard setting and politico-economic considerations are discussed within the Monitoring Board of the IFRS Foundation.

### *Scope*

- 27 The role of ASAF would be to provide advice and views to the IASB on major technical issues related to its standard setting activities, and to provide input on national and regional issues (paragraph 6.3 of the proposals). Our understanding is that ASAF will discuss issues that are on the IASB agenda, including standards that are revised following the IASB's maintenance activities resulting from issues raised with the IFRS Interpretation Committee.
- 28 ASAF is not meant in our view to actively contribute to achieving consistency in practice since this relates to final standards. While we strongly support all efforts developed to that end, and consider that National Standard Setters should contribute to the overall effort, we agree that market security regulators under the leadership of ESMA in Europe and audit firms should be heavily involved in this effort, and that the participation of National Standard Setters runs alongside ASAF. Finally relevant contributions to this overall effort should obviously stem from jurisdictions where IFRS are applied in practice, a limitation that is rightfully not considered for ASAF. In this respect, we believe that the commitment set out in the proposal to support consistent application does not sit well with the scope of ASAF.

*Institutional structure*

- 29 The proposals state that ASAF, because of its advisory role as a representative group, need not be formalised in the institutional structure of the Foundation, and mentioned in the Constitution. This could, however, be revisited at a later stage. We believe that the status of ASAF, and whether or not ASAF is part of the governance structure, may have implications in terms of accountability, chairmanship, commitments from the side of the IFRS Foundation and IASB. This also determines the distinction of ASAF from other representative or advisory groups, where many of our constituents had questions on as to whether ASAF is part of these groups or has a distinct separate capacity. These factors are all important for the success of ASAF. In this respect ASAF seems to be a hybrid with elements of the IFRS Advisory Council (within the Constitution), and elements of other advisory platforms (outside the Constitution). We believe the IFRS Foundation needs to consider how ASAF fits in the overall structure with the related responsibilities, commitments and accountability for those involved.
- 30 We believe it would be helpful if the IFRS Foundation could clarify as to how to distinguish ASAF from the other advisory platforms. The clarifications of the purpose and scope of the ASAF will be particularly helpful in showing how ASAF and the IFRS Advisory Council have separate activities and do not overlap.
- 31 It is our understanding that the main difference with the IFRS Advisory Council is that the ASAF is a forum for technical discussion. The very small size of ASAF compared to the IFRS Advisory Council is understood to be needed to allow for profound technical debate with participation of the IASB. The IFRS Advisory Council is understood to address wider policy and strategy matters. In our view ASAF is the technical advisory group and the IFRS Advisory Council the strategic advisory group. Also ASAF should in our view be part of the institutional structure going forward and hence of the Constitution if the trial period of the first two years is successfully concluded.
- 32 In comparison with the other consultative groups such as the Global Preparers Forum, the Capital Markets Advisory Committee and the Emerging Economies Group of which the chairmanship and membership is not formally determined by the IFRS Foundation, ASAF is different. The consultative groups are part of the permanent outreach activities of the IASB whereby they can address a great variety of subjects from the particular perspective of the consultative group.

*Participation of the IASB*

- 33 EFRAG suggests that the representation of the IASB at ASAF should be extended to engage the IASB properly in the technical discussions. In our view the IASB should be represented in each ASAF meeting by the IASB Chairman, the IASB Vice-Chairman and the IASB Board members who are Board advisors on the projects. This is necessary, we believe, to ensure that ASAF becomes a strong technical discussion forum with direct interaction between the delegates and the responsible IASB Board members.
- 34 Given our observations above we support that meetings of ASAF be chaired by the IASB Chairman and believe that this demonstrates the importance the IFRS Foundation attaches to ASAF.
- 35 In addition we believe that the Chairman of ASAF needs to be accountable to the IFRS Foundation. However to this end we acknowledge that it could be an independent Chairman. Conversely none of the other participants would qualify.

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- 37 EFRAG welcomes the dedication of at least one staff member of the IFRS Foundation to support ASAF and to act as liaison with the ASAF members.

#### *Operations*

- 38 We believe that further thought should be given to the structuring of the meetings, the ways the agendas are determined, preparation of agenda items and the transparency of ASAF. We welcome the fact that all ASAF members can be involved in the agenda setting and in the preparation of papers. This fact in itself provides a clear proof that being a delegate also requires a certain level of development of the participant's organisation. It is essential that the agenda and supporting papers are circulated well in advance of the meeting.
- 39 We believe that the IFRS Foundation demonstrates in making its proposals a strong willingness to engage with a representative group of regional bodies and National Standard Setters in discussing all major technical issues. We are of the view that participation in ASAF includes the commitment and willingness to prepare agenda papers so that it is a joint effort of the IASB and the ASAF members. In our view the agenda setting for the ASAF meetings should be a joint effort of the IASB and the ASAF members.
- 40 EFRAG agrees that it is essential to allow ASAF members sufficient time before the meetings to prepare for the discussion in a coordinated and cooperative manner. There should be sufficient time to consult with their stakeholders and to come with the perspectives from their jurisdictions/regions to the ASAF meetings.
- 41 ASAF members can indeed be expected to already be tracking the projects on the IASB's standards level agenda or the research agenda and having discussed in their organisation and having sought (early) input on the main technical issues. It is therefore important that the agenda of ASAF meetings includes issues that have been first deliberated by the IASB sufficiently in advance of the ASAF meetings.
- 42 Having issues discussed in ASAF after they have first been considered by the IASB has the supplementary advantage to alleviate the risk of being seen to be compromising the independence of the IASB by giving the NSS and regional bodies an apparent potential direction power in the IFRS standard setting process.

#### *Bilateral relationships*

- 43 We can understand that ASAF if it is functioning successfully, will make that the IASB – EFRAG regular public meetings are no longer needed. This on the assumption that EFRAG were to participate in ASAF and participating organisations would enjoy the flexibility in the composition of their delegations, so as to ensure that none of our current partners in the EFRAG delegation loses potential access to ASAF, because of the limited number of seats allocated to Europe. This is even beyond the level of coordination that Europe should ensure to achieve that all National Standard Setters in Europe can feel that their views are appropriately represented.
- 44 In relation to other activities between EFRAG, the National Standard Setters in Europe and the IASB, we welcome the recognition in the IFRS Foundation's proposals for ASAF that these activities including research, implementation challenges, outreach activities, field testing and post-implementation reviews, will run alongside these roles and will not replace them. We appreciate that all activities the IASB leads with EFRAG and the National Standard Setters in Europe should continue and develop further.
- 45 In our letter of 20 September 2012 to the IFRS Foundation on the *Proposed IASB and IFRS Interpretation Committee Due Process Handbook* we promote a shared

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due process between the IASB and regional and national accounting standard setting bodies as the way forward. Involving, and coordinating with, regional and national accounting standard setting bodies in IASB's technical activities in the research programme phase, in outreach activities and field testing, in post-implementation reviews and other surveys is an effective way to improve transparency, efficiency and mutual understanding of the standard setting process.

- 46 In particular we believe that the participation of IASB members and IASB staff in EFRAG TEG and EFRAG Consultative Forum of Standard Setters meetings should continue as part of the IASB's permanent outreach activities.