

Note to the IASB:

The responsibility to comment on the IASB Agenda Consultation has in accordance with EFRAG's reform in 2008 been delegated to the EFRAG Planning and Resource Committee (EFRAG PRC). The EFRAG PRC is at present composed of two members of the EFRAG Supervisory Board (Hans van Damme and Peter Sampers the EFRAG PRC Interim Chairman), and of the EFRAG Chairman, the Chairmen of the ANC (French Standard Setter), the UK ASB (UK Standard Setter), and the OIC (Italian Standard Setter). The Chairman of GASB (German Standard Setter) and the European Commission participate as observers. The letter has been prepared following the EFRAG due process.

Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

5 December 2011

Dear Hans,

Re: Agenda Consultation 2011

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Request for Views, *Agenda Consultation 2011* ('the Request').

EFRAG welcomes the Request to seek, in accordance with the IFRS Foundation Constitution requirements in paragraph 37(d)(ii), the views of constituents in developing IASB future agenda and allocating resources. We think such public consultation strengthens the transparency of the IASB's processes and believe this is an important first step in improving the agenda-setting process. However, as it will become apparent below, we do not consider the Request to be the basis on which to determine what projects, and the scope of these, the IASB should work on for the coming three years. In that respect we consider it only to be the starting point.

Four main active IASB projects

Before devoting significant time and resources to any new issues, the IASB should – as a first priority - bring all four main projects on its agenda (Revenue Recognition, Leases, Financial Instruments and Insurance Contracts) to a close. In EFRAG's view this requires substantial resources, including as part of EFRAG's previous recommendations, the conduct of proper effects studies and field testing prior to the issuance of any final standard. EFRAG's previous recommendations on the completion of the four main projects are recalled in paragraph 26 in the Appendix to this letter.

Need for a period of calm

We wish to highlight that when it comes to amending existing or issuing new accounting standards, we believe a 'period of calm' is needed. We agree with the observation made in the letter of Hans Hoogervorst included in the Request that many may want a stable platform before further substantial projects are undertaken. We consider a 'period of calm' to be necessary in order to achieve what we think should be the first and foremost objective of the IASB in the near future, namely to mitigate the risk that evolutions and changes to IFRS, including the major changes expected from the current four main projects, are not well understood by users and preparers and that IFRS are not implemented in a consistent manner by those already applying IFRS or moving (or having recently moved) to their adoption. To mitigate that risk, it is essential that the pace of change is reasonable to let preparers, users and other stakeholders participate in defining the evolution of IFRS, understand it, and subsequently manage, and adjust to, the changes and incorporate them in their accounting system and financial reporting process.

This preamble being made, we address below the two sets of questions included in the IASB's request. The first set of questions concerns the overall balance in strategic priorities. The last set concerns what specific projects to include on the agenda.

Overall balance in strategic priorities: Need for an evidence based agenda setting process

Regarding the overall balance in strategic priorities, we take a different view from that expressed in the Request. We believe that IASB's activities in the development and the maintenance of IFRS should be more inter-related compared to what is proposed in the Request. Agenda decisions should be based on an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. In other words, possible evidence supporting new projects may include:

- a void in IFRS requirements is becoming critical;
- changes in underlying economics and transactions result in information prepared under the existing requirements becoming less relevant; or
- post-implementation reviews, or surveys of existing financial reporting, show that information being prepared under existing requirements is not effective in meeting users' needs or is not so widely used that it is cost effective to continue to require it.

The post-implementation reviews that are to be carried out, as one of the sources for revealing any deficiencies in the existing requirements, should be scoped differently than the post-implementation reviews defined in the IASB Due Process Handbook and outlined in the Request. They should not be limited to reviewing the effects of IFRS as issued by the IASB or to areas having raised controversy at the time the existing requirements were prepared. The review should focus on whether the existing standard results in effective financial reporting taking the current economic context and business reality, and perhaps more importantly changes in these, into consideration. In this respect it does not matter whether an 'old' IAS or a 'new' IFRS is reviewed. Such reviews would also lead to the possible removal of existing requirements.

Assessing changes in the current economic context and business reality will involve some research in particular in the area of corporate reporting. We think the IASB should make proper use of research in liaison with the academic community and other

organisations that undertake or sponsor research (such as EFRAG in partnership with National Standard Setters). However, we think the IASB's activities should in most areas be limited to monitoring developments as far as these may influence financial reporting. Therefore, although Integrated Reporting may play a role in the future, EFRAG does not believe that the IASB should give priority to this.

When there is evidence, that a new standard, or amendment to an existing standard, is needed, the next step should then be to develop a thorough and specified project proposal. The proposal should specify the results of the post-implementation review, or other source of evidence identifying the need for the new standard or amendment to an existing standard, and setting out the objectives and the scope of the project. Specifying the specific objectives and scope of the project is necessary in order to, at a later stage, be able to assess, by field testing or other methods, whether the application of the possible future standard will result in high quality and improved information.

Detailed project proposals should be the subject for public consultation before the specific project is started, to ensure that the needs, including the objectives of the future project and the underlying analysis, are well understood and supported by the IFRS community.

Overall balance in strategic priorities: Agenda decisions can no longer be justified by convergence as primary driver

By focusing on an evidence based agenda setting process, i.e. based on needs identified in practice, we are also saying that convergence cannot be a primary driver of agenda setting. Bringing more useful and relevant information through high quality financial reporting standards to all those who rely on IFRS compliant financial reporting should be the overriding objective when agenda decisions and standard setting developments are made.

That said, European stakeholders favour – and see great benefits in – IFRS growing further global and thus EFRAG supports the IASB's efforts in helping more jurisdictions to adopt IFRS. Therefore priority can be given to projects that ease the transition to IFRS of jurisdictions which have made the decision to adopt IFRS if (1) those projects are expected to result in improvements in IFRS compliant financial information at least commensurate with the costs of the change, (2) the need for those improvements has been properly evidenced in IFRS existing practice and (3) those projects do not compete with other projects of higher improvement potential for IFRS compliant financial reporting. EFRAG wishes to highlight that convergence efforts led by the IASB in the past six years have not, in many European stakeholders' views, met these necessary prerequisites.

EFRAG commends the IASB for having decided to terminate its 2006 convergence programme with the FASB when the current active joint projects come to a close. If any of the projects that was part of that programme and was put on hold in 2010 was to be considered again, that project would have to be submitted to a fully evidence-based agenda consultation as we have described and be led as an IASB project, subject to the IASB due process.

We therefore recommend amending the existing agenda criteria in the IASB Due Process Handbook accordingly.

Overall balance in strategic priorities: Enhancing the Conceptual Framework is crucial

We believe that 'high quality standards' should be based on a sound conceptual framework. Revising and supplementing the existing framework is necessary to clarify

the financial reporting model that should drive further developments of IFRS, and ensure that this financial reporting model is both fully understood and accepted by jurisdictions which apply IFRS. As a result, we believe that this project should no longer be pursued as the joint project with only the FASB, but be developed in close cooperation with regional and national accounting bodies in Europe and other areas where the decision of adoption of IFRS has been made.

We also believe that this project should not be allowed to take years, but the necessary work be developed diligently. To that purpose the IASB needs to identify priorities, i.e. revise the current framework to the extent that it has proven deficient or incomplete. EFRAG has identified four priorities where development at conceptual level is needed. First and foremost, the two following priorities:

- (a) the reporting of performance and its inter-relationships with measurement; and
- (b) the development of a disclosure framework, to ensure that all and only relevant disclosures are provided to users and to avoid that useless information finds its way into financial reporting, undermining the transparency and the easy access to relevant information. In this respect we refer to the project EFRAG is undertaking in partnership with the Autorité des Normes Comptables (ANC) and the Accounting Standards Board (UK ASB) and in cooperation with the FASB.

The two following areas need also be addressed with a high level of priority:

- (c) the definitions of elements including assets and liabilities, starting – and limiting the review to - a clear identification of where the current definitions have been deficient in practice or where a contradiction between the elements as defined in the current framework and the current standards need to be removed; and
- (d) measurement guidelines, to fill the current vacuum.

We therefore agree with the Request that one of the main projects (and priorities) included on the IASB's agenda should be enhancement of the Conceptual Framework. Our view on completing the Conceptual Framework may, however, go a step further than what is suggested in the Request. In our view, to ensure that standard development will be based on a Conceptual Framework, a standard that is in conflict with the Conceptual Framework should only in exceptional cases be issued. In the event that a new standard or amendment conflicts with the new Conceptual Framework, once the IASB has finalised all the high priority parts, a debate on the relevant concepts would be needed. Without strong and convincing arguments for the contrary, the standard should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided.

Specific projects to include on the agenda

Regarding the question in the Request on which projects to include on the agenda, we first wish to reiterate that a 'period of calm' is needed. This does not mean that the IASB should do nothing in the three year period covered by the agenda consultation. However, it does mean that the IASB, as a principle, should avoid finalising projects having pervasive effects on financial reporting within this period, unless there is wide consensus among those who apply or use IFRS (or are engaged in doing so shortly) that the pervasive change is needed.

We also believe it is important that the number of projects on the agenda is limited considering the limited resources and the time available. Maybe even more than expressed in the Request, the availability and resources of the various constituents

should be taken into consideration as constituents are those who have the mission to implement well understood and discussed standards. We note that, historically, the IASB seems to have taken too many projects on the agenda at the same time and that many projects therefore may have been delayed. The existing work on the four main projects will continue in 2012 and will thereby have a significant impact on the allocation of available resources and the prioritisation of projects. In addition, we believe that the IASB should spend more resources on developing project proposals and performing post-implementation reviews to the extent suggested in this letter. This means that the IASB will have fewer resources available for developing new standards than it currently has.

One particular project, which EFRAG believes the IASB should give high priority is *Business Combinations under Common Control*. The differences in practice across jurisdictions and the lack of accounting guidance in IFRS on this subject show an urgent need for this issue to be addressed in a timely manner. We refer to EFRAG and the Organismo Italiano di Contabilità (OIC) Discussion Paper 'Accounting for Business Combinations under Common Control', which can be considered as a starting point to bring the debate further and serve as a useful input for a future standard. In addition EFRAG, OIC, DASC and ICAC have started work on the issue of separate financial statements which should help supplement this first approach to the accounting of Business Combinations under Common Control in consolidated financial statements of the transferee. We understand that the scope of the proposed IASB project to include both aspects..

Recommendations to the IASB

We suggest that the views expressed above result in the following tentative recommendations to the IASB for the three year period covered by the Request:

- EFRAG agrees with the IASB that, the IASB should – as a first priority - bring all four main projects on its agenda to a close. In EFRAG's view this requires substantial resources be committed prior to being allocated to any other project. Ensure that, after the finalisation of the main projects, a 'period of calm' is respected to allow issuers, and all involved in the application and enforcement of IFRS compliant financial statements, to focus on implementation to ensure the consistency and quality of application of existing IFRS.
- EFRAG believes that it is important to have a mechanism that helps the implementation process. The aim is to provide guidance and to ensure that the standards are implemented and applied consistently and in a harmonised way, but not to the detriment of quality and the principles-based character of IFRS. At the same time proper attention should be paid avoiding making existing financial reporting literature more complex.
- Focus during the 'period of calm' on Conceptual Framework high priority parts (including performance reporting); allocate resources to activities (such as post-implementation reviews, research activities, surveys of financial reporting) that help prepare evidence based agenda proposals; and concentrate on those projects where an urgent need and/or a solution that is likely to improve financial reporting have been demonstrated, taking into account recent changes in economic and business reality.
- Convergence cannot be a primary driver of agenda setting. Bringing more useful and more relevant information through high quality financial reporting standards to all those who rely on IFRS compliant financial reporting should be the overriding objective when agenda decisions and standard setting developments are made.

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Consult on evidence based fully developed agenda proposals supported by evidence that further development of IFRS is needed (improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled) and that benefits justify the development and implementation efforts.

- Limit the number of projects to be included on the IASB agenda, meeting the limited resources and time available.
- Make proper use of research, but do not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development as it may influence financial reporting.
- Maintain a balanced portfolio of projects (research, standard-level, and narrow-scope), and leave the Board capacity to address new and emerging financial reporting issues.
- Write IFRS in a manner, which makes them understandable by all stakeholders.

Our detailed comments on the Request are set out in the Appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Ralitza Ilieva, Anna Vidal or me.

Yours sincerely,



Pedro Solbes
Chairman
EFRAG Supervisory Board

APPENDIX

EFRAG's responses to the questions asked in the exposure draft

The overall strategic direction and balance of the agenda

Question 1 — What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years.

Question 1(a): — Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Question 1(b) — How would you weight the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

EFRAG's response:

- EFRAG does not agree with the idea of distinguishing between the different categories of strategic areas identified in the Request for the purpose of prioritising the work of the IASB. We think the distinction between developing and maintaining standards is an artificial construct that provides no helpful insights.
- The IASB should determine its resource allocation based on evidence that there are gaps in the set of IFRS or lack of quality in existing standards and that benefits justify the development and implementation efforts. The IASB should publicly consult on evidence based fully developed agenda proposals .
- EFRAG believes it is important that a project which will involve changes in principles is not finalised before the issue is dealt with at Conceptual Framework level, except in exceptional cases.
- Convergence cannot be a primary driver of agenda setting. Bringing more useful and more relevant information through high quality financial reporting standards to all those who rely on IFRS compliant financial reporting should be the overriding objective when agenda decisions and standard setting developments are made.
- EFRAG believes the IASB needs to have procedures in place for termination of projects, i.e. removing projects from the IASB work programme. For example the IASB may decide to close a project if it could not reach agreement on that project within reasonable time.
- The IASB should make proper use of research, but should not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development as it may influence financial reporting.

- The development of the IFRS taxonomy should not be integrated in the standard-setting process. However, the IASB should ensure that its standards are sufficiently clear to enable the development of the IFRS taxonomy.

The standard-setting process

- 1 The Request identifies five strategic areas, and groups these into two categories: developing financial reporting and maintaining existing IFRS. EFRAG does not think it is beneficial to group the IASB's activities in this manner, when considering these in relation to agenda setting. In the view of EFRAG, the Request tries to group different activities into artificial groups, when the activities are inter-related.
- 2 In our view, the purpose of the IASB is to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. We think the steps illustrated in Figure 1, and explained in the following paragraphs, are the steps that need to be considered in that regard and will result in an evidence-based standard setting.

Figure 1 Standard-setting process



Collection of evidence

- 3 We think the process starts with an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. Only when a need is demonstrated, a project can be justified for inclusion on the agenda.
- 4 A need is demonstrated and may be justified when for example:
 - (a) a void in IFRS requirements is becoming critical;
 - (b) changes in underlying economics and transactions result in information prepared under the existing requirements becoming less relevant; or
 - (c) post-implementation reviews, or surveys of existing financial reporting, show that information being prepared under existing requirements is not effective

in meeting users' needs, or is not so widely used that it is cost effective to continue to require it.

- 5 As it appears, post-implementation reviews are one of the methods to identify and demonstrate needs. The post-implementation reviews to be carried out, as one of the sources for revealing any deficiencies in the existing requirements, should, however, be scoped differently than the post-implementation reviews defined in the IASB Due Process Handbook and outlined in the Request. The post-implementation reviews should not be limited to reviewing the effects of IFRS as issued by the IASB, or to areas having raised controversy at the time the existing requirements were prepared. The post-implementation reviews should focus on whether the existing standard (possibly in interaction with other standards) results in complete and appropriate information taking the current economic context and business reality, and perhaps more importantly changes in these, into consideration. They should therefore also include an assessment of whether the information produced as a result of any pronouncement, is useful and used by the users of financial reporting. The scope should be the same whether an 'old' IAS or a 'new' IFRS is reviewed.
- 6 The needs of market participants (especially capital providers) for decision-useful information are vital when performing the post-implementation reviews. It is therefore important that the IASB takes care when identifying these needs. In this regard we would like to mention that EFRAG in cooperation with various National Standard Setters have initiated a project on the use of financial statements, which could provide some information about users' needs. We also wish to reiterate that, in our view, decision usefulness does not only relate to predicting future cash flows but also assessing stewardship.
- 7 While the activity of assessing changes in the current economic context and business reality will involve some research in the area of corporate reporting, we think this research should be limited to monitoring developments that may influence financial reporting. We think the IASB should liaise with the academic community and other organisations that undertake or sponsor research (such as EFRAG in partnership with National Standard Setters). We recognise that for an organisation like the IASB it is essential to monitor developments in areas such as Integrated Reporting, as it may influence future financial reporting. However, as we believe that the IASB's priority for the next decade is to ensure the overall quality of financial reporting, we think the resource allocation of the IASB should reflect this and the IASB should not do more than monitor the developments in the area of Integrated Reporting.
- 8 We think that activities related to the collection of evidence and post-implementation reviews could benefit from having the National Standard Setters involved in carrying out the work, following strictly the process as defined with the IASB, and having regional groups coordinating – and supplementing where necessary - the effort.

Agenda decisions and project proposals

- 9 When a need has been sufficiently demonstrated, a project proposal should be developed.
- 10 In making project proposals, the IASB Due Process Handbook and the IFRS Interpretations Committee Due Process Handbook list some factors that have to be considered. The factors listed in the IASB Due Process Handbook are:

- (a) the relevance to users of the information involved and the reliability of information that could be provided;
 - (b) existing guidance available;
 - (c) the possibility of increasing convergence;
 - (d) the quality of the IFRSs to be developed; and
 - (e) resource constraints.
- 11 The 'sub-factors' to be considered when assessing the 'main-factors' listed above are further specified in the IASB Due Process Handbook.
- 12 We agree with the factors included in the Due Process Handbook, but believe the criterion of "the possibility of increasing convergence" needs to be reconsidered both in terms of the hierarchy of this criterion and its contents. (see below). In addition to what we understand is currently done, we think the IASB's assessment of the factors should be supported by field testing.
- 13 We therefore think it is necessary that an agenda consultation goes beyond a short description of each project as in the Request. The proposal should specify the results of the post-implementation review or other source of evidence identifying the need for the new standard or amendment. Additionally, it should provide a grounded rationale for the project and its implications, including an effect analysis.
- 14 In addition to enabling the selection of the most important projects to be included on the agenda, we think this thorough process would reduce what the Request terms 'maintenance' in the form of amendments to, and interpretations of, standards as it would be possible to identify unintended consequences or conceptual issues related to the project at an early stage.
- 15 The detailed project proposals should be the subject for public consultation before the specific project is started, to ensure that the needs, including the objectives of the future project and the underlying analysis, are well understood and supported by the IFRS community.
- 16 Based on the public agenda consultation, we consider it important that the IASB only includes the most important projects on its agenda considering its limited resources and time available. In our view, history shows that the IASB has had a tendency to include too many projects on its agenda and this may have resulted in the projects being substantially delayed.
- 17 When selecting the projects for the agenda, we also believe it is important that a project which will involve changes in principles is not finalised before the issue is dealt with at Conceptual Framework level, except in exceptional cases. In the event that a new standard or amendment conflicts with the Conceptual Framework, once the IASB has finalised all the high priority parts, a debate on the relevant concepts would be needed. Without strong and convincing arguments for the contrary, the standard should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided. Previously, we have commented that we have been able to see merits in examining issues on a conceptual and standard level in parallel. However, we have noted that this process seems to have favoured the development of specific standards rather than the Conceptual Framework. Should the IASB find it

beneficial to consider standard-level projects involving changes in principles in parallel with the completion of the new Conceptual Framework, we will not discourage the IASB from doing so.

- 18 When a project has been included on the agenda, the purpose and scope of the project should not be changed afterwards without additional consultation.
- 19 The agenda setting process described above, where items are included on the agenda based on needs identified in practice, means that convergence cannot be a primary driver of agenda setting. As a result priority can be given to projects that ease the transition to IFRS of jurisdictions which have made the decision to adopt IFRS if (1) those projects are expected to result in improvements in IFRS compliant financial information at least commensurate with the costs of the change, (2) the need for those improvements has been properly evidenced in IFRS existing practice, and, (3) those projects do not compete with other projects of higher improvement potential for IFRS compliant financial reporting. EFRAG wishes to highlight that convergence efforts led by the IASB in the past six years have not, in many European stakeholders' views, met these necessary prerequisites. Hence, we believe that the existing agenda criteria in the IASB Due Process Handbook (an extract of which being presented in Appendix A of the Request) should be amended in that convergence is put lower in the hierarchy of criteria and is put in the context of improved financial reporting. This would also reflect the decision made by the IFRS Foundation Trustees in their strategy review to focus on adoption rather than convergence.
- 20 EFRAG commends the IASB for having decided to terminate its 2006 convergence programme with the FASB when the current active joint projects come to a close.
- 21 Consequently, EFRAG also believes that if any of the projects that was part of that programme and was put on hold in 2010 was to be considered again, that project would have to be submitted to a fully evidence-based agenda consultation as we have described and be led as an IASB project, subject to the IASB due process.

Agenda projects and revised set of standards

- 22 The projects included on the agenda should then be developed following the IASB's due process on which we will not comment in this letter. However, we would like to mention, that the work related to a project should be based on the objectives of the project, which again are based on identified needs. During the projects, effect analyses should be carried out at appropriate stages in accordance with the discussion paper Considering the Effects of Accounting Standards issued by EFRAG and the UK Accounting Standards Board. These tests should assess whether the objectives of the project are likely to be met, and whether the application of the possible future standard will result in high quality and improved information. The assessment should consider the outcome of a standard (taking the preparer's capacity to implement and the user's ability to understand the information into account) rather than just considering the requirements of the standard.
- 23 EFRAG also believes the IASB need to have procedures in place for termination of projects, i.e. removing projects from the IASB work programme. For example the IASB may decide to close a project if it could not reach agreement on that project within reasonable time, or which are without prospects to be successfully finalised in the time.

- 24 The projects selected for the agenda will eventually result in a revised set of standards (including the Conceptual Framework), and this new set of standards should then be subject to a review in the future.

XBRL activities

- 25 We note that the IASB considers improving the consistency and quality of application of IFRS. This activity should include consideration of the completeness and consistency of integration of XBRL with IFRS. We are uncertain how to interpret this view. We believe that the development of the IFRS taxonomy should not be integrated in the IASB standard setting process, but remain a separate activity of the IFRS Foundation. XBRL is a facilitator, a language, supporting electronic communication of financial reporting. We are 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, more in particular in the area of disclosures. At the same time, we are aware that XBRL is used by entities when communicating financial information. It is therefore important that the standards developed by the IASB are sufficiently clear to allow the development of a relevant IFRS taxonomy. Otherwise the implementation of new standards may result in less useful information being communicated to users than what was intended by the IASB.

Prioritising existing and potential new projects

Question 2 — What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Question 2(a): — Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Question 2(b) — Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated and why? Please link your answer to your answer to question 2(a).

EFRAG's response:

- Before devoting significant time and resources to any new issues, the IASB should – as a first priority - bring all four main projects on its agenda (Revenue Recognition, Leases, Financial Instruments and Insurance Contracts) to a close. These latter projects should be an immediate priority for the IASB and will have a significant impact on the resources availability. All projects should be accompanied by appropriate effects studies and field testing before any final standard is issued.
- A 'period of calm' and a stable platform are needed in order to ensure proper understanding by users and preparers of changes made to IFRS, consistent application of IFRS across jurisdictions and greater consistency in financial reporting over time.

- When assessing what projects to include on the agenda, the following factors should be considered:
 - (a) the number of projects to be included on the IASB's agenda should be limited, taking account of the limited resources and time available;
 - (b) a need to improve financial reporting has been demonstrated;
 - (c) unless strong and convincing arguments can be presented in favour of the contrary, a standard conflicting with the Conceptual Framework, once the IASB has finalised the high priority parts, should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided. The projects to include on the agenda should be chosen based on the assessed effects of completing the projects;
 - (d) the IASB would also need to respond to urgent or unexpected issues that may arise;
 - (e) understandability.
- The IASB should consult on evidence based fully developed agenda proposals supported by evidence that improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled, and that benefits justify the development and implementation efforts.
- Respecting the need for a 'period of calm', the IASB should work on Conceptual Framework high priority parts (that is, first and foremost, performance reporting; disclosure framework, and also, definitions of elements; measurement guidelines); post implementation reviews and other research activities that help to prepare evidence-based project proposals; and those projects where an urgent need and/or a solution that is likely to improve financial reporting have been demonstrated, also taking into account recent changes in economic and business reality.
- Whilst making proper use of research, the IASB should not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development, as it may influence financial reporting.

Projects to be considered on the agenda

- 26 Before devoting significant time and resources to any new issues, the IASB should – as a first priority - bring all four main projects on its agenda (Revenue Recognition, Leases, Financial Instruments and Insurance Contracts) to a close. In EFRAG's view this requires substantial resources as, according to EFRAG's previous recommendations, the IASB should:
- (a) ensure that proper effects studies and field testing are conducted prior to the issuance of any final standard;
 - (b) finalise the Revenue Recognition standard in a way which ensures that all changes from current requirements will bring improvement in the reporting of revenue;

- (c) bring appropriate answers to the fundamental justifications that European constituents have asked for in support of the IASB's proposals on Leases and adjust the current proposals subsequently if necessary prior to any further consultation, or drop the project;
 - (d) finalise an overall high quality financial reporting standard for financial instruments that meets the needs of European constituents, including, but not only, in accounting for insurance contracts; initiate to that purpose new consultation on proposals on classification and measurement – including impairment – of financial assets and liabilities. The proposals EFRAG has made in its comment letters will we believe also contribute to the extent possible finding converged solutions.
 - (e) finalise the Insurance Contract standard without unnecessary delay to make it applicable at the same time as the final standard on financial instruments.
- 27 Continuing the work on these projects will limit the IASB's resources for other projects considerably, thus these projects will have an impact on the final agenda decisions.
- 28 As mentioned earlier, EFRAG believes that consistency in implementation should be the first and foremost objective of the IASB in the near future, to mitigate the risk that practices related to implementation will diverge. We therefore think a 'period of calm' is needed once the four main IASB's projects would be brought to a close and the IASB should have this in mind when considering what projects to be included on its agenda.
- 29 This does not mean that the IASB should do nothing in the three year period covered by the agenda consultation. However, it does mean that the IASB as a principle should avoid finalising projects having pervasive effects on financial reporting within this period, unless there is wide consensus among those who apply or use IFRS (or are engaged in doing so shortly) that the pervasive change is needed.
- 30 EFRAG believes that it is important to have a mechanism that helps the implementation process. The aim is to provide guidance and to ensure that the standards are implemented and applied consistently and in a harmonised way, but not to the detriment of quality and the principles-based character of IFRS. At the same time proper attention should be paid avoiding making existing financial reporting literature more complex.
- 31 Other factors, EFRAG thinks should be considered when deciding on the agenda include:
- (a) *Limited number of issues.* The number of projects to be included on the agenda should be limited considering the limited resources and time available. Historically, it seems that the IASB has been too ambitious with the number of projects it has included in its agenda and, in our view, this has hampered the ability of the IASB to finalise these projects in a timely manner and has led to a due process 'overload' for constituents. In addition, in the view of EFRAG, the IASB should in the future spend more resources on preparing the agenda proposals (see paragraphs 9 - 18 above). While the latter in the long run will result in the IASB spending its resources more effectively, this results in fewer resources available for project development in the short run.

- (b) *Projects should only be included on the agenda where there is evidence to support that improvements are necessary on a particular topic.* As mentioned above in our response to the first questions included in the Request, we think the agenda setting should be evidence based. Accordingly, if there is not sufficient evidence to demonstrate the need for a new standard or amendment, the related project should not be included on the agenda.
 - (c) *Focus on the Conceptual Framework high priority parts.* In paragraph 17 above we noted that projects that will involve changes in principles should not be finalised before the issue is dealt with at a conceptual framework level, unless there are strong and convincing arguments in favour of the contrary. As we believe that some of the projects suggested in the Request should involve a broader consideration of the principles, we think that it would be better if the IASB spends a considerable amount of its resources on the Conceptual Framework to finalise the high priority parts. Should the IASB find it beneficial to consider standard-level projects involving changes in principles in parallel with the Conceptual Framework, we will not discourage the IASB from doing so.
 - (d) *Not all projects may require the Conceptual Framework to be changed.* Although we believe that some of the projects listed in the Request should involve consideration of principles, there are also some issues that could be solved within the existing framework and thereby improve the quality of IFRS and facilitate consistent application. These projects are those that, within the existing Conceptual Framework, could solve issues where the existing requirements have shown to cause problems in practice and where guidance is needed.
 - (e) *Urgent issues.* Of course, the IASB would also need to respond to urgent issues that may arise. Our recommendation would be that a balanced portfolio of projects (research, standard-level, and narrow-scope) is maintained, and that the Board is at all times capable of addressing new and emerging financial reporting issues.
 - (f) *Understandability issues.* The IASB needs to strike a balance between the benefits of providing users with transparent information and complexity of the standards. Participants in the EFRAG outreach events expressed the view that IFRS are too complex, not understandable and difficult to apply and there is a need for simplification, which also improves consistency of the standards. Our recommendation is that IFRS should be written in a manner, which makes them transparent to, and understandable by, all stakeholders.
- 32 Once the four main projects have come to a close, the IASB should work on revise and supplement the existing Conceptual Framework as a priority. EFRAG believes that 'high quality standards' should be based on a sound conceptual framework. Revising and supplementing the existing framework is necessary to clarify the financial reporting model that should drive further developments of IFRS, and ensure that this financial reporting model is both fully understood and accepted by jurisdictions which apply IFRS. As a result, we believe that this project should no longer be pursued as the joint project with only the FASB, but be developed in close cooperation with regional and national accounting bodies in Europe and other areas where the decision of adoption of IFRS has been made.

- 33 EFRAG also believes that this project should not be allowed to take years, but the necessary work be developed diligently. To that purpose the IASB needs to identify priorities, i.e. revise the current framework to the extent that it has proven deficient or incomplete. EFRAG has identified four priorities where development at conceptual level is needed. First and foremost, the two following priorities::
- (a) the reporting of performance and its inter-relationships with measurement; and
 - (b) the development of a disclosure framework, to ensure that all and only relevant disclosures are provided to users and to avoid that useless information finds its way into financial reporting, undermining the transparency and the easy access to relevant information.

The two following areas need also be addressed with high priority:

- (c) the definitions of elements including assets and liabilities, starting – and limiting the review to - a clear identification of where the current definitions have been deficient in practice or where a contradiction between the elements as defined in the current framework and the current standards need to be removed; and,
 - (d) measurement guidelines, to fill the current vacuum.
- 34 EFRAG believes it is important that the IASB considers performance reporting on a higher conceptual level. We note that a vast number of constituents, in responding to consultations on various IASB projects, persistently raised a concern about the lack of a debate on the fundamental issues underlying performance reporting. This project should consider:
- (a) the notion of performance and the impact of the business model on it;
 - (b) the principle underlying the distinction between profit or loss and other comprehensive income (OCI); and
 - (c) reclassification of OCI items (recycling).
- 35 Based on the feedback received during the outreach, EFRAG believes that the project addressing performance reporting should be conducted prior to proceeding with the presentation issues.
- 36 In relation to the issue, we would recommend the IASB to consider EFRAG's discussion paper on performance reporting (and the feedback statement we prepared) and note that EFRAG has initiated a project on the business model which may also be beneficial for the IASB to consider in this regard.
- 37 Furthermore in the view of EFRAG, current disclosure requirements do not always focus on the right disclosures and greater relevance is needed. The development of a disclosure framework, to ensure that all and only relevant disclosures are provided to users and to avoid that useless information finds its way into financial reporting, undermining the transparency and the easy access to relevant information should be a priority. In this respect we refer to the project EFRAG is undertaking in partnership with the Autorité des Normes Comptables (ANC) and the Accounting Standards Board (UK ASB) and in cooperation with the FASB. This project does not cover the entire spectrum of financial reporting but should provide important input in terms of placement criteria (the boundary of financial statements

being redesigned), of materiality in disclosures and of principles to limit the information provided to what is useful to users. We expect this work to be completed in the first half year of 2012 and think the IASB should use it to develop a Disclosure Framework.

- 38 During the outreach events, organised by EFRAG and European National Standard Setters, EFRAG conducted a short survey among participants to seek their views on the specific projects included in the Request for views, which they thought should be included on the IASB's agenda and those that should not be included. Participants could also include other projects they thought were most or least important. 190 participants provided their views through the completion of a questionnaire.
- 39 The results from the survey show that the IASB should give highest priority to developing the Conceptual Framework (including the development of a Disclosure Framework), Other Comprehensive Income and Business Combinations under Common Control. Therefore in addition to the Conceptual Framework, which will address the performance issues and the Disclosure Framework, EFRAG believes that the IASB should give priority to the project on Business Combinations under Common Control to consider the differences in practice across jurisdictions because of the lack of accounting guidance in IFRSs on this subject. We refer to the EFRAG and the Organismo Italiano di Contabilità (OIC) Discussion Paper 'Accounting for Business Combinations under Common Control', which can be considered as a starting point to further the debate on this issue and serve as a useful input for a future standard. In addition EFRAG, OIC, DASB and ICAC have started work on the issue of separate financial statements which should help supplement this first approach to the accounting of Business Combinations under Common Control in consolidated financial statements of the transferee. We understand that the scope of the proposed IASB project to include both aspects
- 40 Participants also indicated that, from their point of view, the least important projects were those on Islamic transactions and instruments, Inflation accounting, Country-by-country reporting, Agriculture and Rate-regulated activities. In addition we would like to observe that some of the outreaches ranked the liabilities (amendments to IAS 37) as being amongst the least important projects.