



European Financial Reporting Advisory Group ■

*KSR*

KOMITET STANDARDÓW RACHUNKOWOŚCI



Stowarzyszenie Księgowych  
w Polsce



# EUROPEAN OUTREACH ON THE IASB'S AGENDA CONSULTATION 2011

ASC

EFRAG

**WARSAW – 15 NOVEMBER 2011**



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## PANEL

- Joanna Dadacz – *ASC Chairman*
- Prof. Jerzy Gierusz – *ASC Member*
- Anna Sirocka – *ASC Member*
- Saskia Slomp – *EFRAG Director*
- Michael Stewart – *IASB Director of Implementation Activities*

## PREPARATION OF THE FEEDBACK STATEMENT

This note has been prepared for the convenience of European constituents by the EFRAG secretariat. It has been reviewed by representatives of the IASB and has been jointly approved for publication by representatives of EFRAG, the Polish ASC, the Accountants' Association in Poland and KIBR attending the event.

## Introduction

In July 2011 the IASB published its Agenda Consultation 2011. In this request for views, the IASB asks for constituents' views on the strategic balance and direction and specific projects to be included on its agenda. EFRAG published its draft comment letter in response to the consultation in August 2011. In addition, EFRAG, in co-operation with National Standard Setters, arranged a series of outreach events to obtain input from European constituents and to understand their main priorities and needs.

This feedback statement summarises the comments made at the outreach event arranged in co-operation with the Polish Accounting Standards Committee ('ASC'), together with the Accountants' Association in Poland and the National Chamber of Statutory Auditors on 15 November 2011 in Warsaw.

The discussion focused on the issues related to:

- Agenda setting process
  - IASB's broad strategic direction
  - The role of convergence
  - IFRS' enforcement and interpretation
  - Request for a period of calm
  - Evidence based agenda setting process
  - Enhancement of the Conceptual Framework
- Specific projects to be included on the IASB's agenda
  - Projects suggested by participants

## Agenda setting process

### *IASB's broad strategic direction*

The IASB's agenda consultation document (hereafter referred to as the 'IASB's Request') asks constituents what the IASB's strategic priorities should be, and how the IASB should balance these over the next three years. The IASB Director present at the event highlighted the importance of European constituents' views to shape the IASB's broad strategic direction.

The IASB's Request identifies five strategic areas and groups them into two categories: developing financial reporting and maintaining existing IFRS standards.

At the event, an ASC member expressed the ASC's view that the IASB should focus its work and allocate the available resources in three different groups of activities. The first group should concentrate on completing those projects regarded as key priority projects by the ASC: (i) the Conceptual Framework, (ii) the standards on Financial Instruments, and (iii) the standard on Insurance. The ASC member urged the IASB to complete them in the next three years.

Regarding the Conceptual Framework, the ASC member highlighted that a sound foundation for the application of all standards was needed. He believed that finishing the Conceptual Framework should be an absolute priority. The IASB should avoid pervasive implications that arose from its incompleteness. Projects had to be postponed or stopped if the Conceptual Framework did not have a basis to rely on when developing or amending a standard.

The ASC member also believed that the standards on Financial Instruments and Insurance were very important. He noted that IFRSs only included temporary requirements for insurance contracts, thus ASC believed the new standard should provide a consistent measurement approach for all insurance companies. In addition, the ASC believed these projects should have priority over the standards on Revenue Recognition and Leases. The latter projects had raised a lot of controversy and, as stated in its comment letters, ASC did not fully support the new proposals.

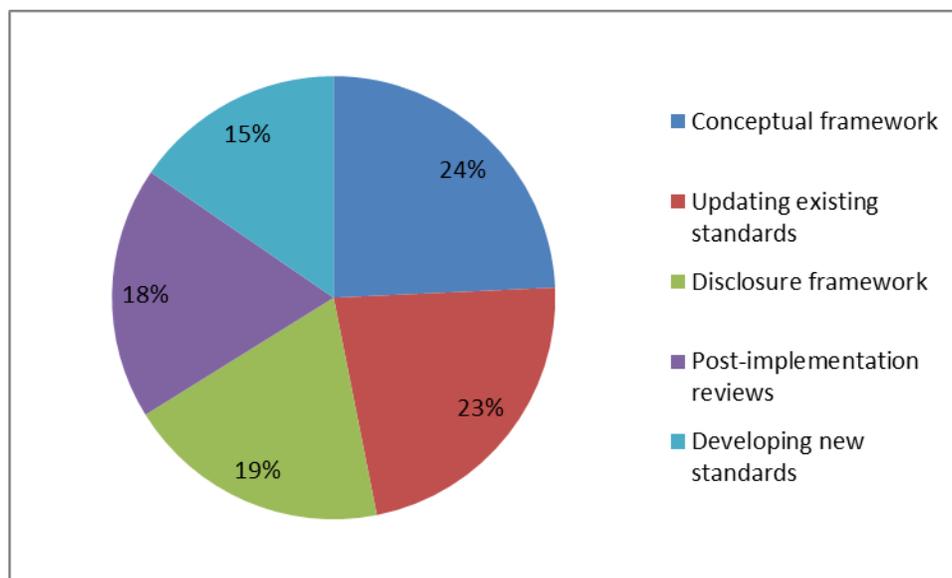
The second group of activities should be oriented to those projects which the ASC believed were necessary, and the ASC was expecting to find them in the next IASB's agenda work plan. In this respect, the ASC believed that Business Combinations under Common Control (BCUCC) should be a project included in this second group. BCUCC was considered an important issue to deal with due to diversity in practice and the lack of specific guidance in IFRS. There has been a lot of consultation with Polish companies regarding the accounting treatment of this type of

transactions. The projects on earnings per share, emissions trading schemes and foreign currency translation were also tentatively put forward by the ASC to be included in the next IASB's work program.

The last group should be concentrated on those other activities that the IASB is currently doing on a continuous basis. ASC believed the IASB should maintain those activities. In particular, the ASC supported the review cycle of the *IFRS for Small and Medium-sized Entities* and the process of annual improvements to IFRS.

In general terms, the ASC noted that (i) the IASB should focus on a limited number of projects, (ii) the development of selected projects should not be delayed in time, and (iii) the IASB should only be committed to the issuance of high quality standards and discussion papers.

Participants in the event completed a short survey which invited them to balance IASB's resource efforts between various strategic priorities. The following graphic shows the results obtained based on 51 participants that completed the questionnaire:



### *The role of convergence*

It was discussed whether convergence should still play a role in the agenda setting, and it was noted that EFRAG's draft comment letter presented the view that convergence cannot be the driver of agenda setting. The EFRAG Director clarified that if high quality standards were the

result of convergence between IFRSs and different sets of accounting standards, EFRAG would support the process of convergence. Particularly, she noted that the IASB and the US Financial Accounting Standards Board (FASB) had been working together since 2002 to achieve convergence of IFRS and US GAAP; however, it seemed that this process of convergence has not in all cases led to high quality global standards. She stressed that one EFRAG's objective is to ensure that European views on the development of financial reporting were properly and clearly articulated in the international standard-setting process.

A participant from an audit firm believed convergence should be a driver for setting the IASB's agenda. The recent financial markets crisis reinforced once again the message that there was a global mutual dependency. The financial position derived from financial statements is built on the different sets of accounting standards that companies are using. As a consequence, he believed that a single set of standards would promote companies to be in a level-playing field and enhance comparability. Convergence in his view is important as long as it supports and results in a single set of high quality global financial reporting standards.

The IASB Director expressed the view that the IASB is fully committed to high quality standards. He referred to the standard on Revenue Recognition as an example. Taking into consideration only a pure technical assessment, the re-exposure was not necessary, and even the re-exposure that the IASB decided to do could have been limited to certain specific new proposals which represented significant differences compared to those included in the initial Exposure Draft. However, the Board had preferred to re-exposure the full text in order to ensure a high quality standard.

#### *IFRS' enforcement and interpretation*

The IASB's Request does not identify among the five strategic areas the role of enforcement of IFRS since the IASB is not the competent authority for ensuring IFRS application. In relation to the interpretations of IFRS, the IFRS Interpretations Committee (IFRSIC) has a responsibility in maintaining IFRS by developing interpretations and proposing amendments through annual improvements to standards. However, the IASB's Request neither clarifies whether the IFRSIC should be more involved in the agenda setting process, nor does it articulate on the future responsibilities in the forthcoming years of IFRSIC.

A participant from an audit firm wondered which role the IASB should play in the enforcement and interpretation process. Another participant reiterated the importance of enforcement. He noted that governments were amending IFRS when adopting them in their local accounting

standards, and believed sometimes it was not accurate to say that financial statements were IFRS-compliant.

The IASB Director noted that one of his responsibilities is to look after the IFRSIC. He highlighted that the IFRS Trustees were reviewing the work of the committee. The request is made that IFRSIC should provide more guidance and more help to the IFRS community. From his point of view, this message was complementary to the idea of consistent implementation. Regarding enforcement, it is the role of regulators, not of the IASB. IFRS are high level principle-based standards, therefore there is a trade-off between giving answers to questions IFRSIC received and making annual amendments, and not prescribing too many details and allowing for judgement. However, he believed the IFRSIC could assist regulators by providing them with more guidance on how to apply the principles included in the standards. He noted that, in overall terms, the work of the IFRSIC in maintaining IFRS standards has a significant importance within the broad IASB's strategic direction.

Responding to the point raised about governments amending IFRSs when they adopt them, the IASB Director believed there were various ways governments set requirements for companies. Governments usually chose an incremental approach, which meant IFRSs requirements were locally deployed and additional requirements were imposed. If the amendments were not IFRS-compliant, they would undermine the overall objective to achieve a single set of global standards.

The EFRAG Director noted that EFRAG is neither an accounting standard setter nor an enforcement body. However, EFRAG supports consistent application of IFRS standards and aims at playing a facilitating role together with other European organisations. EFRAG is working very closely with European National Standard Setters by holding regular meetings, and organising and conducting public hearings to seek views on crucial issues as evidenced by the current outreach event. Discussions with those Standard Setters were held on an on-going basis, thus enhancing the facilitating role of EFRAG.

#### *Request for a period of calm*

The IASB Director noted that the Board's initial view on the development of financial reporting included the selection of certain standards- projects. In addition to identifying the projects that should be included on the agenda, deleted or postponed, the IASB would also appreciate participants' views regarding the need for a period of calm. Constituents may want a stable platform of standards before further substantial projects are undertaken.

The EFRAG Director highlighted that a period of calm was a precondition for achieving what EFRAG argued should be the most important objectives of the IASB: (i) to mitigate the risk that evolutions and changes to IFRS standards would not be well understood by users and preparers, and (ii) to mitigate the risk that IFRS standards would not be implemented in a consistent manner by those already applying them or moving to their adoption.

The ASC is in favour of a period of calm, although it would support minor necessary changes to current standards if needed. However, the changes should not be too often (a three year period without changing certain IFRS could be considered). An ASC member noted that preparers and users need time to understand the standards and assess their implications. He thought that they should avoid a situation where companies had to spend large amounts of money to apply new standards. In addition, if standards were revisited and changed in a recurrent way, comparability would be impaired.

Participants generally agreed that a period of calm would be appreciated once the four main projects currently included in the IASB's agenda would be finalised (i.e. the standards on Revenue from Contracts with Customers, Leases, Financial Instruments and Insurance Contracts).

Particularly, a participant representing a group of preparers noted that in the last four years the level of the IASB's activity has increased. There were many exposure drafts and new proposals in the past few years. Small and middle size listed companies needed to rely on external accounting firms to understand the standards. These companies cannot afford an internal department to monitor IFRS and are of the opinion that IFRS are costly to apply. In addition to standards being difficult to understand, the participant believed that it is hard to explain financial statements to investors and, even, to the companies' board of directors. Before undertaking new projects, it is really necessary to give at least some time to go through the various standards in order to ensure the consistency and quality of the application. Another preparer added that a period of calm could only be ensured if standards are more principle-based. From his point of view, regular changes to existing standard proved that standards were not sufficiently principle-based.

A participant with an academic background also noted that a period of calm was well perceived by the educational community provided that it would not lead to leaving the Conceptual Framework unfinished.

The EFRAG Director noted that EFRAG's point of view was aligned with the previous thoughts. A period of calm should allow the IFRS community to focus on the understanding of the

standards and its implementation and, on the other hand, the IASB would be able to focus during this period on the completion of the Conceptual Framework and the current four main standards.

#### *Evidence based agenda setting process*

In its draft comment letter, EFRAG states that agenda decisions should be based on an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. When there is evidence that a new standard, or amendment to an existing standard, is needed, the next step should be to develop a specified project proposal. Possible evidence may include a gap in the existing IFRS requirements, and situations where information becomes less relevant or may be a result of post-implementation reviews.

EFRAG suggests in its comment letter that the project proposals should specify the evidence of the need for the new standard or amendment as well as its objective and scope in order to, at a later stage, be able to assess whether the application results in high quality and improved information. The project proposals should be subject to public consultation.

One preparer noted that the IASB should further consider the feedback received from preparers and users when setting its agenda, and agreed that tentatively selected projects should be the subject for public consultation before the specific project is started.

#### *Enhancement of the Conceptual Framework*

In its draft comment letter, EFRAG agrees with the IASB's request that one of the projects and priorities of the IASB should be the enhancement of the Conceptual Framework. EFRAG also states that unless there is strong and convincing arguments for the contrary, new standards that are in conflict with the Conceptual Framework should not be issued until a more fundamental debate has been had on the issue in question. It should be noted that proposals for enhancing the Conceptual Framework also included the development of a Disclosure Framework.

The IASB Director explained that the IASB had only completed the first steps towards a new Conceptual Framework. The project's overall objective was to create a sound foundation for future accounting standards. It is a joint project conducted in different phases and only two chapters were completed during last years.

Although the ASC believed that the Conceptual Framework should be a key priority in the next IASB's work plan, participants in the event seemed to attach less importance, ranking other

projects above it. Participants wondered how many years would be needed to finalise the Conceptual Framework and whether the Board would be able to deal with other projects at the same time. The IASB has been working on this project for a long time and its incompleteness was unhelpful for the discussions and due process of the development of standards.

The IASB Director noted that one of the decisions of the Board was how to prioritise the resources between projects. One choice could be to devote significant resources to an individual project, like the Conceptual Framework, allowing for faster progress. In this case, fewer resources would be allocated to other projects; however, the IASB would continue working on them, although more slowly, and would not resist to modify its work program to react to changes in economic and business reality.

A participant also noted that the IASB should not issue new standards if they were in conflict with the Conceptual Framework.

## **Specific projects to be included on the IASB's agenda**

### *Projects suggested by participants*

Participants completed a short survey on what specific projects they thought should be included on IASB's agenda and what projects should not be included. The survey was based on the list included in the IASB's consultation document of projects previously added to IASB's agenda, but deferred, and new project suggestions. However, participants could also include other projects they thought were important. The survey was completed by 51 participants.

The top six projects to be included were (in descending order):

- Presentation and disclosure standard (36);
- Financial statement presentation (excluding other comprehensive income) (25);
- Business combinations between entities under common control (25);
- Conceptual Framework (21);
- Intangible assets (20); and

- Other comprehensive income (16).

ASC members were surprised by the above results, since they differed from the projects selected by the ASC. Except for BCUCC, the projects on earnings per share (0), emission trading schemes (10) and foreign currency translation (9), did not receive a broad support of participants.

The IASB and EFRAG Directors also noted that the project on post-implementation benefits (4) was not on the list of preferred projects.

A participant in the event believed that the results of the survey were somehow predictable and were very much in line with her expectations. Financial statements preparers tend to focus on designing systems to produce information, thus the projects on presentation and disclosure were important in order to shape the desirable output. She believed that those who were concerned with developing principle-based standards give more importance to the Conceptual Framework. Regarding the project on post-employment benefits, it did not appear in the list because of natural reasons. Poland had been a market economy for the last 20 years; therefore, the development of employee benefits had significantly less history compared to other countries. The current crisis is not helping to this development.

A participant from an academic background noted her overall disagreement with the current approach used to develop IFRS standards. Accounting was not only a quantitative science, it was also a social science and this circumstance should be taken into consideration, i.e. experts from other sectors need to be involved in financial reporting. Another participant argued against this particular point of view: if all the ramifications were considered, comparability could be seriously impaired.

A tax lawyer participant in the event commented on the fact that IFRS were principle-based. She noted that in a European forum it was discussed whether financial statements prepared under IFRS could be a starting point to determine joint corporate tax bases. Participants in the European forum rejected this approach for different reasons; among them, the language used in IFRS not being precise enough. The European forum therefore decided that they would base their work on certain notions included in IFRS such as revenue, provisions and fixed assets; thus she believed that IFRS should be more precise and rule-based in order to allow for a broader use by lawyers and others.

An ASC member from an academic background agreed that a standard on presentation and disclosures was needed. Although the Polish accounting law included certain appendices

discussing the content of financial statements, the participant believed there is a high positive correlation between the auditor appointment and the relevance of information: ‘the better the auditor, the better the presentation for listed companies’.

The EFRAG Director noted that EFRAG’s proactive projects that were advanced or close to their publication could be included in the next IASB’s agenda and used as valuable initial input for IASB’s work. She noted that EFRAG had recently released a discussion paper on BCUCC and was expecting to issue its proactive paper on income tax a few weeks after the outreach event. She also referred to current on-going projects such as disclosure framework, separate financial statements and on how financial statements are used by capital providers.

One participant indicated in the survey that the project on separate financial statements should be included in the IASB’s agenda. A new project on long-term contracts with costumers was also suggested by one participant.

Participants thought the least important projects to be included on the IASB’s agenda were:

- Islamic transactions and instruments (20);
- Agriculture (14);
- Rate-regulated activities (14);
- Inflation accounting (13);
- Country-by-country reporting (12); and
- Post-employment benefits (10).

A participant was surprised by the participant’s lack of support towards the specific accounting needs of Islamic countries. She expressed the view that answers were not consistent with the current economic context and had not considered the crisis in the European Union as a global issue. Islamic countries could provide finance to the European Union in the future. Thus, she believed the European Union should respect the needs of those countries and include a project on Islamic transaction and instruments in the IASB’s agenda. She referred to the risk that Islamic countries could choose other sets of accounting standards.

The participation by users in the event was also discussed. One participant wondered how many users were attending the outreach event and whether they wanted to have an influence on

the IASB or EFRAG's work. He believed considering users' opinions is fundamental in shaping the IASB's agenda.

The EFRAG project manager noted that approximately 10% of participants had indicated a user background in the survey. This result was quite good compared to other outreach events. The EFRAG Director noted that, in general, it is difficult to get users involved in all the issues related to financial reporting. The group of interested users willing to be involved is relatively small. In overall terms, they do not have enough time to devote to financial standards' development compared to preparers or auditors. She also noted that one of EFRAG's objectives for 2012 is to enhance the relationship with users and referred to EFRAG's User Panel which serves as a platform to get valuable input from users.

The IASB Director agreed with the previous statements. He noted that the IASB was running out separately outreach activities on the Agenda's Request for preparers and users.

Investors do not usually take part in the commenting process; however, their input is vital to get the IASB agenda right. Under these circumstances, the IASB had thought on three different ways to get their valuable input, including (i) online surveys, (ii) small group meetings with users, and (iii) users-focused webcast sessions. The overall objective is to understand what needs to be changed from a user perspective.