

The logo for EFRAG, consisting of a small square icon with a white square inside, followed by the letters "EFRAG" in a bold, blue, sans-serif font.

European Financial Reporting Advisory Group ■

A large, stylized graphic of the numbers "09" in white. The "0" is a simple circle with a small tail at the top left. The "9" is a circle with a long vertical stem extending downwards. The "9" is partially overlapping a blue square that contains the text "ANNUAL REVIEW" in white, uppercase, sans-serif font.

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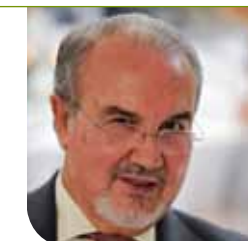
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## EFRAG OBJECTIVES

- PROVIDING PROACTIVE ADVICE TO IASB (THE INTERNATIONAL ACCOUNTING STANDARDS BOARD);
- STIMULATING, COORDINATING AND CARRYING OUT PROACTIVE ACCOUNTING ACTIVITIES;
- ENDORSEMENT ADVICE TO THE EUROPEAN COMMISSION ON THE ACCEPTABILITY OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN EUROPE;
- ADVISING THE EUROPEAN COMMISSION ON CHANGES TO THE ACCOUNTING DIRECTIVES AND RELATED TOPICS.

## Message from the Chairman of the Supervisory Board Pedro Solbes



**Pedro Solbes**  
CHAIRMAN OF THE SUPERVISORY BOARD

We thought that 2008 had been a very challenging year for financial reporting standard setting, dealing with the implications of the financial and economic crisis. However 2009 turned out to be an even more challenging year from a political and technical accounting perspective and again has been largely dominated by the financial and economic crisis and the related consequences for financial reporting.

### FINANCIAL CRISIS

The financial crisis has put pressure on relevant bodies to get the effects of the crisis addressed. Measures have been taken to change the global system of financial regulation. As a result, financial reporting continues to receive political attention as it is seen to be a crucial element in providing and restoring market confidence. Not only does financial reporting feature as a regular point on the European Union (EU) Council of Finance Ministers' agenda, but also at a global level it has been - and still is - on the political agenda. Notably the Group of Twenty (G20) and the Financial Stability Board have called for standard setters to respond globally to the crisis through the development of high quality globally accepted financial reporting standards. The importance of appropriate European input into this international standard setting process has also been expressed at the highest political level and is a key issue for European institutions.

EFRAG's work over the past year has been driven to a higher level of activity than in previous years responding to numerous International Accounting Standards Board (IASB) pronouncements and due process documents. Notably the IASB's proposals on fair value measurement and financial instruments came under attack in 2009. As a result of calls made by the G20, the IASB made the decision to replace International Accounting Standard 39 Financial Instruments: Classification and Measurement (IAS 39). The IASB split the project into three (or more) phases and finalised the first part in November 2009 with the publication of International Financial Reporting Standard 9 Financial Instruments (IFRS 9) dealing with the classification and measurement of financial assets. The Supervisory Board (SB) gave permission for a fast track due process in relation to the EFRAG endorsement advice on IFRS 9. However after consultation, the European Commission (EC) decided not to fast-track the EU endorsement process.

### CONVERGENCE

In addition to the financial crisis, convergence between IFRS and US GAAP has been a prominent driver in setting the IASB's agenda over the last few years. This is evidenced by the IASB convergence program and the large number of convergence projects scheduled to be completed before June 2011. EFRAG has strongly conveyed the message that the existing objective of convergence is no longer sustainable as IFRS has now achieved a sufficient degree of worldwide acceptance to be fully independent of national standards. In EFRAG's view, the drive for convergence should be replaced with the objective of promoting and facilitating the national adoption of IFRS as a means of achieving high quality, globally accepted, financial reporting standards. In this respect EFRAG welcomes the IASCF Trustees' announcement of February 2010 that convergence is a strategy aimed at promoting and facilitating the adoption of IFRS but is not an objective in itself.

### IASB GOVERNANCE

The Trustees have announced changes to the IASCF Constitution and at the same time announced a number of reviews including a review of the future strategy of the IASB post June 2011. In Europe (and elsewhere in the world) calls are regularly made for further improvements to the IASB governance structure in relation to its accountability and independence. The SEC, in its February 2010 statement, also highlighted accountability and governance of the IASB as an important element in their future decision on whether to require IFRS for US issuers. Proper governance of the IASB is essential in light of the number of forthcoming and potentially for Europe, controversial IASB pronouncements. Europe therefore needs to have input into the IASB governance debate and be specific about its concerns.

PROPER GOVERNANCE OF THE IASB IS ESSENTIAL AND EUROPEAN INPUT TO THE IASB GOVERNANCE DEBATE IS VERY IMPORTANT.

## ENHANCEMENT OF EFRAG

Closer to home and more inward looking EFRAG's final report "Strengthening the European Contribution to the International Standard Setting Process" was published in December 2008 and became operational in 2009. It saw the appointment of the new SB and its Nominating and Audit and Budget Committees as well as the establishment of the EFRAG Planning and Resource Committee (PRC) to set the European proactive agenda. EFRAG has also increased its technical staff, attracting many very good candidates demonstrating that EFRAG is an interesting and challenging place to work and gain experience.

EFRAG is very grateful for the EC's decision, effective from 2010, to co-fund EFRAG thereby enabling its enhancement. However, the EC's contribution of up to 50 % of the total expenses of EFRAG requires sustainable long-term private sector funding. The base funding of EFRAG is provided by the European organisations that stand behind and are members of EFRAG. Additional contributions of funding have been provided by the National Funding Mechanisms in a number of EU Member States. In 2010 and in the future, it is essential that not only several of the larger economies bear their share of the private funding responsibility of EFRAG, but that further National Funding Mechanisms are created in a wider range of European countries. This will provide a broader base of private sector funding and soundly balance the funding provided by the EC.

In the summer of 2009 the new SB took over their responsibilities from the former SB chaired by Göran Tidström. I would like to take this opportunity to express my thanks to Göran Tidström for all his efforts and his contributions to the success of EFRAG. He is seen by many as the "father" so as to have twice of EFRAG having chaired the SB since EFRAG's creation in 2001 and been instrumental in its establishment.

The other main SB activities are listed below.

GÖRAN TIDSTRÖM IS SEEN BY MANY AS THE "FATHER" OF EFRAG HAVING CHAIRED THE SUPERVISORY BOARD SINCE EFRAG'S CREATION IN 2001 AND BEEN INSTRUMENTAL IN ITS ESTABLISHMENT.

Amidst the technical and political challenges of 2009, the enhanced structure and governance of EFRAG became operational. The increase in resources and notably the increase in proactive work should make it possible for EFRAG, on Europe's behalf, to have greater influence with the IASB as it formulates views on financial reporting issues and before it issues discussion papers or other due process documents. The enhancement should ensure that Europe enhances its thought-leadership in financial reporting matters.

I am proud that EFRAG, since its establishment in 2001, has grown rapidly in importance and is currently recognised as a key player in global standard-setting. It is often referred to as the third largest "standard-setting body" in the world.

It was a great pleasure for me to hand over my responsibilities from July 2009 to Pedro Solbes, former European Commissioner and Minister of Economy and Finance of Spain. Pedro Solbes brings extensive experience in the field of international co-operation on financial and economic policy issues. The other members of the new EFRAG SB were appointed in June 2009 by the General Assembly. These members are of

a high calibre and each have an outstanding reputation in their field. The broad geographical spread and variety of professional backgrounds guarantee that the EFRAG SB is representative of the entire Europe.

I wish to express my great appreciation and recognition to Stig Enevoldsen who has been Chairman of EFRAG from April 2004 till 31 March 2010. Under his leadership EFRAG has become recognised as an important part of the global standard setting architecture, supporting the IASB and the European Community in improving financial reporting and ensuring a credible and acceptable accounting framework for users, preparers, the accountancy profession and other stakeholders in Europe. I am grateful for having witnessed and contributed to this process. I wish the new EFRAG SB, the new EFRAG TEG and the EFRAG secretariat all the best for the future.

**Göran Tidström**  
Former Chairman EFRAG SB



THE IMPORTANCE OF APPROPRIATE EUROPEAN INPUT INTO THE INTERNATIONAL STANDARD SETTING PROCESS HAS BEEN EXPRESSED AT THE HIGHEST POLITICAL LEVEL AND IS A KEY ISSUE FOR EUROPEAN INSTITUTIONS.

## INTERIM EFRAG PRC

At its March meeting, the SB appointed an interim EFRAG PRC consisting of two members of the SB, the Chairs of three NSS (from France, Italy and the UK) and the EFRAG TEG Chair. The Chair of the German Standard Setter and the EC were appointed as observers. Peter Sampers was appointed as the interim Chair. The establishment of the EFRAG PRC was publicly announced in April 2009.

## MEMORANDA OF UNDERSTANDING WITH NSS

As part of its newly enhanced structure and its new focus on proactive work, EFRAG entered into a memorandum of understanding (MoU) with each of the NSS of France, the UK and Germany signed in the first half of 2009. The MoU contains as main elements: the provision of staff resources; participation in the EFRAG PRC; the appointment of candidates for IASB advisory groups; informal meetings between the Chairs of the signatories to each MoU; development of proactive papers; and participation in the EFRAG Technical Expert Group (TEG) and Consultative Forum of Standard Setters (CFSS). Each MoU will be reviewed every two years. A basic condition of each MoU is that to be a full participant the relevant National Standard Setters (NSS) will provide a cash funding of 350,000 € to EFRAG.

## IASCF CONSTITUTION REVIEW

In spring 2009, the SB developed the EFRAG comment letter on "Identifying Issues for Part 2 of the IASCF Constitutional Review" in consultation with its constituents. EFRAG raised two main comments. Firstly, EFRAG called for the IASB to be more consultative in its agenda setting process. Secondly, EFRAG requested that the IASB implement an explicit process to deal with decisions about the re-exposure of Exposure Drafts(ED). In particular, it was EFRAG's view that the IASB should explain the basis for a judgement that re-exposure was not necessary in cases where significant changes to EDs have been made.



In December 2009 EFRAG issued its final comment letter on Part II of the IASCF Review of the Constitution: "Proposals for Enhanced Public Accountability" to the Trustees. Based on consultation with its constituents, EFRAG's main comments were as follows:

- The Constitution should express commitment for principles-based standards;
- The convergence objective should be removed from the Constitution since IFRS have achieved a sufficient degree of acceptance and have been adopted widely enough to be fully independent of national standards. The emphasis should be on the adoption of high quality global standards; and
- There should be public consultation on the IASB work plan.

As a result of the IASCF Constitution Review Part II, the Trustees announced governance enhancements in February 2010. EFRAG was pleased to see that the major changes announced met EFRAG's principal concerns, notably the introduction of three-yearly public consultations on the IASB's technical agenda; commitment to a principles-based approach; emphasis on the adoption of IFRS whereby convergence is a strategy aimed at promoting and facilitating the adoption of IFRS, but is not an objective in itself.

**INTERNAL RULES**

Following the enhancement of EFRAG the SB recommended to the GA that certain amendments were made to EFRAG's internal rules. These were subsequently approved by the GA.

**2008 FINANCIAL RESULTS**

The Audit and Budget Committee informed the SB about its examination of the EFRAG financial results for 2008. The Committee recommended that EFRAG adopt an accumulated reserves policy whereby the level of reserves, in general, should be sufficient to cover but not exceed the budgeted expenses for the next calendar year. The GA approved the 2008 financial statements.

**AUDIT AND BUDGET COMMITTEE**

The Committee assists the SB in fulfilling its oversight responsibility for audit and budget matters. The Committee monitors the EC grant application and reviews the preparation of the 2009 year-end financial information and considers the development of the 2010 estimates and the budgets for future years. The Committee also reviews the procedures and internal controls.

**NOMINATING COMMITTEE AND NEW COMPOSITION TEG**

The Nominating Committee started its work in October 2010. Given that the mandate of eleven of the twelve EFRAG TEG members was due to expire on 31 March 2010, the Nominating Committee's main task was to propose a new composition for EFRAG TEG as from 1 April 2010 including a new Chairman. The selection of EFRAG TEG candidates is based on the following criteria: technical competence; background (user, preparer, accountancy profession and academia); experience; and geographical spread. The SB decided on the new composition of EFRAG TEG and appointed Françoise Flores as the new Chair of EFRAG and Mike Ashley as Vice-Chair.

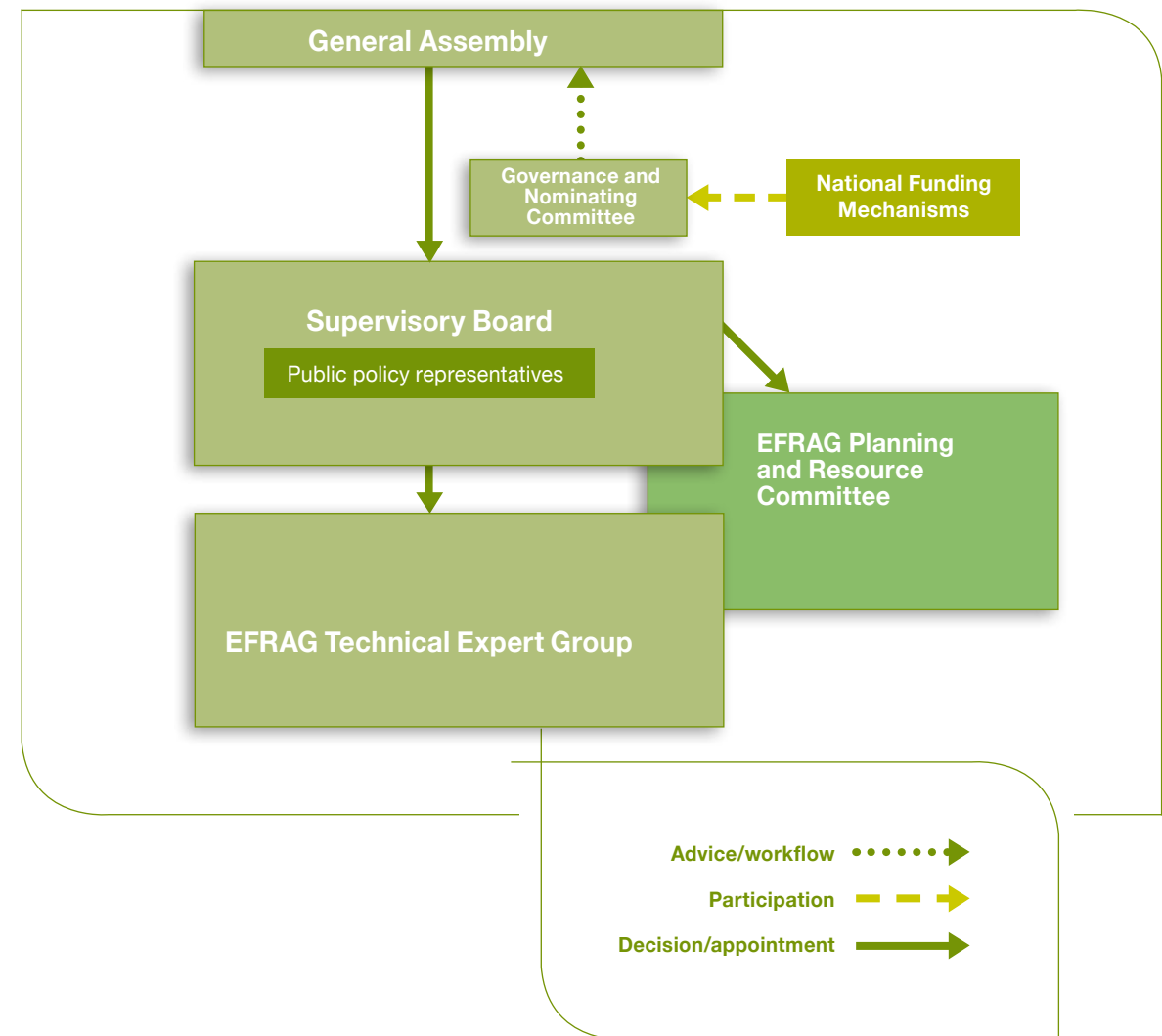
We are delighted to have Françoise and her team in place for the challenging times we will confront in the coming years addressing all the developments in financial reporting at the global and European levels.

I personally, but also on behalf of the entire SB, wish to express my gratitude to, and admiration for, Stig Enevoldsen, who has during the six years of his Chairmanship developed EFRAG into an organisation that is well known and respected throughout Europe and the rest of the world.

Pedro Solbes  
31 March 2010

**ENHANCEMENT OF EFRAG: WHAT IS DIFFERENT OR NEW?**

- REPRESENTATION OF ALL FINANCIAL REPORTING STAKEHOLDERS;
- NEW COMPOSITION OF THE SUPERVISORY BOARD WITH INDEPENDENT MEMBERS;
- INCREASED PUBLIC ACCOUNTABILITY;
- ESTABLISHMENT OF A PLANNING AND RESOURCE COMMITTEE (PRC);
- OPEN MEETINGS OF THE PRC AND SB;
- CLOSER COOPERATION WITH NATIONAL STANDARD SETTERS (NSS);
- MORE FOCUS ON PROACTIVE WORK; AND
- EC CO-FUNDING FROM 2010.





## About EFRAG



With the encouragement of the EC, EFRAG – the European Financial Reporting Advisory Group – was established in 2001 to provide input into the development of International IFRS issued by the IASB and to provide the EC with technical expertise and advice on the technical quality of IFRS. EFRAG is a private sector body established by European organisations prominent in European capital markets, known collectively as the “Founding Fathers”.

EFRAG’s role as technical advisor to the EC is formalised in a “Working Arrangement” which states that “EFRAG will provide advice to the EC on all issues relating to the application of IFRS in the EU” in particular proactive input to the IASB and endorsement advice to the EC.

Until 2010 EFRAG was entirely funded by its Member Organisations (European stakeholder organisations with an interest in financial reporting, which founded EFRAG) and the National Funding Mechanisms (national systems that organise contributions to the funding of EFRAG and/or the IASB). From 2010 onwards EFRAG will be co-funded by the EC for up to 50% of the expenses of EFRAG whereby public sector funding will match the private sector funding. With the EC funding EFRAG will move to a three-tier funding model:

- Base funding from Member Organisations
- National Funding Mechanisms
- EC funding

The increased resources will allow EFRAG to enhance its structure and governance and to focus more on proactive work. This enhancement will ensure that European views on the development of financial reporting are properly and clearly articulated in the international standard setting process.

The work of EFRAG is overseen by an independent SB. The SB follows closely the development of the work of the EFRAG TEG based on regular reports from the EFRAG Chairman. Other key responsibilities of the SB are the evaluation of the work of EFRAG TEG members; the appointment and reappointment of EFRAG TEG members; monitoring cooperation with NSS; funding of EFRAG including liaison with the National Funding Mechanisms and liaison with the EC and the Trustees of the IASCF. The SB consists of high level persons with an interest in the global development of financial reporting and with an appropriate balance of professional backgrounds, including users, preparers

and accountants, and geographical spread. All SB members act in personal capacity and are committed to acting in the European public interest, independent of their professional or sector affiliation. The SB includes 3 public policy members one of them being the Chairman, Pedro Solbes. The EC and the Committee of European Securities Regulators (CESR) are observers at the EFRAG SB meetings (see Table 1). SB meetings are open to the public.

The new SB was appointed by the General Assembly (GA) following recommendations of the Governance and Nominating Committee (GNC) consisting of 4 representatives of the GA and 3 representatives of National Funding Mechanisms. The members of the new SB were publicly announced in June 2009 and the new SB became operational in September 2009.

EFRAG operates through the TEG. Its 12 members are from throughout Europe and from a variety of backgrounds. They devote 30% to 50% of their time – free of charge – to EFRAG.

The Chairs of the French, German and UK standard-setters are non-voting members of EFRAG TEG. Further, CESR, the IASB and the EC attend EFRAG TEG meetings as observers (see Table 2). The Chairman, Stig Enevoldsen, a partner in Deloitte, Denmark, is full time. From 1 April 2010 Stig Enevoldsen will be succeeded by Françoise Flores as Chairman of EFRAG.

The members of EFRAG TEG are appointed by the SB, following an open call for candidates. The SB looks primarily to the knowledge and experience of candidates but also endeavours to achieve a broad geographical balance and a blend of experience from preparers, the accountancy profession, users of financial statements and academics, thereby ensuring that EFRAG TEG’s deliberations and its conclusions are independent and not unduly influenced by any interest group or constituency. Members of EFRAG TEG must not consider themselves as representing sectoral or national interests but should be guided by the need to act in the European interest.

EFRAG has established an open and transparent due process, which allows and encourages European constituents to provide input for the consideration of EFRAG.



The transparency and independence of EFRAG TEG is mainly achieved by:

- having all technical discussions held in meetings open to the public;
- publication of EFRAG TEG agendas and summary minutes of its meetings;
- publication, with an open call for comments, of draft EFRAG comment letters (DCL) to the IASB, and draft effect study reports and draft endorsement advice letters (DEAL) to the EC;
- presentation of the basis for EFRAG TEG’s conclusions for the endorsement advice and reasoned positions for comments to the IASB;
- publication of draft discussion papers on the proactive work;
- publication of final comment letters (CL) on IASB consultation documents, and other EFRAG positions; and
- publication of final endorsement advice letters (EAL) and final effect study reports to the EC.

In addition, comment letters received are considered by EFRAG TEG and published on the EFRAG website.

EFRAG also works closely with European NSS, meeting with them every three months for a full day to obtain their input on comment letters, endorsement advice and other matters.

The enhancement of EFRAG included the establishment of the EFRAG Planning and Resource Committee (PRC – see Table 3). The current interim EFRAG PRC consists of two members of the EFRAG SB, the Chairs of three NSS (from France, Italy and the UK) and the EFRAG TEG Chairman. The Chair of the German Standard Setter and the EC participate as observers. Two further members of the PRC will be appointed: these members will have other professional backgrounds or alternatively could be members of the SB. In addition a Chair of one further NSS may be appointed. In the first half of 2009 EFRAG signed memoranda of understanding with each of the largest European NSS evidencing an intention to increase cooperation and share resources.

The role of the EFRAG PRC is to set the agenda for the proactive work resulting in the issuance of discussion papers and other outputs. The EFRAG PRC provides guidance on the allocation of available resources to proactive projects and monitors the progress of the work concerned. The EFRAG PRC will also provide comments on the IASB agenda following the normal EFRAG due process. EFRAG PRC meetings are open to the public. The work of the EFRAG PRC is supported by an informal EFRAG Reference Group of NSS (the former Coordinators Committee) not involved in the PRC but wishing to contribute to the proactive work. The Group acts as a sounding board advising on potential proactive projects.

The main purpose of EFRAG’s increased resources is to focus more on proactively influencing, from a European perspective, the development of future account-

ing standards. The aim is to provide timely and effective input into the early phases of the IASB’s standard setting process and to engage constituents in the debates. This was already acknowledged in 2005 when EFRAG and the European NSS agreed to work more closely together to this end through the Proactive Accounting Activities in Europe (PAAinE) initiative so as to encourage debate in Europe and enhance the quality of Europe’s input to the IASB. During the course of 2009 the earlier proactive activities of PAAinE have been incorporated into the EFRAG PRC activities.

EFRAG maintains contact with the EC directly and through the Commission’s role as an observer at all EFRAG meetings. EFRAG is an official observer at the Accounting Regulatory Committee (ARC) and EFRAG is invited to attend some parts of the Standards Advice Review Group (SARG) meetings.

EFRAG maintains contact with the IASB through:

- regular meetings between the chairman of the IASB and the EFRAG Chairman;
- IASB Board members attending monthly EFRAG TEG meetings as observers;
- giving input to the IASB/FASB convergence agenda in special public meetings organised by the IASB;
- membership of Standards Advisory Council (SAC);
- giving input to the IASB agenda as part of the IASB public consultation process;
- participation by EFRAG representatives as observers in IASB working groups (see Table 5);
- participation in the annual World Standard-Setters meeting organised by the IASB.

EFRAG also meets the world’s leading standard-setters twice a year in the Global Standard-Setters meeting.

An important objective for EFRAG has always been to provide proactive input to IASB consultative documents. By publishing draft comment letters early, EFRAG stimulates debate on the issues for comment and assists other bodies in Europe in developing their comment letters to the IASB.

EFRAG has established working groups to provide it with expert advice on specialist areas, such as financial instruments, insurance, joint venture accounting and small and medium-sized entity (SME) accounting. EFRAG’s User Panel is an important part of EFRAG’s due process. Its purpose is to ensure that broad input to EFRAG TEG is obtained from users.

EFRAG’s offices in Brussels are staffed by a secretariat which provides technical support for EFRAG TEG and for the EFRAG contribution to proactive activities. The number of staff was substantially increased in 2009 and will continue to be increased in 2010 to match the resource requirements resulting from the proactive work and the enhanced structure and governance of EFRAG. The current staff of the secretariat is listed in Table 4.

## Technical Activities

### REPORT OF THE CHAIRMAN OF THE EFRAG TECHNICAL EXPERT GROUP

#### Moving towards one global accounting language

The effects of the global economic crisis continue and if anything have strengthened the need for a single common accounting language to be adopted around the world. It is a very positive sign that more major economies, such as China, India, Brazil and Mexico, have made the commitment to go to IFRS within the next few years. In addition, other jurisdictions such as Canada and South Korea have already signalled their commitment to adopt IFRS. Japan's confirmation of its roadmap and permission for Japanese companies to adopt IFRS from 31 March 2010 also represent significant steps in realising the vision of a single financial reporting language to support the efficient investment of capital around the globe.

A question remains, however, about the position of the US on adopting IFRS. The US SEC, in 2008, issued a Proposal Release with a roadmap for a potential move towards the use of IFRS in the US from 2014, with a final decision to be taken in 2011. The SEC statement on 24 February 2010 confirmed the proposed roadmap and it is a positive step that the US remains committed to making a final decision in 2011, subject to completion by then of the IASB/FASB convergence programme. Even though the final outcome on whether the US will go to IFRS is uncertain, it seems that the IASB has intensified its efforts to make it possible for the SEC to decide positively to adopt IFRS in 2011. The IASB has increased its cooperation with the FASB and together they have reaffirmed their commitment to complete the projects within their Memorandum of Understanding (MOU) by June 2011.

EFRAG will continue to work with IASB to support their efforts to help the US decide to adopt IFRS, because we believe that this is likely to result in substantial benefits for global capital markets. However, we do not believe that the strength of IFRS depends on US adoption, since investors in capital markets both outside and inside the US are increasingly viewing IFRS as the global financial reporting language.

**EFRAG WILL CONTINUE TO WORK WITH THE IASB TO SUPPORT THEIR EFFORTS TO HELP THE US DECIDE TO ADOPT IFRS. HOWEVER, WE DO NOT BELIEVE THAT THE STRENGTH OF IFRS DEPENDS ON US ADOPTION**

#### Europe in the global reporting architecture

Europe was among the first to adopt IFRS and we are the region that gave importance to IFRS. European companies are now enjoying the advantage of having incurred the cost before the crisis, when competitors and peers in many countries have yet to incur the costs of implementing IFRS and face doing so in tough economic times. It is therefore imperative that the advantages of adopting IFRS are not diminished by local modifications to IFRS.



**EUROPE IS SEEN AS THE ROLE MODEL FOR MAJOR ECONOMIES IMPLEMENTING IFRS**

It is relevant to note that Europe is seen as the role model for major economies implementing IFRS, and the endorsement model we have adopted is a reference point for other jurisdictions. A similar approach is being used by, for example, Japan.

Up to now Europe has been able to influence the development of IFRS, particularly in relation to the governance of the IASCF organisation. That might slowly change, when other major economies adopt IFRS. However, we will always be the major economy with the longest experience of IFRS, and we must utilise that in a positive way, for example by continuing to ensure that the governance structure and processes of the IASB drive the development of IFRS in a direction that meets the requirements of users (and preparers) of financial statements worldwide.

Europe is well organised in the way that the EC closely monitors the development of IFRS and has given support to EFRAG as its recognised technical body, that conveys European views to the IASB. It was encouraging that the EU Commissioner signed the MoU of the IASCF Monitoring Board, as this ensures that Europe will continue to have some influence on the IASB's governance. It also means that Europe will be able to exercise appropriate influence on the appointment of the next chair of the IASB, although Europe may need to accept that the next chair is not from Europe. In general terms we will in the future have to accept that IASB is a global body in which Europe shares its interest with many others.

**IMPLEMENTATION OF IFRS HAS HAD A VERY POSITIVE IMPACT ON EUROPEAN ACCOUNTING, BECAUSE IFRS HAS MEANT MORE COMPARABLE AND TRANSPARENT FINANCIAL REPORTING. IN ADDITION, ACCOUNTING HAS BENEFITED FROM THE INCREASING QUALITY OF THE WORK OF THE IASB. I DO NOT ALWAYS AGREE FULLY ON THE DIRECTION AND EVERY DETAIL, BUT THE QUALITY OF THE ACCOUNTING STANDARDS AND THE IASB PROCEDURES HAVE INCREASED SIGNIFICANTLY.**

Europe is committed to IFRS first and foremost because it provides comparability and transparency in financial reporting. Actually we do not have any other realistic alternative. Those who talk about European standards or rules are pursuing an unrealistic alternative in today's increasingly globalised economy. It is better for us to devote our efforts to influencing the direction of IFRS rather than attempting to develop an alternative approach which puts at risk the significant benefits that flow from moving towards a single global financial reporting language.

#### Europe and IFRS 9

The economic crisis proved to be the first real stress test of IFRS, and it is clear that some of the standards (including IAS 39 on financial instruments) were in need of improvement. The IASB was therefore right to take steps to evaluate and revise their standards both in the light of experience and also to avoid the potential negative effects of the standards that became evident during the crisis.

During 2009 significant pressure was placed on the IASB in Europe to improve accounting standards in order to ensure that financial reporting does not have pro-cyclical economic effects. The EU Council of Finance ministers (ECOFIN) demanded changes to IAS 39 on financial instruments and some other standards and the request was supported and echoed by the G20, the Financial Stability Board and others. ECOFIN requested that the changes to IAS 39 be finalised and issued in time for them to be endorsed for use in 2009 financial statements.

IASB reacted quickly and positively, issuing EDs on many of the relevant issues during the year and the Board is to be complimented on undertaking a comprehensive review of accounting for financial instruments. They decided to split the project into three phases, so that the first part could be finished in time for use in 2009. Over the summer IASB issued several

due process documents to obtain input on financial instruments issues such as reflecting own credit risk in the measurement of liabilities and the practicability of potential proposals on impairment of financial instruments. The IASB finalised as promised in November the first part of the revisions to IAS 39, namely IFRS 9 dealing with classification and measurement of financial assets. IFRS 9 dealt with some of the specific issues raised by the EC, and it had some significant improvements and simplifications compared to IAS 39.

The EC considered fast-track endorsement of IFRS 9, and asked EFRAG to work on an endorsement advice. EFRAG TEG obtained support from the SB to use a fast track procedure, but as the EC consulted within the EU it became clear that there was not enough support for a fast track endorsement procedure. An important factor was that constituents in Europe were divided over whether to support IFRS 9 or not.

**IT IS TIME FOR REFLECTION IN RELATION TO ACCOUNTING FOR FINANCIAL INSTRUMENTS**

The decision not to follow a fast-track endorsement procedure meant that more time is available to enable a more in-depth evaluation to be carried out. In addition many argued that it was difficult to decide whether to support IFRS 9 or not in the absence of a comprehensive standard dealing with all aspects of financial instruments and also because the IASB has indicated that they may change IFRS 9 to facilitate convergence with the US FASB. On balance it was important to have more time to consider all the components of the IAS 39 replacement package – especially on hedge accounting.

#### IFRS 9 – technically

There has been much debate about whether IFRS 9 will involve more use of fair value. It is clearly difficult to predict the outcome in this regard with certainty and as the IASB has noted this will differ from entity to entity depending on business practices and business models. However, there may well be more transactions and balances measured at fair value under the approach in IFRS 9. EFRAG maintains its position that the IASB should have brought forward the debate

**EUROPE IS COMMITTED TO IFRS FIRST AND FOREMOST BECAUSE IT PROVIDES COMPARABILITY AND TRANSPARENCY IN FINANCIAL REPORTING, BUT ALSO BECAUSE WE HAVE NO REALISTIC ALTERNATIVE**





on measurement and the use of fair value for which we have been calling for several years. Leaving aside the expected increase in the use of fair value, the new standard has some very good features including the acknowledgement that an entity's business model concept can be relevant in determining the measurement basis of financial assets and the simplification in relation to asset classes, even though it might be argued that the reduction is only from four to three asset classes. However, there are also some negative elements, in particular the dividing line between fair value and amortised cost measurement is weighted too heavily in favour of the use of fair value. Under IFRS 9 only a limited number of assets can be measured at amortised cost, because it has to be the entity's business model to collect the contractual cash flows and those cash flows can only reflect payment of capital and interest and the interest mentioned can only cover time value of money. Accordingly, it is very restrictive.

Even though it seems that IFRS 9 is a significant improvement and simplification compared to IAS 39, it is difficult to evaluate whether IFRS 9 is a positive or negative development until we are able to consider it in the context of proposals for other aspects of accounting for financial instruments, in particular impairment, hedging, liabilities and de-recognition.

#### Financial Instruments – remaining topics

These other aspects of accounting for financial instruments are difficult and complex issues, and there are certainly specific European worries about the outcome of the hedge accounting requirements, and it is important that careful consideration is given to European business models and risk management strategies in developing these requirements, and that the new hedging rules are not again a copy of US rules that are heavily influenced by a desire to prevent abuse. EFRAG has never supported anti-abuse provisions in accounting standards as these result in standards that consist of rules rather than principles. Hedging is clearly a very sensitive issue in Europe and the accounting treatment of hedging has a major impact on financial statements, and therefore the IASB is encouraged to keep that in mind. It is also important that the IASB ensures symmetrical treatment of assets and liabilities except for own credit risk.

**Impairment** is also a difficult issue. It is recognised that the existing incurred loss model is problematic, because it results in income being recognised early and losses being recognised late. The expected loss model clearly has some good features, but there are also many concerns including practical issues not only for financial institutions but also for non-financial institutions.

#### EFRAG HAS NEVER SUPPORTED ANTI-ABUSE PROVISIONS IN ACCOUNTING STANDARDS

**Derecognition** has always been troublesome, and the proposal from the IASB was rejected and the alternative model seems to be carried forward. The alternative model includes an exception for repos, which is an important issue that requires much consideration.

#### Role of financial reporting standards issued by the IASB

There are some in Europe who believe that the extensive use of fair value measurement in IFRS has had pro-cyclical effects, thereby contributing to the financial crisis. There has also been a perception that a principal objective of financial reporting should be to support financial stability rather than give a faithful representation of a company's situation.

EFRAG, however, believes that IASB and prudential regulators should work together and try as far as possible to find common solutions but that where there are divergent objectives the needs of investors and other capital markets participants should take precedence in general purpose financial statements over the objectives of regulators and governments. We should remember that well-informed capital markets are essential in helping Europe overcome the crisis, and therefore that European capital markets must be supported by high quality, robust accounting standards and rigorous auditing and enforcement.

#### EFRAG BELIEVES THAT THE IASB AND PRUDENTIAL REGULATORS SHOULD WORK TOGETHER AND TRY AS FAR AS POSSIBLE TO FIND COMMON SOLUTIONS BUT WHERE THERE ARE DIVERGENT OBJECTIVES THE NEEDS OF INVESTORS AND OTHER CAPITAL MARKETS PARTICIPANTS SHOULD TAKE PRECEDENCE IN GENERAL PURPOSE FINANCIAL STATEMENTS OVER THE OBJECTIVES OF REGULATORS AND GOVERNMENTS

#### IASB agenda

The IASB's agenda was already extremely full prior to the economic crisis, driven largely by its desire to achieve convergence with US GAAP and continually

over-optimistic project timetabling. It is understandable that the IASB has had to add projects to repair existing standards as a result of inadequacies exposed by the financial crisis. However, the position now is that the IASB's agenda is far too large. Many have warned the IASB over the years to prioritise and reduce the number of open projects. The IASB has recently reiterated that the agenda is not for discussion. It insists that the entire agenda will be completed by June 2011, with the exception only of the conceptual framework. Not only is this open to question but the conceptual framework which will definitely not be completed by that date is one of the projects that constituents consistently rank as of critical importance.

It is understandable and admirable that the IASB wishes to resolve the issues arising from the financial crisis as soon as possible and also to finalise the convergence MoU projects in the timeframe requested by the SEC. However this causes many difficulties: it might be difficult to maintain the usual high quality of output; it may require the IASB to limit the scope of many of the projects; it does not require the IASB to focus on the most important issues; it does not enable sufficient attention to be given to cross-cutting issues; and it puts great pressure on constituents.

The IASB is expected to issue a large number of due process documents for consultation over the summer of 2010, and many of the projects are large and complex. Constituents lack the time and/or the resources to carefully consider and respond to such a volume of major proposals in such a short period of time. It is also questionable whether the IASB itself will have sufficient time to consider the comment letters with due care and attention, and this will lower the quality of the IASB due process. IASB is a due process organisation and due process must not be compromised. It is also unclear what will happen in terms of the IASB's timetable if constituents do not support the IASB's proposals.

Therefore the IASB ought to select carefully the most important projects and give priority to finalising them. These projects would include some crisis-related issues and some convergence MoU projects, but not all of them. EFRAG has expressed its views to the IASB on what the priorities should be. It is understandable that the IASB should wish to respond positively to the SEC request to complete all the convergence MoU standards by June 2011 as a basis for a decision by the SEC on whether to require IFRS for US domestic filers. However, the SEC has continually emphasised the

#### THE IASB OUGHT TO SELECT CAREFULLY THE MOST IMPORTANT PROJECTS AND GIVE PRIORITY TO FINALISING THEM

need to apply due process and the need for high quality standards and therefore we believe that SEC would support our request that the IASB should prioritise and still be able to make a decision in 2011 even though not all the MoU projects would be finalised.

#### Agenda items of less significance

Since 2007 the IASB has issued annual improvements (AIP) to the standards. The IASB's stated intention with the AIP is to package minor amendments to standards into a single document. This has been of concern to many constituents, because they have to consider and comment on them and subsequently implement very minor changes. It is somewhat ironic that the IASB has recently introduced into the constitution the notion that IFRS should be principles based while at the same time the Board spends time on issues that result in more or revised detailed rules. The IASB has now asked IFRIC to deal with AIP issues, so the problem seems set to continue. It would be better if IASB stopped working on AIP and instead concentrated on the major issues and allowed constituents to do the same. The same may be said for the many non-fundamental changes to individual standards that are on the IASB's main agenda. These irritate constituents and the process appears to work against the development of principles-based standards.

#### IT WOULD BE BETTER IF IASB STOPPED WORKING ON ANNUAL IMPROVEMENTS AND INSTEAD CONCENTRATED ON THE MAJOR ISSUES AND ALLOWED CONSTITUENTS TO DO THE SAME



**Post-June 2011 agenda**

The IASB has asked its SAC for input on its post-2011 agenda. It is important that constituents are asked for input, and the IASCF's decision to ask for public input every three years is welcome. However, it appears that the scope of the consultation will be restricted to items to be added to the agenda and will not extend to prioritisation of the agenda as a whole. This is unfortunate as it is equally important to establish a proper procedure for assessing changing priorities, whether projects should be removed from the agenda and also whether to enter into MoUs with standard-setters from countries intending to converge with IFRS. Some of the most pressing needs are to finalise the conceptual framework and to develop and implement a disclosure framework.

Having said that, it seems clear that the IASB environment will be different after 2011 at which time most countries in the world will be applying or on the way to applying IFRS, and that will of course affect the Board and its operations.

**Convergence**

When the IASB entered into the first MoU with the US FASB in 2006 it was not widely understood how much it would drive the work of the IASB. The renewal of the MoU in 2008 started a process that has led to a joint IASB-FASB meeting every month and in the spring of 2010 even more often in order to finalise both the MoU agenda and the other joint projects. It is supported that there is a close working relationship between the IASB and the FASB if it is to result in the SEC requiring US domestic filers to apply IFRS, and we support convergence, but not at any cost – as we have always stated.

Questions remain about the role of input from constituents and to what extent the IASB should take that into account in developing its standards. Some would

suggest that the US has too much of a voice in the development of IFRS. One legitimate question might be whether the IASB's due process is properly structured to give equivalent weight to input from other major areas than the US, such as Europe, Japan, China and India. It is of course also an issue whether quality is being sacrificed in order to achieve a compromise between the two boards. Finally it is a problem that on some issues – such as insurance - the IASB has had to delay issuance of its ED in order to allow the US to catch up. In the case of insurance, this may significantly delay the finalisation of the project, which would be an issue for Europe.

**INTERPRETATIONS**

IFRIC issued very few interpretations in 2009, and we support that in principle. However, there might be a perceived need for more interpretations amongst issuers and regulators from new countries joining IFRS, and Europe should be ready to accept a small increase in interpretations. The three interpretations issued in 2009 were all very narrow issues and the interpretations were significantly improved as a result of input from the consultation process.

**EFRAG in 2009**

2009 was a very busy year for EFRAG because the IASB responded to the effects of the crisis by issuing a number of EDs, some proposing relatively minor and others major changes to IFRS. We also continued to work on proactive activities, which are described in detail below.

The IASB issued numerous consultation documents and EFRAG responded with draft comment letters and comment letters on all IASB discussion papers and EDs. The year started with two EDs with very short

comment periods and with EFRAG issuing two draft comment letters by 8 January based on discussions in public conference calls. In 2009 EFRAG issued 23 DCL and 26 CL plus 13 DEAL and 10 EAL as listed in the schedule on pages 32-33.

We issued comment letters on such significant topics as Financial Statement Presentation, Framework chapters, Revenue Recognition, Consolidation, Fair Value Measurement, Income Taxes, Leases, Derecognition of financial instruments, Credit risk in liabilities, Financial Instruments Impairment, Financial Instruments Classification and Measurement, Management Commentary as well as many other less significant proposals for change. Therefore 2009 was the most demanding year for EFRAG TEG and the secretariat in its nine year history, and we had to organise extra meetings in July, September and late October as well as many conference calls.

EFRAG moved into new and bigger office accommodation in mid-January 2009. A significant improvement to the old office, it reflects the values of EFRAG, being light and bright, transparent and in a young style with sparkling colours. It is an environment in which it is pleasant to work and our staff enjoys the improved working environment.

Even though the staff increased during 2009 we also had to say good bye to Paul Ebling after almost five years as EFRAG's Technical Director. EFRAG's high standing owes much to the quality injected by Paul into our comment letters and endorsement advices.



Paul Ebling

EFRAG's staffing increased significantly during 2009 and in order to increase the focus on the proactive activities a Research Director, Mario Abela, joined EFRAG in early September coming from the UK ASB. This is a significant step forward for EFRAG. To ensure that EFRAG's focus on its technical work was maintained in the absence of a permanent Technical Director, the new Research Director agreed to act as Technical Director until a new Technical Director was in place and we are very grateful to him for this. A new Technical Director, Pieter Dekker, has been appointed, starting on 1 April 2010. He comes from a position as Director in E&Y in the UK. In addition, Saskia Slomp was appointed Director of EFRAG to provide support to the Chairman of EFRAG TEG on administrative matters and in providing support to the SB and its committees. Saskia comes from a senior position in FEE, and she has been involved in EFRAG matters since the formation.

The secretariat will increase further during 2010.

The EFRAG TEG Chair designate is from France and has been a member of EFRAG TEG for 6 years and has been elected vice-chair for 2 years, but served unofficially in that capacity prior to her formal election. She has been the Chair of the SME joint working group, the Performance Reporting Phase I and II working groups and the Common Control working group. She is presently also Vice-Chair of the new SME Working Group. During her time as vice-chair of EFRAG TEG, she stepped-in for the Chair at various meetings and conferences including the World Standard Setters meetings as well as participating in the Global NSS meetings and the regular meetings with the Chairman of IASB.

Françoise takes up her role as chair with a strong foundation in financial reporting. She has impressive technical skills as a partner in Mazars, a clear commitment to IFRS in Europe and the role of the IASB, as well as a solid understanding of the European corporate environment through her work with **BUSINESSEUROPE** and **ACTEO** in France. Along with her IFRS expertise, Françoise has over 20 years experience in financial control and reporting, of which ten years as Chief Financial Officer in the context of both international listed and unlisted corporations.

**FRANÇOISE FLORES**





## EFRAG Draft Comment letters

We have received feedback that our draft comment letters, which are always issued well before the IASB deadline for responses to its proposals, are widely regarded by IFRS stakeholders not only in Europe but also around the world as helpful and provide important input in developing their comment letters to the IASB. Our draft comment letters have always been very important to us. We try to ensure that they explain our views clearly, even if this results in lengthy letters, in order to support our constituents. This is the reason why we have resisted suggestions from some quarters that we should significantly shorten our comment letters. In addition we introduced some new features and improved the structure including "Background notes for EFRAG's constituents" in order to explain EFRAG's views to constituents in more detail by reference to the IASB ED concerned. These Notes are not included in the final letters and the final letters have also been shortened to sharpen their focus in the hope that they will be more influential with the IASB.

It is essential for us to maintain the high quality of our draft comment letters and, following the enhancement of EFRAG, we will endeavour to monitor the work of the IASB more closely, so that we can comment at an even earlier stage on its work. This is particularly important as many believe that the IASB's thinking about the basis of new standards is generally at an advanced stage at the time an ED is issued and it is therefore essential for Europe to endeavour to influence the IASB's thinking as early as possible, as we have been trying to do through our proactive activities.

**EFRAG DRAFT COMMENT LETTERS ARE USED ALL OVER THE WORLD AS ONE BASIS FOR COMMENTING TO THE IASB.**

## ACCOUNTING FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

EFRAG has carried out a significant amount of work in relation to accounting for SMEs in 2009. There is a need to improve accounting for SMEs in Europe and it will be very interesting to see what the EU will seek to do as regards the IFRS for SMEs. EFRAG is ready to support the EC on the matter as it seems clear the EU internal market deserves to be supported by modernised accounting requirements.

## WORKING WITH THE EC

In 2009 we worked very closely with the EC on many issues, but particularly in relation to the financial instrument accounting issues highlighted by the economic crisis, on which we were in close contact while maintaining our position as an independent advisor to the EC.

The working arrangement with the EC that was entered into in March 2006, under which "EFRAG will provide advice to the Commission on all issues relating to the application of IFRS in the EU", in particular proactive input to the IASB and endorsement advice, has continued to underpin EFRAG's work. EFRAG co-chaired stakeholder meetings on accounting for financial instruments and we prepared endorsement advices and effect study reports on many smaller projects finalised by IASB and IFRIC in order to support the EU endorsement process. We also appreciate the involvement of the EC in EFRAG activities as observers giving input to the TEG, the SB, the PRC and many of our working groups.

## ACCOUNTING REGULATORY COMMITTEE (ARC)

EFRAG attended meetings of the EC ARC in 2009 as observers and gave technical presentations when requested by the EC. EFRAG appreciates the opportunity to work with representatives of the EU governments.

## STANDARDS ADVICE REVIEW GROUP (SARG)

EFRAG met regularly with the SARG during 2009 and presented endorsement advices including our basis for conclusions. All the advices presented were judged by the SARG to be objective and well balanced. We believe that the relationship with SARG is positive and constructive and we appreciate the feedback and suggestions for process improvements made by the SARG.

## ENDORSEMENT SITUATION

It is encouraging that the EU endorsement process has almost caught-up with the backlog of issued standards and interpretations. Shortly before Christmas 2009 the endorsement of a batch of standards was announced in the Official Journal and it is likely that all the outstanding items will be endorsed in the early summer of 2010 except for IFRS 9, where the EC is reflecting on the action to be taken.

It is a very positive signal that all recent standards and interpretations have been endorsed without controversy, and that more time to allow for debate is only required for more controversial or complex issues. This shows the high level of support for IFRS that exists in Europe.

Although the pipeline of unendorsed standards has been reduced recently, it is nevertheless disappointing that it takes so long to endorse IASB standards and interpretations as this creates uncertainties for capital market participants. However, it is also necessary for the IASB to allow longer lead times in order to give companies sufficient time to prepare for implementation and to allow sufficient time for the endorsement process to take place.

A further concern about the endorsement process is that IFRIC interpretations in particular are frequently endorsed with a later effective date than that of the actual IASB pronouncement. The consequence is that EU companies do not start implementing new interpretations at the same time as companies outside the EU. When this occurs, it effectively constitutes a temporary carve-out, which is regrettable.

## The carve-out of parts of IAS 39 on financial instruments still exists

This, of course, brings us to issue of the IAS 39 carve-out, which consists of approximately 20 deletions from 13 paragraphs. The carve-out was originally intended to be a temporary and short-term measure, to be used for two years, but it is now in its sixth year, and there has been no real progress in resolving the issues which gave rise to it. Although only a small number of companies, mainly banks, take advantage of the carve-out, the carve-out is a concern because it weakens the position of Europe when discussing accounting and the direction of IFRS with the US, Japan and others and it weakens the credibility of European accounting generally. European constituents should ensure that there is a constructive dialogue on the remaining issues on accounting for financial instruments with the IASB, and the IASB should listen carefully in order to arrive at an approach that is acceptable to all parties. EFRAG will certainly work actively to facilitate the necessary discussions.

## USER PANEL AND USER INVOLVEMENT

EFRAG's User Panel was established in late 2006. It has given EFRAG valuable input on the projects included on our agenda, and it is also providing input to our effect study work, where user requirements and experience are especially important. The Panel's discussions have been very lively and the user representatives continually give us new inspiration. We are seeking additional ways of increasing our contacts with users and we continue to seek additional Panel members as user input is essential.

**IT IS A VERY POSITIVE SIGNAL THAT ALL RECENT STANDARDS AND INTERPRETATIONS HAVE BEEN ENDORSED WITHOUT CONTROVERSY. THIS SHOWS THE HIGH LEVEL OF SUPPORT FOR IFRS THAT EXISTS IN EUROPE.**

## MEETINGS WITH CESR

There is close cooperation between EFRAG and CESR on accounting issues. The TEG Chair and the Technical Director participated in meetings with CESR representatives and committees and we obtain input to our work from the participation of CESR representatives in TEG meetings. Members of EFRAG staff provide input to the CESR Subcommittee on IFRS and attend their meetings on a regular basis. EFRAG values its close working relationship with CESR on accounting issues.

## MEETINGS WITH EUROPEAN NATIONAL STANDARD SETTERS

EFRAG invites all the European NSS to Brussels for a full day meeting every three months. We believe that it is important that we continue to have direct contact and discussions with the NSS throughout Europe.

## MEETINGS AND VISITS

### Visit to the US

The TEG Chair and the Chairs of the German, French and UK NSS visited the US in February 2009 to meet with representatives of the FASB. We also visited the US SEC and discussed with SEC staff the possibility of the US adopting IFRS and the potential consequences that would flow from it. In addition we had meetings with representatives of International Monetary Fund and the World Bank. It was a positive trip with a lot of good input for us.

## WEBSITE

Our website has worked satisfactorily during the year and has welcomed an increasing number of visitors. We believe that our Endorsement Status Report, which is downloadable from our website, is widely used as the most up-to-date and easiest to access information on the subject.

STANDARDS	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC vote	When might endorsement be expected	IASB Effective Date	Expected to be endorsed before the effective date?
<b>STANDARDS</b>						
IFRS 9 Financial Instruments (issued 12 November 2009)	✓ 02/11/2009	* Postponed	* Postponed	* Postponed	01/01/2013	
<b>INTERPRETATIONS</b>						
Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (issued 26 November 2009)	✓ 14/11/2009	✓ 26/01/2010	✓ 04/02/2010	* Q2 2010	01/01/2011	▲
IFRIC 19 Subsequent Financial Liabilities with Equity Instruments (issued 26 November 2009)	✓ 14/11/2009	✓ 26/01/2010	✓ 04/02/2010	* Q2 2010	01/07/2010	▲
<b>AMENDMENTS</b>						
Amendments to IFRS 1 Additional Exemptions for First-time Adopters (issued 22 July 2009)	✓ 07/08/2009	✓ 08/10/2009	✓ 14/10/2009	* Q2 2010	01/01/2010	▼
Revised IAS 24 Related Party Disclosures (issued 4 November 2009)	✓ 30/11/2009	✓ 20/01/2010	✓ 04/02/2010	* Q2 2010	01/01/2011	▲
Amendment to IFRS 1 Limited Exemption from Comparative IFRS 1 Disclosures for First-time Adopters (issued 28 January 2010)	✓ 28/01/2010	✓ 18/02/2010	✓ 04/02/2010	* Q2 2010	1/07/2010	▲



I WOULD LIKE TO EXPRESS MY APPRECIATION FOR THE HARD WORK PERFORMED BY THE OTHER MEMBERS OF TEG, THE USER PANEL, WORKING GROUPS, ADVISORY PANELS ON THE PROACTIVE WORK, AND LAST, BUT CERTAINLY NOT LEAST, BY THE STAFF IN THE EFRAG SECRETARIAT

## USER NEEDS ARE OF CRUCIAL IMPORTANCE!

It is essential for EFRAG to have a thorough understanding of the needs of users of financial statements in developing its views on the wide range of financial reporting issues that EFRAG addresses. Since 2006 EFRAG has operated an active User Panel that meets on a quarterly basis. The significant workload and increased number of complex issues on EFRAG's agenda in 2009 has made it even more important to have user involvement. In 2009, EFRAG therefore invited two additional people to join the Panel, increasing the membership to seventeen members by the end of 2009. Stig Enevoldsen, EFRAG Chair, continued to also be Chair of the User Panel.

In terms of the User Panel's activities, 2009 was not an easy year. The Panel held strong views on the complex issue of the classification and measurement of financial instruments. During the development of IFRS 9, Panel members agreed that some financial instruments should be measured at cost and others at fair value but indicated that any attempt to define the line between the two categories would not be perfect and would raise concerns. There were also concerns amongst Panel members that the insurance industry might not support a model that measures financial assets at amortised cost and insurance liabilities at fair value or an approximation of fair value.

Impairment of financial assets was another important part of the IASB's project to replace IAS 39. The Panel considered several issues in relation to the "expected

loss model", and were broadly supportive of a model that focused on expected losses (as opposed to incurred losses) of debt instruments. However, there was a general concern from some Panel members about the level of subjective inputs required in an expected loss model. Regarding hedge accounting, Panel members felt that the IASB should focus on developing a more principle-based approach and remove the choices currently permitted.

On EFRAG's proactive work, Panel members were asked for initial thoughts on a project on the 'Disclosure Framework' and the Panel has been asked to be closely involved in the project.

The Panel also considered the proposals on the accounting for Income Tax and it was thought that more work was needed on developing tax requirements that produced information that would give users more confidence about the tax numbers and help them to better understand future tax cash flow implications. In relation to rate regulated activities, the Panel's view was that regulated assets and liabilities should be recognised when they meet the definitions of assets and liabilities under the IASB's Framework. However, they did not feel there was a need for a separate standard on this very specific industry issue. There was overall consensus from the Panel that lease accounting was in need of a major fix, and there was initial support for the proposals in the IASB's discussion paper.



MEMBERS OF THE USER PANEL

▪ Stig Enevoldsen – User Panel Chairman –TEG Chairman; Jean-Baptiste Bellon - Financial Analyst (Trapeza Conseil); Javier de Frutos – CEO (Grupo BBVA); Jacques de Greling - Equity Analyst (CDC IXIS Securities); Thomas Kaiser – Accounting Analyst (Landesbank Baden-Württemberg (LBBW)); Sergio Lamonica – Managing Director (LECG Consulting Italy); Michael Schickling - Director (Brunswick Group); Friedrich Spandl – Director (BAWAG); Alison Thomas – Director (PwC); Guy Weyns - Managing Director Global Valuation & Accounting (Morgan Stanley); Jed Wrigley - Fund Manager, Director of Accounting & Valuation (Fidelity International); Carsten Zielke - TEG Member; Roar Hoff – Financial Analyst (Norske Finansanalytikere Forening); Sue Harding – Credit Analyst (Standard and Poors); and Thomas Justnussen – Financial Analyst (Danskebank). In addition, the EC and TEG members attend the meeting as observers.

The following members joined the Panel during the course of 2009:

- Jerome Vial – Senior Manager (E&Y Zurich, Transaction Services)
- Vincent Papa - Director, Financial Reporting Policy- EMEA (CFA Institute)



## Technical Activities

### EARLY-STAGE PROACTIVE FINANCIAL REPORTING ACTIVITIES



Mario Abela

Our proactive activities are very important to us and we are committed to increasing the output now that we will have increased resources. The proactive work is carried out in partnership with the NSS from France, Germany, Italy and the UK. The resources of EFRAG and the European NSS are limited and the intention is to coordinate our activities so as to leverage our knowledge and expertise in the most efficient way. A key objective is to stimulate, and carry out, research into, and analysis of, financial reporting issues so as to encourage debate in Europe. It is also our intention to enhance the quality of proactive input to the IASB.

In 2009 the following papers were issued:

- **Performance Reporting: A European Discussion Paper**
- **Financial Reporting of Pensions – Feedback and Redeliberations**
- **Summaries of comments on three discussion papers**



EFRAG TEG has discussed all the papers and has approved their issue.

The staff of the French NSS and EFRAG issued a Research Paper on the new Definition of Assets.

The Planning and Resource Committee (PRC) was established as a committee with interim membership in the first half of 2009. The PRC agreed to include in the proactive agenda the following projects:

- **Accounting for entities under Common Control:** led by Italy and EFRAG
- **Accounting for Income Tax:** jointly led by Germany and UK and supported by EFRAG
- **Disclosure Framework** led by EFRAG and supported by the UK
- **Assessing the Effects of Accounting standards:** led by the UK and EFRAG
- **Business Model and Implications for Financial Reporting:** led by the UK, with support from France and EFRAG

The work is moving forward and in early 2010 the “Strategy for European Financial Reporting Activities” was approved by PRC. We plan to significantly increase the resources devoted to the proactive work in 2010 and we expect more papers to be issued late in 2010 or 2011.

Our proactive work continues to be challenging – it is difficult to develop new thinking and ensure it is accessible and meaningful for our constituents. In what continues to be a very busy period for those following and commenting on IFRS developments, it has been a positive sign to continue to receive carefully considered and thoughtful responses to our discussion papers.

What the IASB’s current work programme has demonstrated is that there are a number of issues in financial reporting that need a fundamental re-think. Accounting for income taxes and establishing principles on

**PROACTIVE WORK IS CRUCIAL IN THE WORK OF EFRAG AND THE NATIONAL STANDARD SETTERS. WE STRONGLY BELIEVE THAT IT CONSTITUTES THE MAIN AND MOST APPROPRIATE MEANS OF INFLUENCING THE AGENDA AND THINKING OF THE IASB IN THE LONGER TERM**

### EFRAG PLANNING AND RESOURCE COMMITTEE

2009 was the first year of operation of the EFRAG PRC. Proactive work – contributing to and influencing early thinking on significant financial reporting issues – is crucial in the work of EFRAG and the NSS. We strongly believe that it constitutes the main and most appropriate means of influencing the agenda and thinking of the IASB in the longer term. EFRAG already started its proactive work in 2005 in close cooperation with the NSS in the PAAinE initiative (Proactive Accounting Activities in Europe). The establishment of the EFRAG PRC was a logical step in the EFRAG enhancement process in order to give proactive work a more prominent place in the EFRAG and NSS activities.

The enhanced structure around the proactive work has been gradually put in place during 2009 with the establishment of the PRC in advance of the appointment of the new SB. The former Coordinators Committee agreed to continue as an informal advisory group of NSS that are not directly involved in the EFRAG PRC but act as a sounding board for the EFRAG PRC.

#### Proactive projects

Proactive projects are by definition longer term in nature and will usually take several years to complete from the preparation of an initial Discussion Paper for public con-

sultation to an EFRAG proactive Position Paper. In 2010 the EFRAG PRC will also start commenting on the IASB agenda with a focus on the post June 2011 work plan.

The EFRAG PRC will publish its research strategy “A Force for Change – Strategy for European Proactive Financial Reporting Activities” in 2010. This strategy will direct EFRAG’s proactive work in the future. The EFRAG PRC will report on progress towards realising the strategy from 2010 onwards in the EFRAG Annual Review.

I would like to express my appreciation for the progress made on the proactive work in 2009, particularly given all the attention that was required for the reactive work on financial instruments and the relatively restricted resources that could be dedicated to the proactive work. 2010 will be another challenging year with the IASB in the process of completing significant new standards, EDs and discussion papers on many complex issues. I am however convinced that we will make good progress on the proactive projects that are under development and that we will add further projects to the agenda that are important to Europe.

Peter Sampers  
Interim Chairman EFRAG PRC



how information is communicated to users through the financial report, are two clear candidates for improvements required in financial reporting. These are both important projects in which we are investing resources in an attempt to go back to first-principles and develop new and innovative thinking. These are not easy problems to solve but ones nonetheless that deserve our attention.

This year we have also directed some of our proactive effort at addressing very topical issues such as the expected loss model for financial assets carried at amortised cost. This was an important short-term project that helped frame the issues and push forward the debate on how the expected loss model would work and its implications.

The proactive work in 2009 consisted of:

**PENSIONS**

The PAAinE project on Pensions, led by the staff of the UK NSS, began in 2005 and was completed in 2009. Unlike the limited scope amendments to IAS 19 Employee Benefits (IAS 19) that are currently being considered by the IASB, the objective of the PAAinE project was a fundamental reconsideration of the underlying principles of pension accounting that would contribute to the development of an improved international standard on the subject.

The discussion paper “The Financial Reporting of Pensions” was issued in January 2008 setting out the tentative views of the UK NSS. Comments were invited on the Discussion Paper and the UK NSS considered those responses and finalised its views. In November 2009, EFRAG and other European NSS published “Financial Reporting of Pensions - Feedback and Redeliberations”. The objective of this report was to provide the IASB with recommendations on how it might develop a future financial reporting standard on pensions, following the outcome of a major consultation. The view expressed in the Discussion Paper is retained: a more fundamental reconsideration of IAS 19 is required in the longer term.

**CORPORATE INCOME TAX**

The proactive project on accounting for corporate income taxes started in the latter part of 2008, and is being lead by the UK ASB and the German Accounting Standard Board (GASB) with support from EFRAG. The accounting for corporate income taxes has been subject to much criticism from the user and preparer community, who have questioned the decision-usefulness of the numbers produced by the existing IAS 12 Income Taxes (IAS 12), and claim that the standard is too difficult to apply and understand. In light of these

criticisms, the ASB and the GASB agreed to lead an EFRAG proactive project on the accounting for income taxes.

The project is resourced by personnel from the ASB, GASB and EFRAG and is supported by an international Tax Advisory Panel consisting of preparers, users, standard-setters and academics (see Table 9). The Tax Advisory Panel meets regularly and actively supports the project team in the development and preparation of proposals. Since being set up in October 2008, the Panel has met a total of six times. The meetings have considered a number of fundamental issues relating to the accounting for tax and explored a number of different approaches. The Panel has also received case studies and presentations from several Panel members.

Unlike the IASB project on Income Taxes which addressed specific amendments to IAS 12, the objective of this proactive project is a fundamental review of the accounting for corporate income tax. Although the IASB project resulted in an ED being published in March 2009, it was later abandoned due to vast criticism of the proposals it made. The proactive project aims to critically examine key aspects of accounting for corporate income tax separately from the requirements in existing IAS 12, with a view to developing a discussion paper that starts from first principles and sets out proposals that might form the basis of a new standard. A key objective is to develop an approach to accounting for tax that is technically sound and workable, and, most importantly provides users with useful and understandable information about income taxes.

**BUSINESS COMBINATIONS UNDER COMMON CONTROL**

In 2009 the Italian Standard Setter (OIC) with support from EFRAG started a new proactive project on business combinations under common control (BCUCC). There is no current guidance in IFRS on BCUCC because IFRS 3 Business Combinations (IFRS 3) contains an explicit scope exemption for these types of transactions. In addition, the IASB is not expected to provide guidance in the near future. The project aims to consider the initial measurement of the components of a business transferred in a BCUCC in the transferee’s consolidated and separate financial statements. The transaction may involve either the transfer of a business or of a controlling interest in a legal entity that directly or indirectly controls an underlying business.

Accounting for these transactions is an issue especially relevant for entities that are allowed or required to prepare individual and separate financial statements under IFRS. The different accounting treatments used in practice may have materially different impacts on

**NATIONAL STANDARD SETTERS IMPORTANT IN DEVELOPING EFRAG’S VIEWS**

A key element in the enhanced structure of EFRAG is the co-operation with NSS in Europe. Notably in shaping Europe’s proactive input to the IASB and the co-ordination of the proactive work in the EFRAG PRC. EFRAG and the NSS interact at two levels: participation in the proactive work and through the EFRAG Consultative Forum of National Standard Setters (CFSS). EFRAG has also signed memoranda of understanding with each of the French, UK and German standard setters.

In the CFSS (see Table 11), EFRAG meets quarterly with the European NSS. During these meetings EFRAG discusses current European financial reporting issues, major proposed changes to IFRS and EFRAG’s proactive work with the NSS in the presence of IASB members and TEG members. These discussions allow EFRAG to have a better understanding of the impact of the proposed amendments on national business practice and national accounting standards. The meetings facilitate the exchange of up to date information and knowledge between the various



organisations. The overall purpose of the meetings ensure that EFRAG properly represents the European view and that the views expressed in Europe are heard and understood by the IASB and IFRIC and influence the development of their pronouncements.

The former Proactive Accounting Activities in Europe (PAAinE) activities in Europe have been incorporated under the umbrella of the PRC which sets the agenda for the proactive work carried out by EFRAG in co-operation with the NSS. Proactive work is a crucial element of the work of EFRAG and the NSS. It constitutes the main and appropriate means of influencing the agenda and initial thinking of the IASB. With the EC funding from 2010 EFRAG will be able to dedicate substantially more resources to the proactive work and research and gradually increase its proactive output.

NSS are also important partners as commentators on our draft comment letters and draft endorsement advice letters.

**Relations with global standard setters**

EFRAG also participates in the global standard setters meetings. In 2009 the meetings took place in South Africa and Germany.

EFRAG also participates in the world standard-setters annual meeting organised by the IASB. The meeting took place in London.





the financial performance and position of the entity. Therefore, the choice of accounting model by the entities may be influenced by prudential, legal and tax implications.

An advisory panel (see Table 10) was established to provide feedback to the working group. In its first meetings, members discussed the scope of the project and a possible conceptual model that could be used to consider and evaluate alternative accounting and presentation treatments for BCUCC. The objective of the project is to issue a discussion paper at the end of 2010 or early 2011.

**PERFORMANCE REPORTING**

The objective of the PAAinE project on Performance Reporting is to develop European views on performance reporting issues and to communicate them to the IASB so they are considered in the Financial Statements Presentation project.

In March 2009 EFRAG issued for public comment "Performance Reporting: A European Discussion Paper". This paper followed an initial discussion paper issued in November 2006 "What (if anything) is wrong with the good old Income Statement?" The purpose of the new discussion paper was to discuss some fundamental issues about the presentation of financial performance including: the notion of "performance"; the role of key and bottom lines in a performance statement(s), particularly the "net income" line; and the appropriate disaggregation model for income and expenses. These issues relate to the Financial Statements Presentation project undertaken jointly by the IASB and the U.S. Financial Accounting Standards Board (FASB).

The discussion paper noted that performance is a complex, multi-faceted notion that cannot be encompassed in one or a few numbers. Nevertheless both preparers and users want some key performance reporting lines to convey headline numbers and to provide a starting point for analysis. It is therefore important that items of income, expense, gains and losses are disaggregated, grouped and aggregated in a way that ensures that the most useful key lines are presented. The paper notes that whether recycling is needed also depends on the aggregation/disaggregation model used. The final chapters of the paper discuss various disaggregation models.

Written comments on the paper were invited. A summary of comments has been prepared and published. The comments received will be considered in developing views when responding to the IASB due process documents related to the Financial Statements Presentation project.

**EFFECTS STUDIES**

In 2009 the EFRAG PRC decided to add this existing project, led by the UK ASB and supported by EFRAG, to its agenda. The main objective is to develop proposals for a framework by which the effects of accounting standards can be considered by standard setters, notably the IASB, in developing new standards and major amendments to existing standards. Standard setters have for many years wrestled with ways in which they can determine the effect of accounting standards, and to date such analyses have been restricted to a qualitative assessment of costs and benefits. The aim is to set out some principles and proposals for considering the effect of accounting standards, and how they might be embedded and articulated at each stage of the standard setting process.

**PAPER ON THE PROPOSED NEW DEFINITION OF AN ASSET**

The staff of both EFRAG and the French standard setter (CNC - changed into ANC beginning of 2010) jointly prepared a paper to the IASB staff on the proposed new definition of an asset tentatively adopted by the IASB and FASB. During the year, EFRAG and CNC staff tested the proposed new definition of an asset against a series of economic arrangements and analysed the results. The purpose of the analysis was to assess whether the proposed new definition of an asset drafted by the IASB staff was operational and would result in an improvement over the existing IASB definition of an asset. In addition to being useful for the IASB staff in its deliberation on the development of the Conceptual Framework, another purpose of the paper was to stimulate thinking and research on conceptual issues that underpin financial reporting.

**DISCLOSURE FRAMEWORK**

In 2009 EFRAG started a new proactive project on the disclosure framework. There is criticism of the current disclosures requirements in IFRS. Investment analysts claim that disclosures are deficient in quantity, relevance and clarity; individual investors often complain that disclosures are so voluminous and incomprehensible that they ignore them; preparers express concern over the significant costs involved in satisfying such requirements. Over the years standards-setters and regulators have significantly increased the number of disclosures often on a standard-by-standard basis. This may have contributed to a lack of cohesiveness and unclear presentation. Currently, no standard setter has developed a concep-

tual framework for disclosures. Only in recent years have some standards started to include the objectives and rationale for selecting disclosure requirements. This is the case with IFRS 3 as revised and IFRS 7.

The objective of the project is to encourage the IASB, and other standard setters, to reassess the current process of developing disclosure requirements and to provide recommendations for the development of a set of robust principles.

The output of the project is expected to be a discussion paper that defines a set of principles and criteria that standard-setters should refer to when developing disclosure requirements.

EFRAG will appoint a Pan-European advisory panel whose role will be to provide feedback to the staff and be involved in the review of the discussion paper. EFRAG will lead the project with support from the UK ASB. A discussion paper is expected to be issued in 2011.

**BUSINESS MODEL**

This project is led by the UK ASB with support from the ANC and EFRAG and addresses the business model and its relevance to financial reporting. The aim of the project includes: to consider the suggestion that financial reporting should reflect an entity's business model; to illustrate how the idea of a business model might suggest particular solutions to issues in financial reporting; and to discuss the means by which the business model might be incorporated into requirements or other guidance for financial reporting.

## Technical Activities

### COMMENT LETTERS, ENDORSEMENT ADVICE AND OTHER ADVICE TO THE EC

The developments in IFRS this year have continued to be dominated by the IASB's response to the financial crisis along with other significant proposals aimed at enhancing financial reporting. It would be somewhat of an understatement to say that it has been a busy year and we appreciate it has also been demanding for our constituents. EFRAG continues to be impressed by the number of constituents who contribute to our due process documents on the IASB's proposals and our endorsement advice to the EC on new and amended IFRS. It is their efforts that really make our technical work possible.

The key technical projects for the year are discussed below:

#### CONSOLIDATION

The key objective of the consolidation project is to bring about a single accounting standard based on a single consolidation principle.

The IASB issued ED10: Consolidated Financial Statements in 2008 and EFRAG issued its comment letter on the ED in April 2009.

EFRAG supported the objectives of the ED because it is often difficult to distinguish between entities that should apply IAS 27 and SIC-12. This is because even though SIC-12 is intended to be an interpretation of IAS 27, in reality, both are based on different principles. EFRAG also thought that currently there is not enough disclosure about certain entities that are not consolidated, such as structured entities.

EFRAG however had a number of concerns. The primary concern being that risk and rewards should be explicitly incorporated into the control model.

EFRAG is of the view that a consolidation model that relies on control alone, as opposed to risk and rewards, will not result in the same structured entities being consolidated or remaining off-balance sheet as under existing IFRS.

During the remainder of 2009, the IASB re-deliberated its proposals in light of the comments received with a view to issuing a final standard in 2010.

#### FINANCIAL INSTRUMENTS

The global financial crisis created the push for expeditious reforms in reporting for financial instruments. The Group of Twenty (G20) called on the accounting standard-setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high quality global accounting standards. ECOFIN, council of the European Union comprising Economics and Finance Ministers, asked the IASB to resolve the issue of impairment of available-for-sale debt instruments that are measured at fair value by the end of 2009.

The IASB decided to undertake a project of replacement of IAS 39 Financial Instruments: Recognition and Measurement splitting the project into phases so that the first phase that dealt with the classification and measurement of financial instruments was finalised in time for implementation in 2009 financial statements. The IASB intended to complete the other two phases of the project (hedge accounting, impairment) by the end of 2010.

The IASB published proposals related to the first phase of the project, classification and measurement, in July 2009. EFRAG commented on the proposals. EFRAG Financial Instruments Working Group, Insurance Accounting Working Group and User Panel provided important input to that process.

EFRAG welcomed a more principle-based classification system based on how financial instruments are managed and their characteristics, and the fact that the system had only limited exceptions - a fair value option and a presentation choice for equity investments. However EFRAG had some significant concerns with the proposals including: no bifurcation for hybrid instruments would be possible, reclassification of instruments from one category to another was prohibited even if the original criteria for classification did not hold any longer, no reliability threshold for measuring unquoted equity investments was foreseen, the recycling from other comprehensive income to profit or loss of any part of the total return on equity instruments if an entity elects to report it in other comprehensive income was prohibited, and more liabilities would be measured at fair value and that would result in many more cases than today when effects from



Roberto Monachino

changes in entities' own credit risk would be reported in financial statements.

In November 2009 the IASB published IFRS 9 Financial Instruments that covered classification and measurement of financial assets. In the final standard the IASB addressed some of the concerns that EFRAG had raised but not all. To address concerns regarding measurement of liabilities, the IASB decided to defer finalisation of classification and measurement requirements for financial liabilities to 2010.

EFRAG issued draft endorsement advice on IFRS 9 in consideration of a possibility to endorse IFRS 9 on a fast track basis before 2009 year end. However, it was decided that more time should be taken to consider the implications of the new standard for European constituents.

In the context of developing a new impairment model, in June 2009 the IASB issued a 'Request for Information' on the feasibility of implementing an expected cash flow approach to impairment of financial assets. In responding to the request, EFRAG supported the IASB's decision to review the incurred loss model in the context of other impairment approaches. However EFRAG noted that the implementation of an expected cash flow approach would involve significant operational challenges for European constituents.

Subsequently, in November 2009 the IASB published its proposals for new impairment model. As part of its proactive work, in December 2009 EFRAG and FEE published a joint paper Impairment of Financial Assets - The Expected Loss Model. The paper was written to be read in conjunction with the IASB proposals providing European stakeholders with a different perspective.

In addition EFRAG responded to the Financial Crisis Advisory Group's (FCAG's) request for input. EFRAG expressed a support for the FCAG efforts to address concerns raised during the crisis by various parties that general purpose financial reporting (especially in the areas related to financial instruments) might exacerbated the crisis and failed to provide satisfactory warning signs. EFRAG also stressed an importance

of the IASB and the FASB working together to get to common solutions that would improve financial reporting to the benefit of capital markets participants around the world.

Other activities in the area of financial instruments in 2009 included issuing comment letters to various EDs, the more significant ones being: the EDs of proposed amendments to IFRIC 9 Reassessment of embedded derivatives concerning reassessment of embedded derivatives upon reclassification out of the fair value category, proposed amendments to IFRS 7 Financial Instruments: Disclosures "Investments in Debt Instruments", and the IASB's request for views on the FASB amendments to fair value measurement guidance and impairment recognition requirement. These and other comment letters can be found on EFRAG's website.

#### Financial Instruments Working Group

In 2008, the EFRAG decided to renew the membership of the Financial Instruments Working Group. The new working group comprises high quality specialists in financial instruments with diverse backgrounds, including preparers, auditors, consultants and users, representing different countries (See table 6). The Group held its first meeting in May 2009. The role of the Group is to provide input to EFRAG TEG on financial instrument issues affecting Europe and the views of European stakeholders on those issues and to ensure that EFRAG TEG is in a position to be influential in promoting European interests in financial instruments reporting standard setting.

The Financial Instruments Working Group was actively involved in providing input to EFRAG TEG to facilitate its assessment of the IASB proposals and the standard for reporting financial instruments issued by the IASB in November 2009. In particular, the Group held discussions concerning such aspects of financial instruments reporting as classification and measurement, impairment and derecognition of financial instruments as well issues of fair value measurement.

#### DERECOGNITION

The IASB's proposal fundamentally changes the approach to derecognition of financial assets, moving away from 'risks and rewards' to a control notion.



Mike Ashley  
FIWG CHAIRMAN





In March 2009, the IASB first issued an ED with a proposal to simplify the derecognition provisions of IAS 39 while keeping a large part of the old principles. A major difference with IAS 39 was the treatment of sale-and-repurchase transactions (repos), which would have largely been derecognised under the proposed rules.

The vast majority of the respondents to the ED – including EFRAG – rejected the proposals on the ground that they did not result in a significant improvement of IAS 39 and the treatment of repos was problematic. The IASB therefore decided to develop a new proposal based on the alternative approach that was also presented in the ED. The alternative approach, which received more support than the main proposal, would result in a significant change from the current requirements in IAS 39 with derecognition of financial assets being determined using a control notion and with risks and rewards no longer being relevant criteria. Control and hence derecognition of a financial asset would be determined by assessing an entity's present access to the cash flows of that asset.

#### FAIR VALUE MEASUREMENT

The proposed IFRS focused on 'how to' measure fair value and did not deal with when fair value should be used. The recent financial crisis highlighted the need to develop a consistent global approach to fair value measurement.

The IASB issued its ED on Fair Value Measurement in May 2009 and EFRAG worked on its response to the ED during the summer. EFRAG issued a comment letter that supported most aspects of the IASB's proposal. However, EFRAG also expressed the view in its comment letter that the application of fair value, as defined and described in the ED, should not apply to all non-financial items. This view arose out of concerns that fair value was not the right measure in all cases and could be difficult to apply. EFRAG argued that more consideration was needed including further public consultation and debate on the issue of 'when to' use fair value in IFRS. EFRAG also noted in its comment letter that it does not agree with the proposal that the fair value of a liability should always reflect non-performance risk.

#### FINANCIAL STATEMENTS PRESENTATION

The Discussion Paper proposes a "new look" for financial statements, but constituents are reluctant to give up some aspects of the existing practice. As a result the ED is likely to be a compromise of "something old" and "something new". A continuous statement of comprehensive income becomes an issue as the IASB and the FASB proceed with the Post-employment Benefits and the Financial Instruments projects.

The beginning of 2009 saw EFRAG developing a response to the IASB's Discussion Paper Preliminary Views on Financial Statements Presentations (the DP) issued in October 2008 as Phase B of the Financial Statements Presentation project. EFRAG supported the presentation principles proposed in the DP (including cohesiveness) but criticised the proposed application of those principles. EFRAG's major concerns related to: the proposed disaggregation model and the required level of detail on the face of primary statements; the introduction of a reconciliation schedule, which would lose a few useful numbers in an over-detailed disclosure; and the proposal to require the direct method for presenting cash flows.

#### LEASES

EFRAG issued its comment letter on the IASB/FASB discussion paper Leases in July 2009. The discussion paper (DP) focuses almost exclusively on lease accounting by lessees; consideration of lessor accounting has been deferred, although the DP does contain a 'high level discussion' chapter on the subject.



Catherine Guttman

EFRAG was very uncomfortable with the IASB's decision to defer consideration of lessor accounting because it believed some of the crucial decisions (including the proposal that a 'right-of-use' approach

should be used) might have been different had a more comprehensive analysis of the issues based on both perspectives had been undertaken.

Putting that aside, EFRAG was inclined towards supporting the 'right-of-use' approach for all lease arrangements. However, we were concerned about the cost-benefit implications of such an approach if it were to be applied to short-term lease arrangements. We also believed that applying the 'right-of-use' approach to all leases will make the distinction between leases and service arrangements even more important than it is currently.

EFRAG members were divided on the DP's proposal that lessees should recognise a single lease asset and a single lease liability (i.e. that a components approach should not be used to account for options in lease agreements). Some members believed that the approach proposed is pragmatic, while other members believed that the approach proposed will result in amounts being recognised as liabilities that are not liabilities and therefore favoured adoption of the components approach.

#### REVENUE RECOGNITION

In late 2008 the IASB issued a discussion paper on revenue recognition in contracts with customers. The discussion paper proposed that when an entity enters into a contract with a customer, an asset (the entity's right to receive consideration) and a liability (the entity's performance obligation) would arise. Revenue should then be recognised as the entity satisfies its performance obligations, which would happen when control of the asset (a good or a service) was transferred to the customer.

In July 2009, EFRAG submitted its comment letter in response to the IASB's discussion paper. EFRAG considered that the model proposed by the IASB would often result in revenue related to construction-type and service-type contracts not being recognised until completion of the work. EFRAG did not think this would result in the most decision-useful information. In EFRAG's view, revenue should be recognised as the entity progresses towards fulfillment of its performance obligation, rather than upon fulfillment.

#### MANAGEMENT COMMENTARY

In June 2009, the IASB issued an ED on management commentary. The ED described a high-level principles-based framework for the preparation and presentation of management commentary and the content of a decision-useful management commentary. The IASB proposed that a non-mandatory guidance document on management commentary should be issued based on the ED.

In November 2009, EFRAG published its draft comment letter. The draft comment letter supported the IASB's decision to develop high-level, principle-based, non-mandatory guidance on management commentary. EFRAG was also broadly supportive of the detailed proposals, but had some concerns about the desirable qualitative characteristics it was proposed that management commentary should have and thought that IASB should not defer development of placement principles (principles for placing disclosures in for example a management commentary or in the notes to the financial statements).

#### RATE-REGULATED ACTIVITIES

The IASB published an ED in July 2009 on the accounting for rate-regulated activities. EFRAG expressed support for the overall objective of the project, but did not support the proposals. In EFRAG's view, the accounting model on which the ED is based is conceptually flawed and presents proposals that are unclear

and difficult to follow.

The accounting for rate-regulated activities was first discussed by the IFRIC some years ago, but the IFRIC decided not to address the issue, but rather referred it to the IASB. Unlike US GAAP, IFRS does not provide specific guidance on the accounting for rate-regulated activities and several questions have arisen on how to reflect the impacts of rate-regulation in the financial statements of entities operating in a regulatory environment.

Focusing on the objective of the project, EFRAG agreed that the issue of whether rate regulation gives rise to assets and liabilities under the Framework is widespread. For this reason, EFRAG supported the IASB in its effort to consider the issues. However, EFRAG expressed numerous concerns with the proposals and, overall, thought that the IASB had not

addressed the issues in an appropriate manner. First, EFRAG argued that it was questionable whether the rate-regulated activities as described in the ED, would always meet the definition of assets and liabilities under the Framework. In addition, there is a risk that the proposals would be applied by analogy to other situations for which the ED requirements are not intended. EFRAG also expressed significant concerns with the very narrow scope of the



Mike Starkie

ED and questioned why the IASB had decided to focus only on cost-of-service regulation, which indeed might be common practice in jurisdictions operating in the US and neighbouring countries, but not in European environments, where incentive-based methodologies are more prevalent and therefore outside the scope of the ED. Given these concerns, EFRAG concluded that it did not support the issuance of a standard based on the proposals.

#### INCOME TAXES

The IASB published an ED of an IFRS to replace IAS 12 Income Taxes in March 2009. EFRAG considered the proposals at several of its meetings and noted its support in relation to convergence and the IASB's efforts to try to address some of the practice issues created by the application of IAS 12. However, EFRAG concluded that the proposals were not an improvement to the existing IAS 12 and should not be used as a basis for a revised standard.

The IASB began work on the accounting for income tax back in 2002 as part of the short-term convergence project with the FASB. The project started off with two objectives in mind (1) to converge with US GAAP and (2) to improve IAS 12. However, during the

course of the project, the FASB indicated that it would suspend its work on income tax and would decide how to proceed with the project once it had considered the responses to the IASB's ED.

In respect of the ED, EFRAG thought that the proposals were very rule-based and as a result, it compromised the benefits of having an amended income tax standard based on well understood principles which entities could apply to their 'real life' tax situations. In EFRAG's view, the IASB was trying to align aspects of existing IAS 12 with a totally different tax jurisdiction without first having carried out a field-test exercise to better understand the implications of the proposals and assessing the usefulness of the information it would produce when applied to a non-US environment. Given these considerations the IASB should carry out further work before publishing a final standard on income taxes.

In October 2009, the IASB decided not to continue with the ED in its current form. At the time of writing, the IASB has indicated that it would consider a limited scope project to amend IAS 12 and address some of the fundamental practice issues that arise from the requirements in the existing standard.

#### FRAMEWORK

Since 2004 the IASB and the FASB have been in the process of developing a joint project on a common conceptual framework. The project is being conducted in eight phases. In 2008 the IASB issued an ED of the first two chapters of the proposed new framework (objectives and qualitative characteristics) and also a Discussion Paper on the reporting entity notion. EFRAG issued comment letters in response to each of these due process documents. The IASB continued its deliberations on the Framework project in 2009 but no further documents were issued.

EFRAG monitored IASB's deliberations in 2009 and had an educational session on the reporting entity, in preparation for the ED "Conceptual Framework for Financial Reporting: The Reporting Entity" that is expected to be issued in the first quarter of 2010. In that session, members discussed the latest developments in the project, including the definitions and descriptions expected to be incorporated in the forthcoming ED (e.g., how broad the definition of a reporting entity should be and whether the notion of control should be defined on a conceptual or at a standards level).

#### INSURANCE ACCOUNTING

The newly re-constituted Insurance Accounting Working Group met for the first time in January 2009. The Group currently comprises members from the insurance industry (6), audit firms (3) and various other insurance-related profiles (4) (See Table 8). Bearing in mind that the IASB's ED on insurance contracts is expected to be issued in June 2010, the Group met frequently.

The Group has closely followed the IASB's deliberations and has discussed the IASB's main tentative decisions. The Group has welcomed the IASB's decision to move away from an exit value notion and has been overall supportive of the IASB's building block approach. The Group nevertheless raised significant issues, including the treatment of acquisition costs, participation features, the recognition of net income and revenue and the interaction between the insurance project and the IAS 39 replacement project.

The IASB still has important decisions to make, including the scope of the insurance contracts standard and the treatment of unit-linked and participating contracts. The Group will continue to meet with the same frequency in 2010 in an effort to provide EFRAG with the maximum level of input to help it prepare its comment letter on the IASB's forthcoming ED.

#### SME ACCOUNTING

The IASB issued International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in 2009. The standard reflects many of the positions stated in EFRAG's comment letter issued in February 2008 in response to the IASB's ED of the standard. In line with EFRAG's position, the final standard is a stand-alone document, except for the references to IAS 39. Also, the final standard includes fewer options and the requirements have been further simplified compared to the ED. On the other hand, it is EFRAG's view that a more thorough analysis of users' information needs should have been carried out and the results of this should have been reflected in the final standard.



Hans Schoen  
IAWG CHAIRMAN

The reconstituted EFRAG SME Working Group was appointed in May 2009 with strong membership drawn from a variety of backgrounds (See Table 7). The Working Group's objectives are to:

- prepare papers for EFRAG with the aim of ensuring that European views are taken into account at the IASB's discussions on IFRS for SMEs;
- provide input for EFRAG to be used for its recommendations and suggestions to the EC on accounting issues related to SMEs;
- deal with other accounting issues related to SMEs.

The main tasks of the Working Group were in 2009 related to advice on EU accounting legislation. The Working Group, however, first considered the ballot draft of the new IFRS for SMEs and evaluated it for use in Europe and as expected the Group had diverse views, but came up with constructive input for EFRAG TEG.

The EC issued in 2009 a consultation paper 'Cutting Accounting Burden for Small Business/ Review of the Accounting Directives'. EFRAG did not submit a comment letter on this paper. Staff members of the EC were invited to attend the meetings of the EFRAG SME Working Group and at these meetings the members of the Working Group presented, on an informal basis, their different views on issues related to the EU Accounting Directives. Over the summer the EC asked for input on a new draft directive and the Working Group had several meetings on that subject in order to challenge the EC proposals.

Some of the issues discussed in the working group in relation to the EU Accounting Directives were:

- the users of financial statements of SMEs;
- how detailed versus principle-based the accounting directives should be?
- what should be the basic principles of the accounting directives?
- the layout of the financial statements; and
- required disclosures.

As a consequence of the issuance of IFRS for SMEs, members also discussed what role they thought this standard should have in the EU. The EFRAG SME Working Group also invited the Spanish Accounting and Auditing Institute (ICAC) to present how a general accounting plan for SMEs had been inspired by the requirements of IFRS.

In 2009, the EC also issued the consultation paper 'Consultation on the International Financial Reporting Standard for Small and Medium-sized Entities'. Partly in relation to this consultation paper, the EC asked EFRAG to perform an analysis of the compatibility between IFRS for SMEs and the Accounting Directives. EFRAG has asked the EFRAG SME Working Group to present an analysis on which EFRAG's work can be based and the Working Group has held several meetings to discuss potential conflicts between the requirements of IFRS for SMEs and the Accounting Directives. EFRAG issued a draft letter for comment in March 2010.





## Publications and Activities in 2009

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice*	Final Endorsement Advice*
<b>IFRSs</b>				
Amendments to IFRS 9 and IAS 39 Embedded Derivatives	06-01-2009	29-01-2009	27-03-2009	27-05-2009
Amendments to IFRS 7 Investment in Debt Instruments	08-01-2009	16-01-2009		
Amendments to IFRS 7 Improving Disclosures about Financial Instruments	04-11-2008	15-12-2008	03-04-2009	27-05-2009
Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets – Effective Date and Transition	None	None	08-12-2008	15-01-2009
Amendments to IFRS 1 (Revised) – First Time Adoption of IFRS	None	None	27-01-2009	30-03-2009
Amendments to IFRS 1 Additional Exemptions for First-Time Adopters	24-11-2008	28-01-2009	07-09-2009	09-10-2009
Amendments to IFRS 5 Discontinued Operations	17-12-2008	30-01-2009		
Amendments to IAS 24 Relationships with the State	22-12-2008	01-04-2009	20-11-2009	29-01-2010
Amendments to IAS 12 Income Taxes	05-06-2009	10-09-2009		
Amendment to IAS 39 and IFRS 7 Derecognition	15-06-2009	31-07-2009		
Amendments to IFRS 2 and IFRIC 11 Group Cash-settled Share-Based Payment Transactions	06-02-2008	11-04-2008	10-07-2009	14-09-2009
Improvements to IFRS 2007 – 2009	20-10-2008	15-12-2008	28-07-2009	14-09-2009
Replacement of IAS 39 Financial Instruments: Classification and Measurement	28-07-2009	21-09-2009	02-11-2009	Postponed
Amendments to IAS 32 Classification of Rights Issues	21-08-2009	07-09-2009	08-10-2009	06-11-2009
Amendments to IAS 19 Discount Rate for Employee Benefits	07-09-2009	09-10-2009		
Improvements to IFRS 2009	23-09-2009	25-11-2009		
Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	04-12-2009	22-12-2009	29-01-2010	22-02-2010
<b>Count</b>	<b>9</b>	<b>12</b>	<b>9</b>	<b>8</b>
<b>IFRIC</b>				
IFRIC 9 Reassessment of embedded derivatives	09-02-2009	02-03-2009		
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	09-02-2009	02-03-2009		
IFRIC 17 Distributions of Non-Cash Assets to Owners	08-04-2008	06-06-2008	14-03-2009	27-05-2009
IFRIC 18 Transfer of Assets from Customers	12-03-2008	09-05-2008	26-03-2009	27-05-2009
Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	10-07-2009	07-09-2009	14-12-2009	29-01-2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	21-08-2009	08-10-2009	14-12-2009	29-01-2010
<b>Count</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>2</b>

Letters issued in 2009 in total	
Draft Comment Letters	23
Final Comment Letters	26
Draft Endorsement Letters	13
Final Endorsement Letters	10
Other Publications - Discussion Papers	13
<b>TOTAL</b>	<b>85</b>

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
<b>Other Letters</b>				
Discussion Paper Financial Statement Presentation	10-02-2009	25-05-2009		
ED 10 Consolidated Financial Statements	02-03-2009	09-04-2009		
Discussion Paper Revenue Recognition in Contracts with Customers	05-05-2009	27-07-2009		
Discussion Paper Leases	08-06-2009	28-07-2009		
Discussion Paper Credit Risk in Liability Measurement	23-07-2009	23-09-2009		
ED Fair Value Measurements	30-07-2009	1-10-2009		
ED Rate Regulated Activities	20-10-2009	18-12-2009		
ED Management Commentary	16-11-2009			
IASB's request for views on FASB's amendments to Fair Value Measurement Guidance and Impairment Recognition	08-04-2009	22-04-2009		
IASB's Request for Information - Impairment of Financial Assets: Expected Cash Flow Approach	22-07-2009	09-09-2009		
<b>Count</b>	<b>10</b>	<b>10</b>		
<b>Other Publications</b>				
Summary of Comments Received on the PAAinE DP on Elements of the Framework Debate		11-02-2009		
Summary of Comments Received on the PAAinE DP on The Performance Reporting Debate		11-02-2009		
Summary of Comments Received on the PAAinE DP on Revenue Recognition		11-02-2009		
Response to the Financial Crisis Advisory Group	21-03-2009	02-04-2009		
Discussion Paper Performance Reporting		24-03-2009		
European Survey of User's Information Needs		29-05-2009		
Feedback and Redeliberations Report on the PAAinE DP Financial Reporting for Pensions		30-11-2009		
Impairment of Financial Assets – The Expected Loss Model		09-12-2009		
<b>Count</b>	<b>1</b>	<b>8</b>		
<b>Publications of EFRAG's Supervisory Board</b>				
Identifying issues for Part 2 IASCF Review of the Constitution	06-03-2009	09-04-2009		
IASCF Review of the Constitution Part 2	23-10-2009	04-12-2009		
<b>Count</b>	<b>2</b>	<b>2</b>		
<b>Totals</b>	<b>26</b>	<b>36</b>	<b>13</b>	<b>10</b>

Technical Meetings		
Technical Meetings	TEG (3 days)	10
	TEG (1 day)	3
	TEG conference calls	14
	CFSS	4
	Working Group Meeting	15
	User Panel	4

## Financial Highlights

### ABBREVIATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2009

Income Statement	2009 000 EUR	2008 000 EUR
Members contribution	875	1082
National Funding Mechanisms	1033	593
Contributions in kind	499	0
<b>Total Contributions</b>	<b>2407</b>	<b>1675</b>
Expenses in kind	-499	0
Personnel costs	-1458	-1042
Office costs	-324	-221
Meeting costs	-40	-27
Other costs	-169	-121
<b>Operating expenses</b>	<b>-2490</b>	<b>-1411</b>
<b>Operating profit or loss</b>	<b>-83</b>	<b>264</b>
Financial Result	19	29
<b>Result for the year</b>	<b>-64</b>	<b>293</b>
Contributions related to prior year	295	0
<b>Net profit or loss</b>	<b>231</b>	<b>293</b>

Balance Sheet	2009 000 EUR	2008 000 EUR
Tangible Assets	133	135
Financial Assets	72	106
<b>Total Fixed Assets</b>	<b>205</b>	<b>241</b>
Amounts Receivable	350	1
Current Investments	250	250
Cash at bank and in hand	1055	1130
Deferred Charges and Accrued Income	105	56
<b>Total Current Assets</b>	<b>1760</b>	<b>1437</b>
<b>Total Assets</b>	<b>1965</b>	<b>1678</b>
Accumulated Surplus	1584	1353
Creditors	381	325
<b>Total Liabilities</b>	<b>1965</b>	<b>1678</b>

The financial highlights are based on statutory financial statements audited by BDO, Belgium.

The financial statements have been prepared on accruals basis. Tangible assets equipment are recorded at historical cost and depreciated on basis of useful life of the assets. Current investments and cash at bank and in hand are recorded at market value. Committed contributions are recorded on accruals basis. In 2009 EFRAG has started to account for its contributions in kind. The amount included is based on the fourth quarter only.

EFRAG has started in the fourth quarter of 2009 to account for contributions in kind and expenses in kind consisting of the time members of the various committees dedicate to EFRAG as well as the additional value of the secondment provided to EFRAG. EFRAG's expenses excluding expenses in kind have increased with over 40 % compared to 2008 largely due to the increase of the EFRAG secretariat staff and the new and larger EFRAG offices.

### FINANCIAL STRUCTURE OF EFRAG



EFRAG RECEIVES FROM 2010 FINANCIAL SUPPORT OF THE EUROPEAN UNION-DG INTERNAL MARKET AND SERVICES. THE CONTENTS OF THIS ANNUAL REVIEW IS THE SOLE RESPONSIBILITY OF EFRAG AND CAN UNDER NO CIRCUMSTANCES BE REGARDED AS REFLECTING THE POSITION OF THE EUROPEAN UNION.

In 2009 the financing of EFRAG was entirely provided by its Member Organisations (European stakeholder representative organisations with an interest in financial reporting) and the National Funding Mechanisms (NFM) in several European countries. EFRAG seeks to broaden its basis of NFM to obtain a better coverage in Europe. At this stage, most European countries have not yet created a NFM despite being encouraged to do so by the EC, the Council of Ministers and EFRAG.

From 2010 onwards, EFRAG will be co-funded by the EC for up to 50% of the EFRAG budget whereby public sector funding will match the private sector funding. With the EC funding, EFRAG will move to a three-tier funding model:

- Base funding from Member Organisations
- National Funding Mechanisms
- EC funding

In addition there are contributions in kind provided by the members of TEG (with exception of the Chairman from 2010 onwards), the SB, the Working Groups and Advisory Panels and seconded staff at subsidised cost.

The EFRAG Member Organisations are:

FEE	Federation of European Accountants
BUSINESSEUROPE	European Business Federations
CEA	European Insurance Organisation
EBF	European Banking Federation
ESBG	European Association of Cooperative Banks
EACB	European Association of Cooperative Banks
EFAA	European Federation of Accountants and Auditors

The NFM are:

France	CNC* non-mandatory call on all listed companies for IASB, EFRAG and special surveys accompanied by a letter of the ministry of finance
Italy	Part of the OIC budget that is obtained from a collection of funds by the Chamber of Commerce from all companies that have to publish financial statements
Norway	Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board), in collaboration with The Norwegian Institute of Public Accountants (DnR), The Confederation of Norwegian Business and Industry (NHO), and Oslo Børs (Oslo Stock Exchange)
Sweden	Collection of funds by self-regulating body from listed companies calculated as a percentage of the market capitalisation
UK	Paid by the UK Financial Reporting Council which is primarily funded by levies on companies and a contribution from the accountancy profession

\*CNC became ANC (Autorité des normes comptables) at the beginning of 2010.

In addition, EFRAG receives ad hoc contributions.



The Contributions for 2009 are as follows

Member Organisations	Amount in 1000 euro
FEE	300
BUSINESSEUROPE	200
CEA	75
EBF	75
ESBG	75
EACB	75
EFAA	25
<b>Total Member organisations</b>	<b>825</b>
NFMs	Amount in 1000 euro
France	350
Italy	170
Norway	50
Sweden	100
UK	350
<b>Total NFMs</b>	<b>1020</b>
Ad hoc	
Acteo (FR)	50
Forsikring & Pension (DK)	13
<b>Total Ad hoc</b>	<b>63</b>
<b>Total 2009 contributions</b>	<b>1908</b>

## Appendices




**TABLE 1 - SUPERVISORY BOARD**

We would like to thank the members of the former Supervisory Board:			
<b>Göran Tidström, Chairman</b>	PwC Sweden	<b>Patrice Marteau</b>	BUSINESSEUROPE
<b>Javier De Frutos</b>	EFFAS	<b>Gérard de la Martinière</b>	CEA
<b>Chris De Noose</b>	ESBG	<b>Jacques Potdevin</b>	FEE
<b>Hervé Guider</b>	EACB	<b>Guido Ravoet</b>	EBF
<b>Robin Jarvis</b>	EFAA	<b>Peter Sampers</b>	BUSINESSEUROPE
<b>Klaus-Günther Klein</b>	FEE	<b>Hans van Damme</b>	FEE
<b>David Lindsell</b>	FEE		
And their advisors:			
<b>Erik Berggren</b>	BUSINESSEUROPE	<b>Roger Kaiser</b>	EBF
<b>Alberto Corinti</b>	CEA	<b>Saskia Slomp</b>	FEE
<b>Astrid Hagenah</b>	ESBG		
The new members of the EFRAG Supervisory Board since 11 June 2010:			
<b>Pedro Solbes Mira</b>	Chairman, Spanish, former European Commissioner and Minister of Economy and Finance		
<b>Pär Boman</b>	Swedish, CEO of Svenska Handelsbanken, President of Swedish Bankers organisation		
<b>Peter Chambers</b>	UK, CEO of Legal & General Investment Management, non-executive Director of FRC		
<b>Claudio de Conto</b>	Italian, General Manager and Chief Operating Officer of Pirelli, former member IFRIC		
<b>Gérard de la Martinière</b>	French, Vice Chairman of CEA, former CFO and Board member of AXA, Board member of Schneider Electric and Air Liquide		
<b>Patrick De Vos</b>	Belgian, CFO of Groupe Bruxelles Lambert		
<b>Gerhard Hofmann</b>	German, Member of the Board of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken		
<b>Robin Jarvis</b>	UK, Head of SME Affairs (ACCA), Professor of Accounting and Finance, Kingston University, Member of and previously Chair of FIN USE		
<b>Professor Aldona Kamela-Sowinska</b>	Polish, Chair International Relations Commissions of the Accountants Association, Rector of the University of Poznan, former Deputy Finance Minister		
<b>John Kellas</b>	UK, former Chairman IAASB, former Partner KPMG, member of the UK FRC Professional Oversight Board		
<b>Jorge Gil Lozano</b>	Spanish, Managing Director of the Operative and Financial Areas of the Spanish Confederation of Savings Banks		
<b>Patrice Marteau</b>	French, Chairman ACTEO, Vice-Chair SAC (IASCF), Former CFO PPR Group		
<b>Professor Angelo Provasoli</b>	Italian, former Rector and Professor at the Bocconi University, President of the Board of Statutory Auditors (collegio sindacale) of Banca d'Italia		
<b>Jens Røder</b>	Danish, former IASCF Trustee, former Chairman ECG, Partner PwC, former FEE President, member IVSC Board of Trustees		
<b>Peter Sampers</b>	Dutch, Senior Accounting Officer at Royal DSM NV, Professor of Financial Accounting, Maastricht University		
<b>Hans van Damme</b>	Dutch, President FEE, Partner KPMG		
EC and CESR attend the meeting as observers. Henri Olivier (FEE) is Secretary to the Supervisory Board.			

**TABLE 2 - TECHNICAL EXPERT GROUP**

<b>Stig Enevoldsen</b> (Denmark) EFRAG TEG Chairman Partner Deloitte			<b>Françoise Flores</b> (France) EFRAG Vice-Chair Co-Chair SME WG Partner Mazars
<b>Mike Ashley</b> (United Kingdom) Chairman Financial Instruments Working Group Audit partner KPMG			<b>Hans Schoen</b> (The Netherlands) Chairman of the Insurance Accounting Working Group
<b>Alan Dangerfield</b> (Switzerland) Head of Corporate Finance Accounting & Controlling – External Relations Roche			<b>Thomas Seeberg</b> (Germany) Former CFO Osram GmbH
<b>Catherine Guttmann</b> (France) Former Partner Deloitte			<b>Anna Sirocka</b> (Poland) Audit Partner E&Y
<b>Roberto Monachino</b> (Italy) Director at UniCredit Banca Mobiliare			<b>Michael Starkie</b> (United Kingdom) Group Vice President and Chief Accounting Officer BP p.l.c.
<b>Araceli Mora</b> (Spain) Professor University of Valencia			<b>Carsten Zielke</b> (Germany) Managing Director Société Générale

**NON VOTING MEMBERS:**

<b>Liesel Knorr</b> (Germany) President German Accounting Standards Board (GASB)			<b>Ian Mackintosh</b> (United Kingdom) Chairman UK Accounting Standards Board (UK ASB)
<b>Jean-François Lepetit</b> (France) Chairman French Standard-Setter (CNC*)		<b>The EC, the IASB and CESR attend the meetings as observers</b>	

\*CNC changed into ANC (Autorité des normes comptables) at the beginning of 2010. Jérôme Haas succeeded Jean-François Lepetit.

**TABLE 3 - PRC**

<b>Peter Sampers</b>	Interim Chairman of the PRC, EFRAG SB Member
<b>Angelo Casó</b>	Chairman OIC
<b>Jean-François Lepetit</b>	Chairman CNC
<b>Ian Mackintosh</b>	Chairman UK ASB
<b>Hans van Damme</b>	EFRAG SB Member, FEE President
<b>Stig Enevoldsen</b>	EFRAG Chairman
The EC and the German ASB attend the meetings as observers.	

**TABLE 4 - SECRETARIAT AS OF 31 DECEMBER 2009**

<b>Stig Enevoldsen</b>	Chairman and CEO
<b>Mario Abela</b>	Research Director and acting Technical Director
<b>Sigvard Heurlin</b>	Senior Project Manager
<b>Mark Abela</b>	Project Manager
<b>Isabel Batista</b>	Project Manager
<b>Svetlana Boysen</b>	Project Manager
<b>Emmanuel Gagneux</b>	Project Manager
<b>Gregory Hodgkiss</b>	Project Manager
<b>Irina Ipatova</b>	Project Manager
<b>Aleš Novak</b>	Project Manager
<b>Filippo Poli</b>	Project Manager
<b>Kristy Robinson</b>	Project Manager
<b>Joaquin Sanchez-Horneros</b>	Project Manager
<b>Rasmus Sommer</b>	Project Manager
<b>Stuart Studsrud</b>	Project Manager
<b>Marius Van Reenen</b>	Project Manager
<b>Jeff Waldier</b>	Project Manager
<b>Nathalie Saintmard</b>	Office Manager
<b>Thérèse Mac an Airchinnigh</b>	Office Administrator
EFRAG would like to thank Paul Ebling for his tremendous contribution to the high quality level of EFRAG's technical work.	
EFRAG would like to thank Charlotte Norre and Frederiek Vermeulen for their valuable contributions as project managers and support in the daily operations of EFRAG.	
EFRAG welcomed in its management staff Saskia Slomp as Director and Pieter Dekker as Technical Director in the beginning of 2010.	





**TABLE 5 - EFRAG OBSERVERS IN IASB WORKING GROUPS**

<b>Mike Ashley (TEG)</b>	Financial Instruments
<b>Carsten Zielke (TEG)</b>	Insurance
<b>Dominique Thouvenin (former TEG)</b>	Leasing
<b>Andrew Lennard (UK ASB)</b>	Pensions
<b>Françoise Flores (TEG)</b>	Presentation of financial statements

**TABLE 6 - MEMBERS OF THE FINANCIAL INSTRUMENTS WORKING GROUP**

Mike Ashley –TEG Member and Working Group Chairman (KPMG); David Bradbery – Preparer (UBS Investment Bank); Pierre-Henri Damotte – Preparer (Société Générale); Laure Guégan – Auditor (E&Y); Armin Hausmann – Preparer (Novartis International); Petri Hofste – Preparer (ABN Amro Bank); Gordon Ireland – Auditor (PwC); Dennis Jullens – User (UBS); Roberto Monachino – TEG Member (UniCredit Banca Mobiliare); Cynthia Mustafa – Preparer (Deutsche Bank AG); Nicolas Patrigot – Preparer (BPCE); Henricus Seerden – Preparer (EIB); Brendan van der Hoek – Preparer (Lloyds TSB); Thierry Veysièrre – Preparer (BNP Paribas); Pietro Virgili – Preparer (Banca IntesaSanpaolo); Yvonne Wiehagen-Knopke – Preparer (DZ Bank AG);

Representatives of the EC, CESR and the Committee of European Banking Supervisors (CEBS) are invited to participate as observers.

The Working Group member, Agnes Tardos – Auditor (PwC), resigned during 2009.

**TABLE 7 - MEMBERS OF THE SMALL/MEDIUM ENTITIES' WORKING GROUP**

Stig Enevoldsen – EFRAG Chairman; Françoise Flores– EFRAG Vice-chair; Jean-Charles Boucher – Auditor (Touillet Audit) ; José Maria Bové – Auditor (Instituto de Censores Jurados de Cuentas de Espana; Bové Montero y Cia); Francis Chittenden – Academic (Manchester Business School); Federico Diomeda – Auditor (EFAA); Johannes Guigard – Auditor (Dottori Commercialisti); Luc Hendrickx – Preparer/user (UEAPME); Radek Ignatowski – Academic (University of Lodz); Robin Jarvis – Academic (ACCA; EFRAG Supervisory Board Member); Manfred Jutz – Preparer (Dr. August Oetker KG); Gerhard Prachner – Auditor (PwC); Brian Shearer – (Grant Thornton); Marc Spyker – (I'ANR); Danielle Stewart – Auditor (Baker Tilly); Knut Tonne – Auditor (KPMG); Hugo van den Ende – Auditor/ Standard setter (Dutch Standard Setter (DASB)); Bart De Leeuw – Auditor (E&Y).

Representatives of the EC are invited to participate as observers.

**TABLE 8 - MEMBERS OF THE INSURANCE ACCOUNTING WORKING GROUP**

Hans Schoen – Working Group Chairman (Former Audit Partner, KPMG); Bernard Bolle-Reddat – Preparer (BNP Paribas); Michel Colinet – CBAF (observer); Alexander Dollhopf – Actuary (Towers Watson); Hugh Francis – Preparer (Aviva); Helle Gade – Preparer (Danish Insurance Association, Forsikringoppension); Benoît Jaspas – Preparer (Generali); Fabrice Guenoun – Preparer (AMICE); Burkhard Keese – Preparer (Allianz); Joachim Koelschbach – Auditor (KPMG); Jacques Le Douit – Preparer (AXA); Francesco Nagari – Auditor (Deloitte); Sabrina Pucci – Academic (University of Rome); Gail Tucker – Auditor (PwC); Carsten Zielke – TEG Member (Société Générale).

Representatives of the European Commission, the Committee of European Securities' Regulators (CESR), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and CEA are invited to participate as observers.

The International Credit Insurance & Surety Association (ICISA), the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) and representatives of the Re-insurance industry are associate members of the working group, in which they are invited to participate in meetings of interest to their respective industries.

**TABLE 9 - MEMBERS OF THE TAX ADVISORY PANEL**

Andrew Lennard - Advisory panel Chairman (UK ASB); Carl-Eric Bohlin - Swedish Standard Setter (Swedish Financial Reporting Board); Elizabeth Crispin - Auditor (Deloitte); Matthew Curtis- Auditor (E&Y); Stig Enevoldsen (EFRAG Chairman); Edouard Fossat – Auditor (Mazars); Prof. Dr. Norbert Herzig – academic (University of Cologne); Peter Holgate - Auditor (PwC); Matthias Jaryssek- Preparer (Deutsche Telekom AG); Andrew Jones – User (Makinson Cowell); Liesel Knorr - German Standard Setter (DRSC); Olivia Larmaraud - Preparer (PSA Peugeot Citroen); Ugo Marinelli – Academic (OIC); Joanna Osborne – Auditor (KPMG); Thomas Senger - Auditor (Warth & Klein); Hugh Shields - Preparer (Deutsche Bank); Alfred Simlacher- Preparer (Siemens AG); Anne McGeachin – observer (IASB); Mitsuhiro Takemura – observer (IASB).

**TABLE 10 - MEMBERS OF THE BUSINESS COMBINATIONS UNDER COMMON CONTROL ADVISORY PANEL**

Françoise Flores, Chairman of the Advisory Panel (EFRAG TEG Vice Chair); Olivier Behys – Auditor (KPMG); Michelle Crisp – UK Standard Setter (UK ASB); Mike Davies – Auditor (E&Y); Egbert Eeftink – Auditor (KPMG); Henrik Z. Hansen – Auditor (Deloitte); Jorge Herreros - Auditor (KPMG); Erich Kandler – Auditor (Deloitte); Didier Rimbaud – Auditor (Mazars); Bjørn Einar Strandberg – Auditor (PwC) ; Stig Enevoldsen (EFRAG Chairman); Christiane Ohlgart – Preparer (SAP).

**TABLE 11 - MEMBERS OF THE CONSULTATIVE FORUM OF STANDARD SETTERS (CFSS)**

AFRAC Austrian Standard Setter; CFSS Luxembourg Standard Setter; CMF Czech Ministry of Finance; CNC - Comissão de Normalização Contabilística; Portuguese Standard-Setter; CNC - Commission des Normes Comptables, Belgian Standard-Setter; CNC - Conseil National de la Comptabilité\*, French Standard-Setter; DRSC - German Standard-Setter; EASB - Estonian Accounting Standards Board; FAB - Finnish Standard-Setter; FER - Swiss Standard-Setter; Stig Enevoldsen – EFRAG Chairman; Françoise Flores Vice-chair of EFRAG TEG; FRC - Swedish Standard-Setter; FSR/REGU - Danish Standard-Setter; GMEF - Greek Ministry of Economy and Finance; IARL - Lithuanian Standard-Setter; ICAC - Spanish Standard-Setter; ICPAC - Cyprus Standard-Setter; LMF - Latvian Ministry of Finance; NRS - Norwegian Standard Setter; OIC - Italian Standard-Setter; PMF - Polish Ministry of Finance; RJ Dutch Standard-Setter DASB; UK ASB - UK Standard-Setter.

\* changed into ANC (Autorité des normes comptables) at the beginning of 2010.



**A 'GREENER' OFFICE – PUTTING SUSTAINABILITY INTO PRACTICE AT EFRAG**

- DURING 2009 EFRAG HAS IMPLEMENTED A 'GREEN' PURCHASING POLICY AT AN ORGANISATIONAL LEVEL, INCLUDING THE USE OF RECYCLED OR RECYCLABLE PAPER, BIODEGRADABLE PACKAGING AND THE USE OF FAIR-TRADE FOODSTUFFS.
- EFRAG RECYCLES PAPER AND SEEKS TO RESTRICT PRINTING.
- EFRAG OFFERS A WIDE RANGE OF EMPLOYEE TRANSPORTATION OPTIONS, WITH STRONG EMPHASIS PLACED ON THE USE OF PUBLIC TRANSPORT AND PARTICULARLY ON SUSTAINABLE TRAVEL OPTIONS, SUCH AS WALKING AND CYCLING.





European Financial Reporting Advisory Group ■

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