



EFRAG
European Financial Reporting Advisory Group
35 Square de Meeûs
B- 1000 Bruxelles

24 September 2010

Dear Sir or Madam,

RE: EFRAG CONSULTATION ON PRO-ACTIVE WORK

BUSINESSEUROPE very much welcomes EFRAG's initiative to seek input on the areas on which it should focus future pro-active work and give below our views, concentrating on where we think the IASB needs most to be "supported".

"Consultation on Proactive Work" is couched very much in IASB language, with "thought leadership" and "debate" to the forefront. There is a risk that this reflects an overly intellectual, conceptual approach to matters which may limit the usefulness for European preparers and users.

BUSINESSEUROPE believes that first and foremost financial reporting must be about optimizing the process of communication of decision-useful financial information by preparers to users in a relevant and understandable way. These practical basics should not be neglected in favour of complex theory.

From our practical experience in trying to apply IFRS, we often note uncertainty and ambiguity when concepts meet reality, as the rising pile of application questions on IFRS 2 and 3 (revised) illustrates. The focus on concepts has not made financial reporting under IAS/IFRS noticeably more useful; indeed it has in several areas become less decision-useful, transparent and understandable. We also note in this context that previous PAAinE papers have also often been very theoretical and not "going the extra mile" to conclude on an issue and suggest practically useful improvements in IFRS.

BUSINESSEUROPE therefore believes that EFRAG should focus the use of its limited resources for pro-active work on identifying and highlighting to the IASB those improvements which would be of most practical use to the European capital market and helping them to avoid spending time and resources on matters which, though intellectually interesting, do not help but may even hinder the capital market.

Further areas of potential practically useful work lie in the (negative) IFRIC agenda decisions and other topics which the IASB does not currently have the time, ability or willingness to tackle. *In short, EFRAG's work should reflect in its priorities the fact that financial reporting is a practical means to an end, not an end in itself.*

Moreover, BUSINESSEUROPE would like to suggest that EFRAG could in future pay more attention to (1) the timing and timeliness of output from its pro-active work in the context of other work being done in individual areas and (2) obtaining a greater degree of awareness in Europe for that work. Having said this, BUSINESSEUROPE believes that the pro-active work on some specifically European issues like Business Combinations under Common Control is worthwhile doing. However, the main thrust of EFRAG's work should be on influencing IFRS developments to ensure they give outcomes which help our capital market.

Bearing in mind also the specific areas we have mentioned above, several of the proposed projects point in this direction, so long as they remain oriented to practical issues rather than accounting theory:

- The project on *understanding the decision environment of users* seems to have substantial potential to make a useful contribution, though we do not underestimate the appreciable difficulties which could be involved. Even where user opinion is forthcoming, it is not always uniform. However, we believe that it is crucial for European users' views to be better articulated and highlighted to the Board in a truly representative manner and without being unrepresentatively dominated by any one particular group.
- The work on a *disclosure framework* also has considerable potential in this respect.
- So too has the work on *corporate income tax* which could correct the unfortunate absence of IASB attention in this area to the simple, practical matters on which users have long been seeking improvement. However, it should be borne in mind that current underlying procedures have now been broadly made to work, so any changes proposed should offer real, tangible benefits.
- In principle we would also support projects with a practical focus on *IFRS 3 and 8*, with the results of which many investors have expressed dissatisfaction – subject to clarification of what EFRAG actually proposes to do. Here again the focus must be on what is practically useful for decision-making rather than theoretical valuation techniques and anti-abuse measures.

With respect to the issue "*performance reporting phase 3*", we would firstly like to observe that this would be a misnomer as, on the key notion of performance, the IASB has never actually completed a phase 1. Bearing in mind that, for both preparers and investors, performance is THE KEY in financial reporting – whether in terms of cash flows, sustainable underlying earnings or other – BUSINESSEUROPE considers it unfortunate that the IASB has been unable to take up and resolve the issues involved and thus missed the opportunity to make a significant contribution to useful financial reporting.

Then, EFRAG's previous pro-active work on the topic should also have suggested a possible approach for a meaningful, decision-useful definition of performance as well as possible criteria for the net income/OCI distinction and for recycling. In that case, the project would have focused on what is useful, even if it then works back to theoretical principles which give the right useful answers. We believe that, as a first stage, the whole context in which the project is to be carried out would have to be clarified. Would

the IASB be interested in taking up the project's output? Should it not be doing the work itself? What will be the attitude of the "new" IASB from July 2011 onwards? However, it can only be positive that encouragement is given to the standard setters to make some practically useful progress on performance.

One area where EFRAG pro-active work could offer a real, positive benefit for European (and other) preparers and users would be to explore how we could avoid corporates being tied in with extensive requirements more aimed at financial institutions, e.g. IFRS7 and the proposed standard on impairment of financial assets. Apart from the extra resources absorbed on the preparers' side, it involves users in pointless work in locating what they need.

In short, we are recommending EFRAG to concentrate its pro-active resources on helping to identify and articulate the practical needs of the European capital market. One of the most substantial weaknesses in the standard-setting process over the past decade has been the lack of strong, coordinated input from real, active users on their essential needs. This has been despite the valiant efforts of CRUF.

If IFRS financial reporting is not to become just a very costly compliance exercise, the balance must be redressed from the theoretical and conceptual to the practically useful. BUSINESSEUROPE is convinced that EFRAG can contribute to this by using its pro-active energies to provide the European capital market with the support to articulate and make heard their needs more effectively. Having said this, there is, of course, the danger that this might lead to a further call on users', as well as preparers', limited resources for considering these matters, so an appropriate approach would need to be considered and decided very carefully. BUSINESSEUROPE participants would naturally be more than happy to do what is within their power to support EFRAG in such efforts.

Finally, we would add that we believe that the project on *effects studies* is also important. We consider that increased transparency regarding cost-benefit analyses performed by standard setters and the performance of tentative cost-benefit analyses *before* projects are put on the agenda are two very important measures to emphasise in EFRAG's project. It is highly desirable to have a framework for cost-benefit analysis. However, costs can be difficult to assess while benefits are often extremely subjective, and so opinions are likely to differ about how a model for this kind of analysis should be designed. It is therefore important to take practical steps right now.

Yours sincerely,



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