

18 January 2016

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Hoogervorst,

***Re: Request for Views 2015 Agenda Consultation***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on and give input to the *Request for Views 2015 Agenda Consultation (RfV)*.

EFRAG identifies as the main priority the completion of the Insurance Contract Standard including proper effect analysis and field testing so that the endorsement process in Europe can start in 2016. It is also fundamental that the new Conceptual Framework is revised in a way that meets the objectives of the revision and that significant progress is made on the Disclosure Initiative and Dynamic Risk Management (Macro-hedging) projects.

In relation to IASB's Research activities, EFRAG is pleased that the IASB has adopted and implemented the evidence based standard setting approach we recommended in response to the 2011 Agenda Consultation. However we lack visibility and understanding of the objectives the IASB pursues with its research programme and on the type of problem each project aims at solving. Providing a classification by identification of the main goal for each project would be a useful step forward. Appendix A to this letter includes EFRAG's assessment of the priority for each project on the research programme and the reasons thereof. We have also classified the projects in accordance with our suggested classification, on the basis of our own understanding of how the need for change originates.

Furthermore, in EFRAG's view, Post-implementation Reviews should now be regarded as a useful tool in IASB's Research activities, helping identify what works and what is in need for improvement in current practice, regardless of the date at which a standard has been issued. Standards who keep IFRIC busy with many interpretation or clarification requests tend to qualify as candidates for Post-Implementation Reviews. At the time a Post-Implementation Review is completed, the IASB should communicate on its action plan to provide improvement where needed and discuss the level of priority the related standard setting efforts should receive.

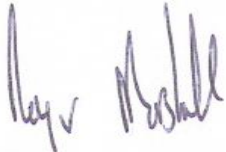
Also EFRAG believes that the IASB in its research activities should build on the work of other organisations and create synergies. Leveraging on the substantial work of EFRAG and other regional and national accounting standards bodies related to standard level and research projects and also on topics not on the IASB current agenda would allow the IASB to move faster. More generally, EFRAG encourages the IASB to ensure that the research programme is progressed more quickly and is managed in a very dynamic way, allowing the IASB to determine due process steps depending on facts and circumstances, rather than having to comply systematically with pre-determined steps.

EFRAG generally agrees with the criteria to prioritise the projects and allocate resources, but believes that the IASB needs to better communicate how it applies these criteria in practice in defining its work plan. An explanation of how the IASB assesses and reconsiders priorities would be helpful.

Finally, whilst we are supporters of IASB's maintenance activities, considering that they should be effective in supporting proper implementation of IFRS, we would advise to gauge carefully the level of change they generate in relation to their cost and impacts on consistency over time. While it is important that the IASB maintains its efforts to improve and strengthen financial reporting, it needs to strike an appropriate balance with the need for stability for both preparers and users.

If you would like to discuss our comments further, please do not hesitate to contact Filippo Poli, Saskia Slomp or me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Roger Marshall". The signature is written in a cursive, slightly slanted style.

Roger Marshall  
**Acting President of the EFRAG Board**

## APPENDIX

# EFRAG's responses to the questions raised in the RfV

## *The balance of IASB's projects*

### Question 1

The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;
- (b) its Standards-level programme;
- (c) the Conceptual Framework;
- (d) the Disclosure Initiative; and
- (e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

### EFRAG's response

EFRAG agrees with the factors identified by the IASB for prioritisation in its work plan; however the IASB needs to better communicate on how they are applied in practice.

Finalisation of the Insurance Standard should be of the highest priority. The Conceptual Framework and the Disclosure Initiative are also fundamental. The development of a macro-hedge accounting solution has, in EFRAG's view, high priority and should be regarded as an active project, not a Research project, even though the possible next output is a Discussion Paper.

The IASB should build on the work done by other organisations and create synergies, notably with members in ASAF.

### *Factors used in prioritisation of projects and allocation of resources*

- 1 EFRAG welcomes the evidence based standard setting approach that the IASB has adopted in line with our prior recommendations in relation to the 2011 Agenda Consultation.
- 2 EFRAG in general agrees with the factors indicated in paragraph 55 of the RfV to identify priorities, but notes that sometimes it is not clear how the IASB applies them in defining its work plan. For instance, when the IASB decided to reinstate the equity method or issue IFRS 14 (the interim Standard on Rate-regulated activities) it is not clear how the IASB assessed the widespread relevance of those issues. While EFRAG does not advocate the introduction of a formalised assessment, an explanation of how the IASB assesses and reconsiders priorities would be helpful.
- 3 Also EFRAG suggests that when prioritising individual projects, the IASB should consider not only the importance of the matter to those who use financial reports but also the relevance and urgency of the issue to preparers.

- 4 Finally and very importantly, EFRAG is of the opinion that the IASB should better explain how the agenda setting including the prioritisation of the projects follow the strategic direction and help meet the objectives set by the Trustees and identified in the *Trustees' Review of Structure and Effectiveness: Issues for Review*.

#### *Priorities in IASB's work plan*

- 5 The IASB identifies in paragraph 30 three categories of projects and separately mentions two cross-cutting projects, Conceptual Framework and Disclosure Initiative which are of a different nature than the three categories. It would be useful if the IASB clarified better the interaction between these two cross-cutting projects with the three main categories.
- 6 In terms of priorities, EFRAG believes that:
- (a) the main priority is to bring to completion the Insurance Contracts project, including proper effect analysis and field testing;
  - (b) it is fundamental to finalise the new Conceptual Framework in a way that meets the objectives of the revision and plan next steps, would further development require more time and effort;
  - (c) The Disclosure Initiative has high priority for us. In 2012, EFRAG published jointly with the ANC and FRC the Discussion Paper *Towards a Disclosure Framework for the Notes*. As indicated in the RfV paragraph 48 the 2011 Agenda Consultation stressed the importance of having a clear, effective, coherent and comprehensive but concise package of disclosure requirements. EFRAG regrets that so far only small amendments to standards have been made whereas the main project has not yet reached standards level stage;
  - (d) Users have called at several occasions for progress on financial statement presentation – now called primary financial statements. We are concerned to see that the project is still in assessment stage in the research programme, which indicates that no substantial progress has been made on the project since the 2011 Agenda Consultation.
- 7 We recommend that, after completing the Conceptual Framework, the IASB should conduct an analysis of the existing Standards to identify any inconsistency with the principles in the new Framework. However, amendments to existing Standards to bring them in line with the Framework should be subject to public consultation and undertaken only if there is evidence that they do not work appropriately.
- 8 We note that the Agenda Consultation is one source of input used to determine the IASB work plan. Other sources are the submissions to the IFRS Interpretations Committee, PiR and *ad hoc* sources. Also bodies like the IFRS Advisory Council and ASAF are at present involved in advising on priorities. EFRAG believes that in between agenda consultations, where needed, the IASB should have the possibility to make significant changes to its work plan, notably its research agenda, and provide transparency on these changes. This would, in EFRAG's view, provide the necessary flexibility to allow the IASB manage its active agenda dynamically and more effectively.

### *Standard-level projects*

- 9 EFRAG appreciates the efforts made by the IASB to enhance its responsiveness to constituents. While this has resulted in the IASB Board taking more time to complete some of its main projects, compared to the original timetable, additional consultation improves the quality of the final Standards.
- 10 For Standard-level projects, EFRAG believes that the chances to complete a project successfully within a reasonable time frame are strongly enhanced if the main issues raised by constituents in the early stages are timely addressed. It is therefore crucial to carefully analyse the input received and address the concerns expressed, to avoid the need of re-debating issues at later stages.

### *Integrating the work of other accounting standard bodies and organisations*

- 11 We believe that the IASB, especially when performing accounting research, should build on the work of other organisations and create synergies, notably with members in ASAF (including previous member and likely future members). EFRAG and other regional and national accounting standards bodies have undertaken substantial work related to standard level projects and projects on the IASB research programme and also on topics not on the IASB current agenda. Leveraging on this work would allow the IASB to move faster notably on the research projects. We note that the FASB who cooperated with EFRAG and its partners in 2011 now works on the disclosure framework at standard level whereas the IASB is still at research project stage.
- 12 We have heard that the IASB is currently considering how to improve its processes in this area and stand ready to support and help implementing new ways of working in cooperation in a manner that keeps the independence of all parties involved intact and allows every party to meet its own objectives.

## **Research projects**

### **Question 2**

The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB:

- (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.
- (b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?
- (c) remove any other projects from its research programme?

### **Question 3**

For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

### **EFRAG's response**

EFRAG is of the opinion that the IASB should better communicate on the objective it pursues with its research programme and on the type of problem each project aims at solving.

EFRAG encourages the IASB to ensure that the research programme should be progressed more quickly and has suggested a prioritisation for the projects. More visibility on how research projects move from one stage to another would be welcomed.

EFRAG is of the opinion that the findings of PiR should provide direct input in the standard-setting agenda and welcomes clear communication on the decisions impacting on the IASB work plan.

Finally as indicated in answer to question 1, the development of a macro-hedge accounting solution should be regarded as an active project, not a Research project, with no need for future agenda decision.

- 13 EFRAG is of the opinion that the IASB should better communicate on the objective it pursues with its research projects and on the type of problem each project aims at solving. The IASB is providing a list of research projects without classification based on underlying common denominators for projects. EFRAG believes that there is a need for greater visibility and understanding of the projects in the IASB research programme.

- 14 Providing a classification by identification of the main goal for each project (for example: to address changes in economic conditions or business patterns, emerging issues; to bring improvements that practice has highlighted are needed; to eliminate inconsistencies across standards; to address lack of guidance in IFRS requirements, presentation issues and deficiencies identified in PIRs) would be a useful step forward to a better understanding of where the project originated and why the project is needed.
- 15 We have indicated in Appendix A to this letter our rating for each project on the research programme. In relation to specific projects, we note that:
- (a) *Equity method*: the objective should not be at this stage to reconsider the use of the equity method, but to bring solutions to the issues encountered in practice; the project we rate as “high” is one that would be consistent with EFRAG’s proposals for the scope of the equity method project presented at the ASAF meeting in December 2015. Any comprehensive reconsideration of the use of the equity method would be rated very low by EFRAG;
  - (b) *Dynamic Risk Management*: as indicated in our comment letter to the DP, the objective should be on developing a macro-hedge accounting model, not a widened scope including the accounting for dynamic risk management in general; in EFRAG’s view this project should be considered as part of the active agenda, not as a Research project; it indeed was initially rightfully identified as a component of the IFRS 9 project and it is EFRAG’s understanding that it has been postponed. EFRAG also insists that disclosure requirements cannot be regarded as an appropriate alternative to the current accounting requirements in IAS 39.
  - (c) *Primary Financial Statements*: the focus of the project should be on reporting financial performance to meet users’ needs;
  - (d) *Goodwill and Impairment*: constituents have significantly split views on the reintroduction of annual amortisation of goodwill. EFRAG recommends that the IASB should initially focus its efforts on improving the impairment test and information about the performance of the acquired business, which would benefit regardless of whether amortisation is reintroduced or not; and reconsider amortisation only after completing this phase.
- 16 We encourage the IASB to ensure that the research programme should be progressed more quickly. Projects should move from assessment phase to development phase and then into a Standard levels project without waiting for the next agenda consultation. This would ensure a greater efficiency and better responsiveness. Also the IASB should be very flexible in its approach to best adapt to the difficulties it tackles and the conclusions it reaches; for example, some Research projects may start at development stage and may result directly in an Exposure Draft without the need for a Discussion Paper.

- 17 EFRAG observes that there is a lack of visibility at present about how Research projects move to from one stage to another or if some of these projects are stopped during the assessment phase without appearing in the work plan. There is no reporting on the amount of progress, constraints or reasons for the progress or the allocated resources and their adequacy. The main source of information is at the time when projects are brought to the IASB Board for consideration. We advise to include a formal publication/communication step to inform the public that a research project is stopped. However providing transparency should not restrict the dynamic management and progress of research projects.
- 18 Furthermore we believe that the line between what is an active project and what is an inactive project is blurred. According to the 2013 IASB and IFRS Interpretation Committee *Due Process Handbook*, when the IASB is considering adding projects for either new standards or major amendments to standards to its programme it presents its proposals for these projects to the IFRS Advisory Council (para 3.53). By calling a project “research project in development phase”, the question is as of when would the IFRS Advisory Council advise the IASB to take the project on its active agenda. Some of the projects like Disclosure Initiative and Dynamic Risk Management are clearly active and would not need further advice of the IFRS Advisory Council.

#### *The role of Post-implementation Reviews*

- 19 EFRAG is of the opinion that the findings of PiR should provide direct input in the standard-setting agenda. Constituents use time and resources to provide their input to these reviews and it is important that the IASB shows itself responsive and addresses promptly the concerns raised and how they are dealt with in the work programme. The feedback statement that is published should include the IASB action plan and clearly indicate the IASB’s decision of what the next steps are – *start research activities, work on amendments, do nothing* – so that constituents know what to expect. We note that the IASB has progressed on amendments to IFRS 8 *Operating Segments* that result from the related PIR without having communicated that it would do so.
- 20 The PiR of IFRS 3 *Business Combinations* was concluded with a list of issues that required the IASB’s attention. We question why some of the issues identified (such as for instance how to distinguish the acquisition of a business from the acquisition of a group of assets) still need to always go through a research phase and why the PiR process could never be considered to provide evidence sufficiently conclusive to move directly to standard-setting activity.
- 21 EFRAG is of the view that PiR are useful ways of gathering evidence for its evidence based standard setting activity and represent a useful approach to research. EFRAG believes that IASB should consider to conduct PiR beyond what is strictly required in its Due Process Handbook. It would have been useful to include in the RfV a specific question on what standards should be subject to a PiR; EFRAG believes for instance that the IASB should consider it for IFRS 2 *Share-based Payments* or IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, given the evidence that the standards are raising multiple issues in practice.
- 22 EFRAG has further commented on the role of PiR in its reply to the *Trustees’ Review of Structure and Effectiveness: Issues for Review*.



## ***Major projects***

### **Question 4**

**Do you have any comments on the IASB's current work plan for major projects?**

### **EFRAG's response**

**EFRAG believes that it is urgent to finalise the Insurance Contracts project. It is also fundamental that the Conceptual Framework is revised in a way that meets the objectives of the revision, and make progress on the Disclosure Initiative. Developing a macro-hedge accounting solution should also be managed as an active project.**

- 23 EFRAG notes that in the coming years, constituents will be faced with the adoption of major new Standards on Revenue Recognition, Financial Instruments and Leases. While it is important that the IASB maintains its efforts to improve and strengthen financial reporting, it needs to strike an appropriate balance with the need for stability for both preparers and users.
- 24 After the completion of the Conceptual Framework, the IASB should conduct an analysis of the existing Standards to identify any inconsistency with the principles in the new Framework. However, amendments to existing Standards to bring them in line with the Framework should only be undertaken if there is evidence that they do not work appropriately.
- 25 We refer to our response to question 1 for our comments on the work plans for major projects.

## ***Maintenance and implementation projects***

### **Question 5**

**Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?**

### **EFRAG's response**

**EFRAG believes that the number of interpretations is meeting the stakeholders' needs but believes that there are too many small changes to standards as part of the narrow scope amendments. The IASB should improve its system of quality control in finalisation of standards.**

- 26 EFRAG believes that achieving greater consistency in application has high priority. We are persuaded that having a strong system of quality control in the finalisation of the standards before publication is the best way to achieve this objective and can contribute to reduce the need for subsequent amendments and clarifications. This is why EFRAG at several occasions asked the IASB to improve its system of quality control and has stressed the importance of public reviews and field testing.

- 27 The use of subsequent amendments to address lack of clarity is not only cumbersome for preparers, who need to deal with continuous changes, but also risks leading to a rule-based approach, resulting in uniformity rather than comparability. When many application issues arise, this is a sign that the IASB Board may need to reconsider the basic principles in the Standard, rather than trying to fix the issues on a piecemeal approach. One recent example concerns the equity method, in relation to which the IASB – after discussing a number of possible narrow scope amendments for specific transactions – has decided that a broader discussion was needed on the accounting for associates in IAS 28 *Investments in Associates and joint Ventures*. We believe that before embarking on narrow scope amendments it would be helpful if the IASB would seek the advice of ASAF.
- 28 Submissions to the IFRS Interpretation Committee are an important source of input about the existence of possible application issues. EFRAG acknowledges that not all submissions can be addressed at an interpretation level and some of them can only be solved at a Standard level. However, EFRAG is concerned that sometimes submissions are debated for a long time without final solution. EFRAG recommends to the IASB to maximise its efforts to provide, when possible, solutions to these issues in a timely way. In this area also more visibility is required in how the IASB intends to tackle the issue.

### ***Level of change***

#### **Question 6**

**Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?**

#### **EFRAG's response**

**EFRAG is of the opinion that it would have been beneficial if major projects could be finished earlier but appreciates that there are uncertainties and external factors the IASB cannot control. We recommend the IASB evaluates the effectiveness of its project work.**

**EFRAG is concerned about frequent small changes to standards and believes that IFRS should maintain their principles-based approach without developing too detailed guidance.**

- 29 EFRAG believes it would be beneficial for the IASB to review the main past projects to identify whether delays were caused by broadened consultation with constituents (that EFRAG welcomes) or by inefficiencies. In this way ameliorations to the process can be identified that could accelerate the pace of delivery.
- 30 The four main projects identified in the 2011 Agenda Consultation faced substantial delays in completion. EFRAG and many other constituents of the IASB felt that the comments and feedback they provided on the Discussion Papers for these projects have not sufficiently been taken into account in the development of the first Exposure Drafts. It would be helpful if the IASB were to examine and evaluate the effectiveness of the due process steps between 2007 and 2011 of these projects and more in particular why for several of these projects subsequent exposure drafts were needed.

- 31 Concerns are regularly expressed to us by our constituents on the length of the standards and the level of detailed guidance of standards. We appreciate that comprehensive guidance assists in consistent application and the avoidance of divergent practices. We believe that it is essential that any guidance complementing principles-based standards is kept aligned with the underlying principles (we refer to IFRS 2 *Share-based Payments* as an example for which the guidance has become cumbersome in that it provides rules that are not coherent with the principles in the standard). We note and welcome the link that has been established in IFRS 15 *Revenue from Contracts with Customers* between the application guidance and the main principles, subordinating the guidance to well identified principles.
- 32 In addition, as indicated in our response to question 5, there is concern about the fact that a relatively large number of small amendments are issued shortly after the finalisation and publication of standards.
- 33 EFRAG has further commented on the need for a strong quality control system before publication, as well as on the role of the Interpretations Committee and Transition Resource Groups in its reply to the *Trustees' Review of Structure and Effectiveness: Issues for Review*.

### ***Any other comments***

#### **Question 7**

**Do you have any other comments on the IASB's work plan?**

#### **EFRAG's response**

**EFRAG believes it is important to understand when the FASB issues interpretations or guidance on issues in converged standards that are not addressed by the IASB if the IASB considers those pronouncements to be compatible with its own guidance.**

- 34 EFRAG considers that it is important that the IASB maintains a close monitoring of the maintenance and implementation projects of the FASB in relation to those Standards that are converged. EFRAG encourages the IASB to hold joint deliberations on those projects with the FASB.
- 35 Furthermore, when the FASB issues interpretations or guidance on issues that are not addressed by the IASB, IFRS preparers may decide to use that guidance. It would be important to understand if the IASB considers those pronouncements to be compatible with its own guidance. This could be achieved by a periodic update of the parts of the Basis for Conclusions where the Board illustrates the similarities and differences with US GAAP.
- 36 In this respect, EFRAG notes that following the widespread adoption of IFRS in most jurisdictions, the IASB should reconsider the relevance of the current hierarchy in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The suggestion to consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards needs to be removed so that constituents would not automatically assume that any US GAAP guidance is relevant for IFRS compliant standards.

## ***Frequency of Agenda Consultations***

### **Question 8**

**Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?**

### **EFRAG's response**

**EFRAG believes that the IASB should continue with a tri-annual agenda consultation cycle since this in practice means that there is almost five years between the starts of consecutive agenda consultations. EFRAG underlines that having a tri-annual indication of support for its work plan would assist the IASB in rendering accountability to the public at large and to those that provide the finance of the IFRS Foundation**

- 37 EFRAG observes that in reality the present agenda consultation cycle is closer to five years than to three years. The previous agenda consultation was launched in July 2011 with a feedback statement published in December 2012. So the 2015 consultation issued in August 2015 is launched more than four years after the launch of previous consultation. Moving to a five year's cycle may in practice mean that the time between two agenda consultations will be close to seven years.
- 38 As indicated in our response to question 1 EFRAG believes that in between agenda consultations the IASB should be able to manage its work plan dynamically to address promptly, when needed, new issues and changes in economic circumstances, and provide transparency on these changes. Requests for such changes could also be made by constituents
- 39 However EFRAG sees an additional function for the agenda consultation. The triennial agenda consultation gives the IASB the opportunity to seek the views of the public at large on its work plan and agenda. It gives an indication of the support of the current work plan and its prioritisation. It provides the IASB with the opportunity to change its prioritisation if needed.
- 40 Seeking a frequency that is closer to the terms of major projects we believe is in this respect not relevant as it would not allow for this health check that the IASB's activities remain in tune with priorities identified by constituents.
- 41 Having a triennial indication of support for its work plan would assist the IASB in rendering accountability to the public at large and to those that provide the finance of the IFRS Foundation.

## APPENDIX A

EFRAG classification	Project	EFRAG priority <i>High/Medium/Low</i>
<i>Changes in economic conditions or business patterns (emerging issues)</i>	Financial Instruments with Characteristics of Equity	High
	Post-employment Benefits	Medium
<i>Improvements in practice</i>	Income Taxes	Low
	Provisions, Contingent Liabilities and Contingent Assets	Low
	IFRS 5 – Discontinued operations	Medium
	Share-based payments	Low
	Foreign Currency Translation	Remove from the agenda
	High Inflation	Remove from the agenda
<i>Elimination of inconsistencies across standards to deal with cross cutting issues</i>	Discount Rates	High
	Equity Method	High <sup>1</sup>
<i>Voids in IFRS requirements and lack of guidance</i>	Pollutant Pricing Mechanisms	Low
	Business Combinations under Common Control	Medium
	Disclosure Initiative – Principles of Disclosure	High
	Macro-hedge accounting (Dynamic Risk Management)	High - to move to active projects
	Extractive Activities/Intangible Assets/ Research and Development (R&D)	Low
<i>Presentation issues</i>	Primary Financial Statements	High
<i>Deficiencies identified in PIRs</i>	Goodwill and Impairment	High
	Definition of a business	Medium

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<sup>1</sup> Provided that the scope of the project is defined in accordance with EFRAG's proposals for the scope of the project presented at the December 2015 ASAF meeting. Any comprehensive reconsideration of the use of the equity method would be classified as very low.