



Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@iasb.org

30 November 2011

Ref.: FRP/PRJ/TSI/SRO

Dear Chairman,

Re: FEE Comments on the IASB Agenda Consultation 2011

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the IASB Agenda Consultation 2011 (the “Consultation”).
- (2) We welcome the IASB’s consultation on its three-year agenda seeking inputs on the broad strategic direction of its standard setting activity. The Consultation will certainly help the Board to better understand the needs of the growing IFRS community and to provide a strategic focus when allocating its limited resources over the next three years and beyond in a most efficient manner.
- (3) Earlier this year, FEE also contributed to the Trustees’ consultation on the Constitutional Review of the IFRS Foundation. In our letter dated 25 February 2011, we supported the announced public agenda consultation in an effort to further enhance public accountability and legitimacy of the Board.
- (4) FEE has been a long-standing supporter of high quality and principles-based financial reporting standards. We are committed to the main objective of creating a single set of high quality global standards to promote transparency and operational efficiency in the market. The current turmoil in the global economy continues to demonstrate the importance of high quality, relevant and reliable financial reporting, comparable across borders, in order to build trust and to restore confidence in the markets. It is particularly important for the Board to finalise its major standards and pause to consolidate the progress made to date.

Period of calm

- (5) After a very busy period of standard setting activity experienced over the last few years, we are in favour of a relatively calm period in terms of output of new standards from the Board over the next three years.
- (6) In our view, a period of calm should be a guiding principle for the Board when shaping the strategic direction of its future standard setting activity.
- (7) However, during the period of calm, the Board would in our view still be active, initially with completing the four unfinished major convergence standards and subsequently with implementation issues and in responding to the needs for simplification and strengthening the consistency of the existing IFRS standards, as further elaborated below.

Completion of major unfinished standards

- (8) The focus of the Board for 2012 would be on completion of the unfinished major projects. We strongly support the Board's intention to finish the projects on Revenue Recognition, Leases, Insurance Contracts and Financial Instruments with a high priority. It is in the interest of all constituents to bring them to a close in a timely manner given their significant impacts in the near future. The Board should also actively respond to emerging early implementation issues arising from the complexities of these new standards.
- (9) After the completion of the current MoU projects, the strategy of convergence with US GAAP should no longer be a dominant consideration in determining the IASB's agenda priorities.

Simplification and strengthening the consistency of the standards including Conceptual Framework

- (10) In our view, for its future agenda, the Board should concentrate on reducing complexity as well as on addressing major inconsistencies in existing standards. Highest priority should be given to a limited number of projects that set the scene for the development of future standards.
- (11) For example, a period of relative calm will give the Board an opportunity to complete its work on the *Conceptual Framework*. Addressing the Framework is needed to deal with various cross-cutting issues of a conceptual nature which underlie a number of the problems that have been identified in current IFRS (e.g., consistency in discount rates; the role of probability in liability recognition etc). We recommend that the work should be done in a focused and targeted way, without any further delay.
- (12) In close relation to this, it would also be worthwhile to dedicating sufficient time to resolve current issues on *performance reporting* including the establishment of principles for distinguishing income statement from *other comprehensive income* and to address other fundamental issues related to recycling.

- (13) The Board should also direct its attention to establishing an overarching *framework for disclosures* and defining the criteria for inclusion and exclusion of information in the financial statements. Many standards tend to define very prescriptive and rule-based disclosure requirements which have resulted in information overload.
- (14) There are various initiatives at national and regional level that aim at addressing the problem over disclosure overload, including projects such as “Losing the excess baggage” from ICAS & NZICA, “Cutting the clutter” issued by UK FRC and the recent proposals from the French ANC to simplify accounting obligations for small listed companies in Europe.
- (15) In addition, EFRAG is working on a pro-active Disclosure Framework project, which is conducted in cooperation with the FASB. We believe that there is a need for international coordination of these initiatives and the IASB is the organisation to provide this coordination. A decision needs to be made by the IASB whether tackling disclosure overload can be done as a two step project, both reducing current disclosures in the short term and working on a more conceptual disclosure framework for the future, or whether this can all be done as one single project. Timing will play important role in that decision.

Other Individual Projects

- (16) In addition to the above, we believe that the Board should add a project on Business Combinations between Entities under Common Control, as this is an area of significant diversity in practice due to lack of authoritative guidance in the standards.
- (17) Some of the other projects on the IASB’s suggested project list, including Emission Trading Schemes, Rate-regulated Assets and Extractive Industries may be illustrative of a wider underlying problem in the current definition of intangible assets. Rather than suggesting that the IASB takes on these individual projects as priorities, FEE recommends that research is performed into the root causes as to why these projects are being requested by some constituents. This may lead to a conclusion that the current intangible asset model within IFRS is in need of revision. If that were the case, it could then be addressed either as a separate intangibles project or as part of the Conceptual Framework.
- (18) As a general point, we would expect a well-documented basis for conclusions by the IASB, monitored by the DPOC, in order to demonstrate the rationale for the ultimate agenda decisions.

Impact study/post implementation review

- (19) Impact analyses should also form an important element of the Board's future agenda. We recognise that effect analyses are not something entirely new, since they are already built into the current due process. However, at present impact analyses are only formally undertaken at the time of an exposure draft. We believe that it should take place during the entire life-cycle of a project without creating significant administrative burden. We also refer to the consultation paper issued by EFRAG and the UK ASB on Considering the Effects of Accounting Standards and our FEE comments thereon.

Future of financial reporting

- (20) Beyond this, there should be some time dedicated to making contact with academics and other institutions to understand relevant trends in the market as well as to anticipate future standard setting needs and how to shape future reporting in many years ahead.
- (21) Among some of the longer term strategic considerations, we recommend that the IASB continue to engage with the International Integrated Reporting Committee (IIRC) with respect to the development of integrated reporting. At present, these developments are still in an early stage, but given their potential scope they may have an important impact on financial reporting for the future.

Our detailed responses to the questions in the Consultation are included as an Appendix to this letter.

For further information on this letter, please contact Tibor Siska, project manager, at the FEE Secretariat on +32 2 285 40 74 or via e-mail at tibor.siska@fee.be.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Philip Johnson', with a long horizontal stroke extending to the right.

Philip Johnson
President

Appendix - Responses to the questions in the IASB Agenda Consultation 2011

Question 1

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

Question 1(a)

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

Question 1(b)

How would you balance the two categories and five strategic areas?

If you have identified other areas for the IASB's agenda, please include these in your answer.

- (22) We support the proposed distinction between developing financial reporting and maintaining existing IFRSs including the five strategic areas mentioned within. Further comments on the IASB's strategic priorities and how they should be balanced are described below in this letter.

Period of calm

- (23) After a very busy period of standard setting activity experienced over the last few years, we are in favour of a relatively calm period regarding the output of the standards over the next three years. This would mean that much less items should be added to the agenda.
- (24) However, the Board should still be active; initially with completing unfinished major convergence standards (as well as assessing the impact of those) and in responding to the needs for simplification and strengthening the consistency of the existing standards, as further elaborated below.
- (25) It will take several years until the new and revised standards will have been properly implemented. Therefore, a period of calm should be a guiding principle for the Board when shaping the strategic direction of its future standard setting activity.

Completion of major unfinished standards

- (26) The most important aspect of the period of calm for the Board is to complete the unfinished major projects in 2012. We note that the consultation is based on the assumption that projects on Revenue Recognition, Leases, Insurance Contracts and Financial Instruments will be finished with high priority when balancing financial reporting needs and allocating time and resources. We strongly support this assessment which is in the interest of all constituents to bring them to a close in a timely manner given their significant impacts in the near future. Therefore these changes need to be clarified as soon as possible.
- (27) It is also important to note that during this period of time the Board should actively respond to emerging early implementation issues and therefore actively engage with users to assess whether the new standards are well understood to reduce the risk of divergence.

Convergence

- (28) We also recognise the continued convergence pressure and that the convergence with US GAAP over the past years has been necessary to facilitate the final decision on the adoption of IFRS for domestic reporting in the US, which is due later this year. However, in our view, after the completion of the current MoU projects the strategy of convergence should no longer be a major consideration when finalising outstanding standards. To this end, the Board should work together with all constituents from around the world, so that all stakeholders can be fully engaged and ensure that the quality of IFRS is not compromised.

Simplification and strengthening the consistency of the standards including Conceptual Framework

- (29) The other aspect of a period of calm implies that the Board concentrates on reducing complexity as well as on addressing major inconsistencies in existing standards. It should be done in a way that would help avoid overloading its agenda but rather through a limited number of projects.
- (30) Highest priority should be given to those projects that set the scene for the development of future standards. Please refer to question 2 for more details on individual projects considered as a priority to the Board's future working plan.
- (31) We also anticipate that a full use of due process could be made when developing new projects. This would generally mean starting off with a discussion paper and moving into an exposure draft phase when sufficient evidence has been obtained and the issue has proven relevant. Changes to standards should be aimed at improving financial reporting and therefore a proper due process including a careful consideration of inputs provided by different stakeholders is fundamental for the legitimacy and credibility of the Board.

Impact study/post implementation review

- (32) There is also a need for the IASB to devote necessary time and resources to assess the impact of the projects that the Board undertakes. It is indeed very useful to provide views on when and how such impact studies should be performed. Therefore, impact analyses should form an important element of the Board's future agenda. We also refer to the consultation paper issued by EFRAG and the UK ASB on Considering the Effects of Accounting Standards.
- (33) We recognise that impact analyses are not something entirely new, since they are already built into the current due process. However, at present impact analyses are only formally undertaken at the time of an exposure draft whereas gathering evidence of impacts should take place during the entire life-cycle of a project. As early as adding new projects to the IASB agenda, there should be a clear problem definition of what issues a new project is seeking to address as well as evidence of the expected impacts.

Appendix - Responses to the questions in the IASB Agenda Consultation 2011

- (34) More importantly, impact analyses should be embedded in the standard setting process without creating unnecessary administrative burden, and clearer distinction should also be drawn between impacts analysis ex ante and post implementation analysis.
- (35) Ex ante analyses are important to instil a greater degree of transparency, efficiency and accountability in the standard setting process. While post implementation analyses contribute to the review of the effectiveness of the standards and intend to identify some weaknesses in the implementation of the standard. Obviously, the data on which a post implementation analysis is based are fully measurable. Such studies could very well employ tools that are usually applied in academic research.

Research activities and trends in the market

- (36) We also believe that the IASB could well use this period of calm to have a regular dialogue with academics carrying out relevant empirical studies to anticipate future standard setting needs and how to shape future reporting in many years ahead. Dedicating some time to making contact with other institutions has also been considered worthwhile in order to monitor the development of the standards and other relevant trends in the market.
- (37) Among some of these long-range strategic directions, we recommend that the IASB continue to engage with the International Integrated Reporting Committee (IIRC) with respect to integrated reporting and closely monitor and influence the development of this new concept.
- (38) If there is a need to move towards integrated reporting, which is nowadays extensively debated by various stakeholders, it seems that the best way forward is first to streamline financial reporting and to ensure that principles are clearly defined to allow for consistency in application. Therefore, we agree that the Board continues to be involved in and to influence the development of integrated reporting. However, at present, these developments are still in an early stage, but given their potential scope they may have an important impact on financial reporting for the future..
- (39) We also recognise the growing importance of electronic reporting and the need for harmonisation of it through for instance XBRL. In this context we note that electronic reporting is merely a tool for transmission of information which may be financial or non-financial, whilst it does not determine the content of the financial statements. We recommend that electronic reporting that incorporates IFRS should be a long term strategic goal for the IASB without necessarily being a priority for the Board at this stage.

Growing IFRS community

- (40) The global coverage and sophistication of IFRS is rapidly increasing as more and more countries move or intend to move onto the international accounting platform. As the IFRS community continues to grow, it is very important for the Board to explore with national capital market regulators, national standards setters and similar bodies how to best develop an effective early warning mechanism for application issues that may lead to diversity in practice, and reflect on those in its agenda setting process, if necessary.

Appendix - Responses to the questions in the IASB Agenda Consultation 2011

- (41) Significant diversity in practice is undesirable, as it undermines the objective of global standards, and consequently damages the IFRS brand. It may ultimately render the financial information less relevant and less reliable.
- (42) The growing IFRS community results in an increasing diversity of applicants. Nevertheless, the Board should carefully look at emerging accounting issues. It is important that the Board should only develop alternative accounting models if it can be clearly demonstrated that the existing standards or application guidance do not provide a sufficient basis to fill the gaps.

IFRS Interpretations Committee ('IFRIC')

- (43) IFRS Interpretations Committee has the responsibility of developing interpretations of the standards and maintaining the standards through the annual improvement process. We acknowledge the achievements of the IFRIC in recent years and we do not think there is an urgent need for significant constitutional changes concerning IFRIC at present.
- (44) We would however raise questions concerning the concept of an interpretation and the relationship of IFRIC with the IASB. There seems to be a need for further clarification on what should be the subject of an interpretation, what should be an annual improvement and what merits a full project for a new or revised standard. In our view, these conceptual issues would need to be resolved as part of the process shaping the strategic focus and the future agenda of the Board.

Understandability of the standards

- (45) IASB should also give careful consideration to the understandability and practicability of the standards. Changes to standards should be aimed at improving financial reporting, including better and more relevant presentation and improved transparency.
- (46) In this context, preparers tend to increase the number of non-gaap measures to provide users with a quick overview of the financial position and performance of the entity and to overcome difficulties caused by an increasingly lengthy and complex financial statement. In the meantime, we also recognise that there is sometimes a genuine approach to supplement of what is required by the standards and therefore voluntary measures are added.
- (47) Without putting weight on one or the other trend, we believe that the increased use of voluntary non-GAAP measures potentially indicates conceptual problems in the standards. Therefore, we encourage the Board to regularly monitor the development of these trends and limit the needs of non-GAAP measures by continuously striving for improvements of financial reporting via clear and robust principles.

Agenda setting

- (48) We would also like to indicate that there should be a well-documented basis for conclusions in order to demonstrate the rationale for the agenda decisions made, including the outcome of effect analyses. That would help develop high quality standards based on clearly articulated principles.
- (49) Transparency and hence, the ability of users to understand how the IASB has reached its final agenda decisions is a precondition for achieving public accountability and legitimacy of the whole standard setting process.
- (50) We acknowledge that it will not always be possible to foresee the entire development of a project. However, it is important for the IASB to determine the terms of reference for each project in order to avoid unexpected fundamental changes during the course of a project. For instance, the project Liabilities (IAS 37) started with a narrowly defined scope, but resulted in a comprehensive revision of the whole standard. In our view, a public re-consultation process should be required when fundamental changes are introduced during the development of the proposal.

Question 2:

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

Question 2(a)

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

Question 2(b)

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

- (51) We note that the consultation paper includes a comprehensive list of the projects some of which are new or deferred. In our view, the purpose of the Agenda Consultation to help identify a strategic focus can be best achieved by making selections from the proposed list of possible projects. As mentioned before, we would prefer a limited number of projects to ensure a period of relative calm to let the IFRS community digest the significant changes of the past few years.
- (52) We are also aware that there are some legitimate demands, in particular, from emerging markets for developing new or revising existing standards to address concerns expressed in these regions. However, when considering pressing financial needs, we are merely looking at the projects primarily from a European perspective given our experience and expertise in this market.

Appendix - Responses to the questions in the IASB Agenda Consultation 2011***Completion of unfinished standards***

- (53) As set out in previous paragraphs, the completion of the major ongoing projects (Revenue Recognition, Leases, Insurance Contracts and Financial Instruments) should be given the highest priority while balancing the needs of financial reporting.

Conceptual Framework

- (54) It is well accepted that the body of standards taken as a whole should be based on the Conceptual Framework to achieve the main objectives of financial reporting. The Conceptual Framework should provide a basis flexible enough to meet the developments of different business scenarios and equally allows having a consistent approach to address major conceptual issues.
- (55) The Conceptual Framework also helps to resolve cross-cutting issues of a conceptual nature and to reduce the number of inconsistencies in the standards which could lead to diversity in practice. A conceptually robust framework also supports the development of the standards.
- (56) In 2004 the Board decided to develop a new Conceptual Framework but the work is currently incomplete. Therefore, we recommend that the Board completes its work on the Conceptual Framework as a whole with a high priority. Further we recommend that the work should be done in a focused and targeted way, without any further delay.
- (57) FEE has recently issued a Discussion Paper on Combined Financial Statements dealing with historical financial performance of a business that does not constitute a legal group. We acknowledge that there have been some developments in providing solutions to this issue in the ED on Reporting Entity, however we would still encourage the Board to re-deliberate this particular issue while finalising the Framework as a whole.

Performance reporting and OCI

- (58) In close relation to this, the Board should also complete its work on performance reporting including conceptual and practical issues linked to other comprehensive income as well as address other fundamental issues related to recycling. A definite establishment of criteria how to distinguish income statement from other comprehensive income is long overdue.

Disclosure framework

- (59) Among other areas covering conceptual issues, we also think that the Board should direct its attention to establishing an overarching framework for disclosures and defining the criteria for inclusion and exclusion of information in the financial statements. Many standards tend to define very prescriptive and rule-based disclosure requirements which have resulted in information overload. As a direct consequence, the understandability of the financial statements was negatively impacted.
- (60) In this context, we would like to reiterate our support for a substantial reduction of note disclosures, leading to more relevant and better information. Therefore, we encourage the Board to address issues related to disclosure overload which are counterproductive to providing relevant information and communicating clearly, concisely and transparently.
- (61) We also note that there is a tendency for preparers to include all disclosures required in the financial statements regardless of the relevance and materiality of the information. This mainly stems from a fear of the negative consequences of non-compliance exposed by enforcers, regulators and other bodies. Moving away from a checklist-based, box-ticking approach to an approach which is based on judgement is essential. In this regard, behavioural change by all parties in the financial reporting chain is needed. In this respect, the Board should monitor the outcome of the IAASB project on *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*.
- (62) There are various initiatives at national and regional level that aim at addressing the problem over disclosure overload, including projects such as “Losing the excess baggage” from ICAS & NZICA , “Cutting the clutter” issued by UK FRC and the recent proposals from the French ANC to simplify accounting obligations for small listed companies in Europe.
- (63) In addition, EFRAG is working on a pro-active Disclosure Framework project, which is conducted in cooperation with the FASB. We believe that there is a need for international coordination of these initiatives and the IASB is the organisation to provide this coordination. A decision needs be made by the IASB whether tackling disclosure overload can be done as a two step project, both reducing current disclosures in the short term and working on a more conceptual disclosure framework for the future, or whether this can all be done as one single project. Timing will play important role in that decision.

Other individual projects

- (64) We believe that the Board should add a project on Business Combinations between Entities under Common Control, as this is an area of significant diversity in practice due to lack of authoritative guidance in the standards. Due to the absence of specific guidance, entities have had to design their own appropriate accounting policies in this area. In the case of Business combinations between entities under common control, even the IFRS Interpretations Committee has recently affirmed the existing diversity in practice and hence the necessity to develop accounting guidance (we refer to the IASB Staff paper 6B, dated July 2011).
- (65) Some of the other projects on the IASB's suggested project list, including Emission Trading Schemes, Rate-regulated Assets and Extractive Industries may be illustrative of a wider underlying problem in the current definition of intangible assets. Rather than suggesting that the IASB takes on these individual projects as priorities, FEE recommends that research is performed into the root-causes as to why these projects are being requested by some constituents. This may lead to a conclusion that the current intangible asset model within IFRS is in need of revision. If that were the case, it could then be addressed either as a separate intangibles project or as part of the Conceptual Framework.