EFRAG
European Financial Reporting Advisory Group

DRAFT COMMENT LETTER
Comments should be submitted by 15 November 2011 to
Commentletter@efrag.org

Note to constituents:

The responsibility to comment on the IASB Agenda Consultation has in accordance with EFRAG's reform in 2008 been delegated to the EFRAG Planning and Resource Committee (EFRAG PRC). The EFRAG PRC is at present composed of two members of the EFRAG Supervisory Board (Hans van Damme and Peter Sampers the EFRAG PRC Chairman), and of the EFRAG Chairman, the Chairmen of the ANC (French Standard Setter), the UK ASB (UK Standard Setter), and the OIC (Italian Standard Setter). The Chairman of GASB (German Standard Setter) and the European Commission participate as observers. This draft comment letter has been prepared by EFRAG's staff and discussed and approved by EFRAG PRC. After extensive discussions, this draft comment letter has been prepared, the purpose of which is to stimulate the debate in Europe at an early stage in the IASB's Agenda Consultation, and to seek input. The views expressed in this draft comment letter which is issued as part of EFRAG's due process are preliminary.

The UK, French or Italian standard setters, or the observers in the EFRAG PRC, may express their positions separately.

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

XX MONTH 2011

Dear Sir/Madam,

Re: Agenda Consultation 2011

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Request for Views, *Agenda Consultation 2011* ('the Request').

EFRAG welcomes the Request to seek, in accordance with the IFRS Foundation Constitution requirements in paragraph 37(d)(ii), the views of constituents in developing its future agenda and allocating resources. We think such public consultation strengthens the transparency of the IASB's processes and believe this is an important first step in improving the agenda-setting process. However, as it will become apparent below, we do not consider the Request to be the basis on which to determine what projects, and the scope of these, the IASB should work on for the coming three years. In that respect we consider it only the starting point.

Need for a period of calm

We first of all wish to highlight that when it comes to amending existing or issuing new accounting standards, we believe a 'period of calm' is needed. We agree with the observation made in the letter of Hans Hoogervorst included in the Request that many may want a stable platform before further substantial projects are undertaken. We consider a 'period of calm' to be necessary in order to achieve what we think should be the first and foremost objective of the IASB in the near future, namely to mitigate the risk that evolutions and changes to IFRS are not well understood by users and preparers and that IFRS are not implemented in a consistent manner by those already applying IFRS or moving (or having recently moved) to their adoption. To mitigate that risk, it is essential that the pace of change is reasonable to let preparers, users and other stakeholders participate in defining the evolution of IFRS, understand it, and subsequently manage, and adjust to, the changes and incorporate them in their accounting system and financial reporting process.

This preamble being made, we address below the two sets of questions included in the IASB's request. The first set of questions concerns the overall balance in strategic priorities. The last set concerns what specific projects to include on the agenda.

Overall balance in strategic priorities: Need for an evidence based agenda setting process

Regarding the overall balance in strategic priorities, we take a different view from that expressed in the Request. We believe that IASB's activities in the development and the maintenance of IFRS should be more inter-related compared to what is proposed in the

Request. Agenda decisions should be based on an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. In other words, possible evidence supporting new projects may include:

- a void in IFRS requirements is becoming critical;
- changes in underlying economics and transactions result in information prepared under the existing requirements becoming less relevant; or
- post-implementation reviews, or surveys of existing financial reporting, show that information being prepared under existing requirements is not effective in meeting users' needs or is not so widely used that it is cost effective to continue to require it.

The post-implementation reviews that are to be carried out, as one of the sources for revealing any deficiencies in the existing requirements, should be scoped differently than the post-implementation reviews defined in the IASB due process handbook and outlined in the Request. They should not be limited to reviewing the effects of IFRS as issued by the IASB or to areas having raised controversy at the time the existing requirements were prepared. The review should focus on whether the existing standard results in effective financial reporting taking the current economic context and business reality, and perhaps more importantly changes in these, into consideration. In this respect it does not matter whether an 'old' IAS or a 'new' IFRS is reviewed. Such reviews would also lead to the possible removal of existing requirements.

Assessing changes in the current economic context and business reality will involve some research in particular in the area of corporate reporting. We think the IASB should make proper use of research in liaison with the academic community and other organisations that undertake or sponsor research (such as EFRAG). However, we think the IASB's activities should in most areas be limited to monitoring developments as far as these may influence financial reporting. Therefore, although Integrated Reporting may play a role in the future, EFRAG does not believe that the IASB should give priority to this.

When there is evidence, that a new standard, or amendment to an existing standard, is needed, the next step should then be to develop a thorough and specified project proposal. The proposal should specify the results of the post-implementation review, or other source of evidence identifying the need for the new standard or amendment to an existing standard, and setting out the objectives and the scope of the project. Specifying the specific objectives and scope of the project is necessary in order to, at a later stage, be able to assess, by field testing or other methods, whether the application of the possible future standard will result in high quality and improved information.

Detailed project proposals should be the subject for public consultation before the specific project is started, to ensure that the needs, including the objectives of the future project and the underlying analysis, are well understood and supported by the IFRS community.

Overall balance in strategic priorities: Agenda decisions can no longer be justified by convergence

By focusing on an evidence based agenda setting process, i.e. based on needs identified in practice, we are also saying that convergence cannot be the driver of agenda setting. IASB resources should be spent on improving IFRS financial reporting, and therefore the agenda setting should be based on issues identified in jurisdictions having adopted IFRS or undergoing – or just about to undergo - the first-time adoption process. Hence, we believe that the IASB should, in its agenda setting process, reflect

the decision made by the IFRS Foundation Trustees in their strategy review to focus on adoption rather than convergence. Convergence as such is not sustainable as the driving objective and cannot be a substitute for adoption. We therefore recommend amending the existing agenda criteria in the IASB Due Process Handbook accordingly. We also believe that enhancing the Conceptual Framework should not seek to make IFRS 'internationally convergent' as the IASB suggests in the Request.

Overall balance in strategic priorities: Enhancing the Conceptual Framework is crucial

We believe that 'high quality standards' should be based on a sound conceptual framework. To meet this objective, we agree with the Request that one of the projects (and priorities) included on the IASB's agenda should be enhancement of the Conceptual Framework. This project includes different phases that require prioritisation. We also support the development of a Disclosure Framework as indicated in the Request.

Our focus on the Conceptual Framework may, however, go a step further than what is suggested in the Request. In our view, to ensure that standard development is based on a conceptual framework, a standard that is in conflict with the Conceptual Framework should only in exceptional cases be issued. In the event that a new standard or amendment conflicts with the Conceptual Framework, a debate on the relevant concepts would be needed. Without strong and convincing arguments for the contrary, the standard should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided.

Question to constituents

The paragraphs above summarise EFRAG's preliminary views on the first set of questions included in the Request concerning the overall balance in strategic priorities. EFRAG's final comment letter may reflect other views depending on the input received from constituents.

Do you agree with EFRAG's preliminary main messages? If not, what messages should be included in our final comment letter?

Specific projects to include on the agenda

Regarding the question in the Request on which projects to include on the agenda, we first wish to reiterate that a 'period of calm' is needed. This does not mean that the IASB should do nothing in the three year period covered by the agenda consultation. However, it does mean that the IASB, as a principle, should avoid finalising projects having pervasive effects on financial reporting within this period, unless there is wide consensus among those who apply or use IFRS (or are engaged in doing so shortly) that the pervasive change is needed.

We also believe it is important that the number of projects on the agenda is limited considering the limited resources and the time available. Maybe even more than expressed in the Request, the availability and resources of the various constituents should be taken into consideration as constituents are those who have the mission to implement well understood and discussed standards. We note that, historically, the IASB seems to have taken too many projects on the agenda at the same time and that many projects therefore may have been delayed. The existing work may have a spill over into 2012 and will thereby have an impact on the allocation of available resources and the prioritisation of the projects. In addition, we believe that the IASB should spend

more resources on developing project proposals and performing post-implementation reviews to the extent suggested in this letter. This means that the IASB will have fewer resources available for developing new standards than it currently has.

Tentative recommendations to the IASB

We suggest that the views expressed above result in the following tentative recommendations to the IASB for the three year period covered by the Request:

- Ensure that a 'period of calm' is respected to allow issuers, and all involved in the application and enforcement of IFRS compliant financial statements, to focus on implementation to ensure the consistency and quality of application of existing IFRS.

- Focus during the 'period of calm' on Conceptual Framework issues (including performance reporting); allocate resources to activities (such as post-implementation reviews, research activities, surveys of financial reporting...) that help prepare evidence based agenda proposals; and concentrate on those projects where an urgent need and/or a solution that is likely to improve financial reporting have been demonstrated, taking into account recent changes in economic and business reality.

- Consult on evidence based fully developed agenda proposals supported by evidence that further development of IFRS is needed (improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled) and that benefits justify the development and implementation efforts.

- Limit the number of projects to be included on the IASB agenda, meeting the limited resources and time available.

- Make proper use of research, but do not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development as it may influence financial reporting.

Our detailed comments on the Request are set out in Appendix 1.

Appendix 2 includes some comments on the various projects constituents can consider in deciding on the projects which the IASB could include in its agenda and in determining the priorities. This appendix has been prepared under the sole responsibility of EFRAG secretariat to assist EFRAG's constituents. It will not be included in EFRAG's final comment letter, but the EFRAG final comment letter may indicate some preferences for projects to be included on the IASB agenda and related priorities, and/or clearly specify those projects that should not be undertaken at present, depending on the input received from constituents.

If you would like to discuss our comments further, please do not hesitate to contact Rasmus Sommer or me.

Yours sincerely

Pedro Solbes

Chairman EFRAG Supervisory Board

APPENDIX 1

EFRAG's responses to the questions asked in the exposure draft

The overall strategic direction and balance of the agenda

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 weight the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

Notes to EFRAG's constituents

1 The IASB has in consultation with the IFRS Advisory Council, developed a tentative view on a possible overall structure of its future agenda.

2 The IASB thinks that there are five strategic areas driving the work of the IASB that fall into two categories: the development of financial reporting and the maintenance of the existing IFRSs.

3 Developing financial reporting consists of:

(a) *strengthening the consistency of IFRS by completing the update of the conceptual framework, and improving the usability of financial reports through the development of a presentation and disclosure framework;*

(b) *investing in research and addressing the strategic issues for financial reporting, to aid future standard-setting, and to develop further the IASB's vision of the future shape of financial reporting, including exploring the interaction of IFRS with Integrated Reporting; and*

(c) *filling gaps in the IFRS literature by undertaking standards-level projects, i.e. developing new IFRSs or major amendments.*

4 Maintaining existing IFRS consists of:

(a) *obtaining a better understanding of operational issues of new IFRSs and major amendments through conducting post-implementation reviews; and*

(b) *improving the consistency and quality of application of IFRS by responding to implementation needs arising from the revised set of IFRSs, through the use of targeted, narrow-scope improvements to IFRS, including consideration of the completeness and consistency of integration of XBRL with IFRS.*

Tentative views of EFRAG:

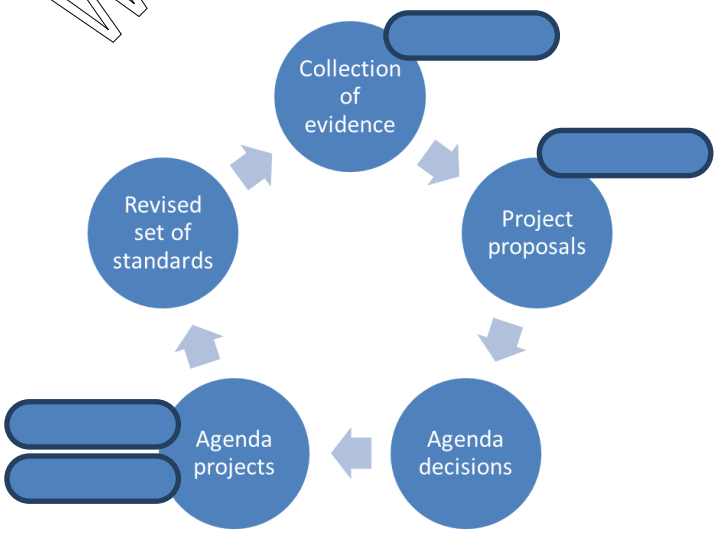
- EFRAG does not agree with the idea of distinguishing between the different categories of strategic areas identified in the Request for the purpose of prioritising the work of the IASB. We think the distinction between developing and maintaining standards is an artificial construct that provides no helpful insights.
- The IASB should determine its resource allocation based on gaps in the set of IFRS or lack of quality in existing standards, for which there is evidence.
- The IASB should make proper use of research, but should not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development as it may influence financial reporting.
- The development of the IFRS taxonomy should not be integrated in the standard-setting process. However, the IASB should ensure that its standards are sufficiently clear to enable the development of the IFRS taxonomy.

The standard-setting process

5 The Request identifies five strategic areas, and groups these into two categories: developing financial reporting and maintaining existing IFRS. EFRAG does not think it is beneficial to group the IASB's activities in this manner, when considering these in relation to agenda setting. In the view of EFRAG, the Request tries to group different activities into artificial groups, when the activities are inter-related.

6 In our view, the purpose of the IASB is to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. We think the steps illustrated in Figure 1, and explained in the following paragraphs, are the steps that need to be considered in that regard and will result in an evidence-based standard setting.

Figure 1 Standard-setting process



Collection of evidence

7 We think the process starts with an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. Only when a need is demonstrated, a project can be justified for inclusion on the agenda.

8 A need is demonstrated and may be justified when for example:

(a) a void in IFRS requirements is becoming critical;

(b) changes in underlying economics and transactions result in information prepared under the existing requirements becoming less relevant; or

(c) post-implementation reviews, or surveys of existing financial reporting, show that information being prepared under existing requirements is not effective in meeting users' needs, or is not so widely used that it is cost effective to continue to require it.

9 As it appears, post-implementation reviews are one of the methods to identify and demonstrate needs. The post-implementation reviews to be carried out, as one of the sources for revealing any deficiencies in the existing requirements, should, however, be scoped differently than the post-implementation reviews defined in the IASB due process handbook and outlined in the Request. The post-implementation reviews should not be limited to reviewing the effects of IFRS as issued by the IASB, or to areas having raised controversy at the time the existing requirements were prepared. The post-implementation reviews should focus on whether the existing standard (possibly in interaction with other standards) results in complete and appropriate information taking the current economic context and business reality, and perhaps more importantly changes in these, into consideration. They should therefore also include an assessment of whether the information produced as a result of any pronouncement, is useful and used by the users of financial reporting. The scope should be the same whether an 'old' IAS or a 'new' IFRS is reviewed.

10 The needs of market participants (especially capital providers) for decision-useful information are vital when performing the post-implementation reviews. It is therefore important that the IASB takes care when identifying these needs. In this regard we would like to mention that EFRAG in cooperation with various national standard setters have initiated a project on the use of financial statements, which could provide some information about users' needs. We also wish to reiterate that, in our view, decision usefulness does not only relate to predicting future cash flows but also assessing stewardship.

11 While the activity of assessing changes in the current economic context and business reality will involve some research in the area of corporate reporting, we think this research should be limited to monitoring developments that may influence financial reporting. We think the IASB should liaise with the academic community and other organisations that undertake or sponsor research (such as EFRAG). We recognise that for an organisation like the IASB it is essential to monitor developments in areas such as Integrated Reporting, as it may influence future financial reporting. However, as we believe that the IASB's priority for the next decade is to ensure the overall quality of financial reporting, we think the resource allocation of the IASB should reflect this and the IASB should not do more than monitor the developments in the area of Integrated Reporting.. We think that activities related to the collection of evidence could benefit from having the National Standard Setters involved in carrying out the work, following strictly

the process as defined by the IASB, and having regional groups helping with the co-ordination.

Agenda decisions and project proposals

12 When a need has been sufficiently demonstrated, a project proposal should be developed.

13 In making project proposals, the IASB Due Process Handbook and the IFRS Interpretations Committee Due Process Handbook list some factors that have to be considered. The factors listed in the IASB Due Process Handbook are:

(a) the relevance to users of the information involved and the reliability of information that could be provided;

(b) existing guidance available;

(c) the possibility of increasing convergence;

(d) the quality of the IFRSs to be developed; and

(e) resource constraints.

14 The 'sub-factors' to be considered when assessing the 'main-factors' listed above are further specified in the IASB Due Process Handbook.

15 We agree with the factors included in the due process handbooks, although we do not consider increased convergence to be an important factor (see below). However, in addition to what we understand is currently done, we think the IASB's assessment of the factors should be supported by field testing.

16 We therefore think it is necessary that an agenda consultation goes beyond a short description of each project as in the Request. The proposal should specify the results of the post-implementation review or other source of evidence identifying the need for the new standard or amendment. Additionally, it should provide a grounded rationale for the project and its implications, including an effect analysis.

17 In addition to enabling the selection of the most important projects to be included on the agenda, we think this thorough process would reduce what the Request terms 'maintenance' in the form of amendments to, and interpretations of, standards as it would be possible to identify unintended consequences or conceptual issues related to the project at an early stage.

18 The detailed project proposals should be the subject for public consultation before the specific project is started, to ensure that the needs, including the objectives of the future project and the underlying analysis, are well understood and supported by the IFRS community.

19 Based on the public agenda consultation, we consider it important that the IASB only includes the most important projects on its agenda considering its limited resources and time available. In our view, history shows that the IASB has had a tendency to include too many projects on its agenda and this may have resulted in the projects being substantially delayed.

20 When selecting the projects for the agenda, we also believe it is important that a project which will involve changes in principles is not finalised before the issue is

dealt with at Conceptual Framework level, except in exceptional cases. In the event that a new standard or amendment conflicts with the Conceptual Framework, a debate on the relevant concepts would be needed. Without strong and convincing arguments for the contrary, the standard should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided. Previously, we have commented that we have been able to see merits in examining issues on a conceptual and standard level in parallel. However, we have noted that this process seems to have favoured the development of specific standards rather than the Conceptual Framework. . Should the IASB find it beneficial to consider standard-level projects involving changes in principles in parallel with the Conceptual Framework, we will not discourage the IASB from doing so.

21 When a project has been included on the agenda, the purpose and scope of the project should not be changed afterwards without additional consultation.

22 The agenda setting process described above, where items are included on the agenda based on needs identified in practice, means that convergence cannot be the driver of agenda setting. This is in accordance with our view that the IASB's resources should be spent on improving IFRS financial reporting, having in mind jurisdictions that have adopted the IFRS or are undergoing – or just about to undergo - the first-time adoption process. Hence, we believe that:

(a) the existing agenda criteria in the IASB Due Process Handbook (an extract of which being presented in Appendix A of the Request) should be amended to reflect the decision made by the IFRS Foundation Trustees in their strategy review to focus on adoption rather than convergence. Convergence as such is not sustainable as the driving objective and cannot be a substitute for adoption.

(b) enhancing the Conceptual Framework should not seek to make IFRS 'internationally convergent' as the IASB suggests in the Request.

Agenda projects and revised set of standards

23 The projects included on the agenda should then be developed following the IASB's due process on which we will not comment on in this letter. However, we would like to mention, that the work related to a project should be based on the objectives of the project, which again are based on identified needs. During the projects, effect analyses should be carried out at appropriate stages in accordance with the discussion paper Considering the Effects of Accounting Standards issued by EFRAG and the UK Accounting Standards Board. These tests should assess whether the objectives of the project are likely to be met, and whether the application of the possible future standard will result in high quality and improved information. The assessment should consider the outcome of a standard (taking the preparer's capacity to implement and the user's ability to understand the information into account) rather than just considering the requirements of the standard.

24 The projects selected for the agenda will eventually result in a revised set of standards (including the Conceptual Framework), and this new set of standards should then be subject to a review in the future.

XBRL activities

25 We note that the IASB considers improving the consistency and quality of application of IFRS. This activity should include consideration of the completeness and consistency of integration of XBRL with IFRS. We are uncertain how to interpret this view. We believe that the development of the IFRS taxonomy should not be integrated in the IASB standard setting process, but remain a separate activity of the IFRS Foundation. XBRL is a facilitator, a language, supporting electronic communication of financial reporting. We are concerned that integrating the development of the IFRS taxonomy in the IASB standard setting process would take the IASB away from a principle based approach to standard setting, more in particular in the area of disclosures. At the same time, we are aware that XBRL is used by entities when communicating financial information. It is therefore important that the standards developed by the IASB are sufficiently clear to allow the development of a relevant IFRS taxonomy. Otherwise the implementation of new standards may result in less useful information being communicated to users than what was intended by the IASB.

Prioritising existing and potential new projects

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 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).

Notes to EFRAG's constituents

26 The Request states that in setting the agenda:

(a) *the focus is on the investors, lenders and other creditors who use IFRS financial statements;*

(b) *interests of other users, preparers, auditors, securities regulators, prudential regulators, national standard-setters and others are also considered; and*

(c) *needs of regions and jurisdictions will also be considered.*

27 The IASB intends to give the highest priority to progressing its work on the following projects during the comment period for its agenda consultation:

(a) *Revenue from contracts with customers;*

(b) *Leases;*

(c) *Insurance contracts; and*

(d) *Financial instruments, including:*

(i) *Hedge accounting;*

(ii) *Impairment of financial assets measured at amortised cost; and*

(iii) *Offsetting of financial assets and financial liabilities.*

28 In addition, according to the agenda consultation document, the IASB has committed itself to undertake the following activities:

(a) *Continuing its project on the Conceptual Framework;*

(b) *Performing post-implementation reviews;*

(c) *Undertaking the three-yearly review of the IFRS for SMEs;*

(d) *Investing in research in preparation for future standard-setting needs;*

(e) *Undertaking minor amendments to IFRS through the Annual Improvements process.*

29 The IASB's existing agenda projects and its suggested new projects are:

(a) *Agriculture, particularly bearer of biological assets;*

(b) *Business combinations between entities under common control;*

(c) *Country-by-country reporting;*

(d) *Discount rate;*

(e) *Earnings per share;*

(f) *Emissions trading schemes;*

(g) *Equity method of accounting;*

(h) *Extractive activities;*

(i) *Financial instruments with characteristics of equity;*

(j) *Financial statement presentation excluding consideration of other comprehensive income;*

(k) *Foreign currency translation;*

(l) *Government grants;*

(m) *Income taxes;*

(n) *Inflation accounting (revision to IAS 29);*

(o) *Intangible assets;*

(p) *Interim reporting;*

(q) *Islamic (Shariah-compliant) transactions and instruments;*

(r) *Liabilities-amendments to IAS 37;*

(s) *Other comprehensive income;*

(t) *Post-employment benefits (including pensions);*

(u) *Presentation and disclosure standard;*

(v) *Rate-regulated activities;*

(w) *Share-based payment.*

Tentative views of EFRAG:

- A 'period of calm' and a stable platform are needed in order to ensure proper understanding by users and preparers of changes made to IFRS, consistent application of IFRS across jurisdictions and greater consistency in financial reporting over time.
- The number of projects to be included on the IASB's agenda should be limited, meeting the limited resources and time available.
- When assessing what projects to include on the agenda, the following factors should be considered: 1) a need to improve financial reporting has been demonstrated; 2) unless strong and convincing arguments can be presented in favour of the contrary, a standard conflicting with the Conceptual Framework should not be finalised until the contents of the amendments to the Conceptual Framework on the relevant points have been decided. The projects to include on the agenda should be chosen based on the assessed effects of completing the projects.
- Respecting the need for a 'period of calm', the IASB should work on Conceptual Framework issues (including performance reporting); post implementation reviews and other research activities that help to prepare evidence-based project proposals; and those projects where an urgent need and/or a solution that is likely to improve financial reporting have been demonstrated, also taking into account recent changes in economic and business reality.
- The IASB should consult on evidence based fully developed agenda proposals supported by evidence that improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled, and that benefits justify the development and implementation efforts.
- Whilst making proper use of research, the IASB should not allocate more resources to areas such as Integrated Reporting than what is necessary to monitor the development, as it may influence financial reporting.

Projects to be considered on the agenda

30 As mentioned earlier, EFRAG believes that consistency in implementation should be the first and foremost objective of the IASB in the near future, to mitigate the risk that practices related to implementation will diverge. We therefore think a 'period of calm' is needed, and the IASB should have this in mind when considering what projects to be included on its agenda.

31 This does not mean that the IASB should do nothing in the three year period covered by the agenda consultation. However, it does mean that the IASB as a principle should avoid finalising projects having pervasive effects on financial reporting within this period, unless there is wide consensus among those who apply or use IFRS (or are engaged in doing so shortly) that the pervasive change is needed.

32 Other factors, EFRAG thinks should be considered when deciding on the agenda include:

(a) *Limited number of issues*. The number of projects to be included on the agenda should be limited considering the limited resources and time available. Historically, it seems that the IASB has been too ambitious with the number of projects it has included in its agenda and, in our view, this has hampered the ability of the IASB to finalise these projects in a timely manner and has led to a due process 'overload' for constituents. In addition, in the view of EFRAG, the IASB should in the future spend more resources on preparing the agenda proposals (see paragraphs 12 - 21 above). While the latter in the long run will result in the IASB spending its resources more effectively, this results in fewer resources available for project development in the short run.

(b) *Projects should only be included on the agenda where there is evidence to support that improvements are necessary on a particular topic.* As mentioned above in our response to the first questions included in the Request, we think the agenda setting should be evidence based. Accordingly, if there is not sufficient evidence to demonstrate the need for a new standard or amendment, the related project should not be included on the agenda.

(c) *Focus on the Conceptual Framework*. In paragraph 20 above we noted that projects that will involve changes in principles should not be finalised before the issue is dealt with at a conceptual framework level, unless there are strong and convincing arguments in favour of the contrary. As we believe that some of the projects suggested in the Request should involve a broader consideration of the principles, we think that the IASB will have to spend a considerable amount of resources on the Conceptual Framework in the following years. Should the IASB find it beneficial to consider standard-level projects involving changes in principles in parallel with the Conceptual Framework, we will not discourage the IASB from doing so.

(d) *Not all projects may require the Conceptual Framework to be changed.* Although we believe that some of the projects listed in the Request should involve consideration of principles, there are also some issues that could be solved within the existing framework and thereby improve the quality of IFRS and facilitate consistent application. These projects are those that, within the existing Conceptual Framework, could solve issues where the existing requirements have shown to cause problems in practice and where guidance is needed.

(e) *Urgent issues.* Of course, the IASB would also need to respond to urgent issues that may arise.

33 Based on the factors listed above, it appears that one of the main projects to include on the agenda is the Conceptual Framework. In that regard, EFRAG thinks it is particularly important that the IASB focuses on the chapters dealing with

the boundaries of financial reporting, recognition criteria and measurement. These chapters seem most crucial in relation to future standard development.

34 In addition, EFRAG believes it is important that the IASB considers performance reporting on a higher conceptual level. We note that a vast number of constituents, in responding to consultations on various IASB projects, persistently raised a concern about the lack of a debate on the fundamental issues underlying performance reporting. This project should consider:

(a) the notion of performance and the impact of the business model on it;

(b) the principle underlying the distinction between profit or loss and other comprehensive income (OCI); and

(c) reclassification of OCI items (recycling).

35 Based on the feedback received during the outreach, EFRAG believes that the project addressing performance reporting should be conducted prior to proceeding with the presentation issues.

36 In relation to the issue, we would recommend the IASB to consider EFRAG's discussion paper on performance reporting (and the feedback statement we prepared) and note that EFRAG has initiated a project on the business model which may also be beneficial for the IASB to consider in this regard.

37 Furthermore in the view of EFRAG, current disclosure requirements are too voluminous and do not always focus on the right disclosures. EFRAG is therefore currently carrying out a project on a disclosure framework together with Autorité des Normes Comptables (ANC) and the Accounting Standards Board (UK ASB). This project does not cover the entire spectrum of the IASB conceptual framework but should provide important input in terms of placement criteria (the boundary of financial statements being redesigned), of materiality in disclosures and of principles to limit the information provided to what is useful to users. We expect this work to be completed by the end of 2011 and think the IASB should use it to develop the chapter on presentation and disclosure in its Conceptual Framework.

38 As appears from paragraphs 7 - 21 above, we are of the opinion that more work needs to be carried out before deciding on what projects to include on the agenda. Accordingly, we do not provide further comments on what projects to select. We also note that we do not consider the scope of the Request to cover IASB's four main projects on: Revenue from contracts with customers; Leases; Insurance contracts; and Financial instruments (including: Hedge accounting; Impairment of financial assets measured at amortised cost; and Offsetting of financial assets and financial liabilities). We have therefore not commented on these projects in this comment letter. However, as continuing the work on these projects can be assumed to limit the IASB's resources for other projects considerably, we recognise that these projects will have an impact on the final agenda decisions.

Question to constituents

39 In the comments above, EFRAG has not expressed a specific preference for the projects to be undertaken other than the Conceptual Framework.

40 Do you think EFRAG should suggest some additional projects?

(a) If so what projects?

(b) Should EFRAG recommend as agenda items its proactive projects on business combinations under common control, income tax and disclosure framework (discussion papers are to be expected in Q3 and Q4)?

APPENDIX 2

Appendix 2 has been prepared under the sole responsibility of EFRAG's secretariat to assist EFRAG's constituents in the analysis of IASB' request for comments. It builds on many positions expressed by EFRAG in commenting on former or active IASB's projects or otherwise. It is not intended to be part of EFRAG's final comment letter. EFRAG's final comment letter may suggest some priorities (or none) depending on the input received as part of EFRAG's consultation.

Comments on various projects included in the Request which the IASB will consider when setting its agenda

41 Based on the factors listed in paragraphs 30 - 32 in Appendix 1, the following projects could be considered for the agenda as the projects listed could, in EFRAG secretariat's view be carried out *within the existing Conceptual Framework*.

(a) Emissions trading schemes;

(b) Business combinations between entities under common control;

(c) Rate-regulated activities;

(d) Extractive activities;

(e) Islamic (Shariah-compliant) transactions and instruments;

(f) Agriculture, particularly bearer biological assets (the future project should be limited to address the bearer biological assets issue);

(g) Foreign currency translation;

(h) Inflation accounting; and

(i) Share-based payment.

42 The projects on emission trading schemes, business combinations between entities under common control, rate-regulated activities, extractive activities and Islamic transactions and instruments, could be considered as being topics which are not specifically addressed by the current set of IFRS. The remaining projects could be considered as issues that cause problems and difficulties in practice. For a project to be included on the agenda, and intended to be finalised before the Conceptual Framework is finalised, the IASB should, however, provide evidence that the issues can be solved within the existing Conceptual Framework.

43 When considering the issue on business combinations between entities under common control, the IASB should consider the work carried out on the issue by EFRAG, Autorité des Normes Comptables (ANC) and Organismo Italiano di Contabilità (OIC). Similarly when considering share-based payment, the IASB should consider the work performed by the Autorité des Normes Comptables (the French accounting standard-setter) on how to clarify IFRS 2 Share-based Payment when considering whether to include the project on its agenda and the scope of the project.

44 The following projects, which, however, could probably not be finalised until the relevant principles have been agreed on a Conceptual Framework level (see paragraph 20), could also be considered:

(a) *Discount rate.* EFRAG has repeatedly recommended that cross-cutting issues like the discount rate be considered (see also paragraph 46 below). However, before starting the project, it is worthwhile to address measurement first on a conceptual level in order to arrive at a result that is consistent with the Conceptual Framework.

(b) *Financial instruments with characteristics of equity*. The project on how to distinguish between equity and non-equity instruments is one of the long-standing projects on the IASB's agenda, but will require changes of principles. Therefore, the related principles in the Conceptual Framework need to be concluded first. However, in the short run it could be considered whether the work carried out so far could feed some limited improvements that could be finalised before the related principles in the Conceptual Framework are agreed.

(c) *Financial statement presentation* and *Other comprehensive income*. As noted in Appendix 1 EFRAG considers that a higher level project on performance reporting and other comprehensive income is needed before finalising these projects. However, in the short term, and without waiting for the finalisation of the performance reporting project, it could be considered to build on the work done to date and improve the current requirements in relation to cohesiveness and comparability.

(d) *Government grants*. The current requirements on government grants are inconsistent with the Conceptual Framework.

(e) *Income taxes*. The accounting for income taxes has been subject to much criticism from users and preparers, who have questioned the decision - usefulness of the numbers produced by the current standard IAS 12 Income Taxes, and claimed that the standard is too difficult to apply and understand. Together with the UK Accounting Standards Board and the German Accounting Standard Board, EFRAG is currently investigating how the existing requirements could be improved, and is seeking direction on how to solve identified problems. The IASB should consider this work in its future work on the subject, including the development of an agenda proposal.

(f) *Interim reporting*. , The proposal to consider:

(i) the tensions of the objective of stating that the frequency of reporting should not affect the measurement of the annual financial statements and the requirement to apply a discrete accounting period approach; and

(ii) full re-measurement of assets and liabilities at each interim reporting date;

is, from EFRAG secretariat's point of view, a relatively narrow defined scope that considers practical problems relating to the current standard.

(g) *Post-employment benefits (including pensions)*. Since IAS 19 was first issued, the diversity and complexity of pension schemes have increased significantly. The standard may therefore no longer adequately reflect the

range of arrangements that now exist. Therefore, in 2008 EFRAG, together with many European national standard-setters, issued a discussion paper on the financial reporting of pensions as a result of a project led by the UK Accounting Standards Board. The IASB should consider this discussion paper when dealing with the project.

(h) *Presentation and disclosure standard*. Developing the chapter on presentation and disclosure could be performed as part of the Conceptual Framework. Projects not to be included on the agenda

45 Based on EFRAG's former position in various projects, EFRAG' secretariat does not think the following projects should be included on the agenda:

(a) *Earnings per share*. EFRAG does not think a project on earnings per share should be carried out before more fundamental issues on distinguishing equity from liabilities and profit and loss from other comprehensive income have been finalised.

(b) *Equity method of accounting*. EFRAG is currently not convinced that the equity method is an inappropriate method and/or that simplifications of the method are needed. EFRAG therefore does not support including the project on the agenda.

(c) *Intangible assets.* EFRAG understands that financial statement users do not use this type of information. Accordingly, this guidance should not be amended until the results of the review of the business combinations standard are available. Therefore, at this stage a project on intangible assets should not be included on the agenda.

(d) *Liabilities – amendments to IAS 37*. In the view of EFRAG, the current IAS 37 works reasonably well. We therefore do not think the IASB should spend its resources on this project. Should the IASB choose to include the project on its agenda, we think it should first initiate a review of IAS 37 to determine what needs to be fixed. In addition, if changes are expected on the recognition criteria and measurement, these should first be addressed at a conceptual level.

Other projects

46 In addition to the projects included in the Request, constituents - in responding to EFRAG's question on whether any projects should be selected - could consider the IASB allocating some high-quality resource specifically to the resolution of cross-cutting issues. In addition to resulting in consistency across projects, we think that addressing cross-cutting issues would also result in efficiency, in that it would not be necessary to keep re-debating the same issues. The development of the Conceptual Framework will capture some cross-cutting issues. However, there will be other cross-cutting issues involving principles that are not covered by the Framework.

47 EFRAG's constituents may also wish to consider that EFRAG has started a project on separate financial statements. Currently EFRAG and some national standard setters, have decided to launch a project on whether the same requirements are fit-for-purpose in providing the information needed by users of both separate and consolidated financial statements. The results of this study could form the basis of an IASB project on separate financial statements in the long run. To be useful, such a study should carefully assess users' needs, including the relevance of stewardship with respect to separate financial statements.