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5 August 2011

FINAL COMMENT LETTER

Dear Mr Seidenstein,

Re: Report of the Trustees ‘Strategy Review’

On behalf of the Supervisory Board of the European Financial Reporting Advisory Group (EFRAG), I am writing in response to a request from the IFRS Foundation Trustees (‘the Trustees’) to respond to the Report of the Trustees’ Strategy Review for public consultation *IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade*.

EFRAG appreciates the opportunity to comment on the proposed recommendations for the organisation’s second decade, covering the broader issues of the IFRS’s Foundation mission and operations, the Trustees’ activities, the IASB’s due process and the financing as set out in the Report.

We welcome the commitment of the Trustees to coordinate the conclusion of their review with the Monitoring Board in order to arrive at an integrated set of proposals on the basis of the Trustees’ proposed recommendations, and the final decisions reached by the Monitoring Board following its separate public consultation. We assume that the proposed recommendations will be included in this integrated package of messages for continued enhancement, announced for the end of August as set out in the joint statement of the Monitoring Board and the Trustees of 27 April. Given that there are areas of overlap in the respective consultations of the Trustees and Monitoring Board, and that compromises may need to be struck, we strongly advise that this integrated package of recommendations should be subject to further public consultation.

We also welcome clarification on how the proposed recommendations will relate to the Constitution and whether any changes to the Constitution will be required as a result of the Trustees Strategy Review and the review by the Monitoring Board. Should this be the case, we request that proposed changes will be subject to public consultation.

We welcome the emphasis on high quality global accounting standards, transparency and the focus on adoption of IFRS rather than on convergence. The quality of the standard setting process and of the resulting standards has a significant influence on the ultimate acceptability of these standards in Europe and elsewhere.

We also believe the Trustees should consider whether the high pace of change and the publication of many new draft standards for comments in a relatively short period, including the adoption of many minor changes are compatible with a high quality and well executed standard setting process. We believe that post 2011, the IASB should strive for a period of calm in changes to accounting standards. The need for a stable platform of standards should also be seen in the light of the amount of effort that will be required in the implementation of the new standards over the next few years. During this period of calm the IASB should focus rather on the completion of the Conceptual Framework, post-implementation issues and improving the consistency and quality of application of IFRS by responding to implementation needs arising from the revised set of IFRS.

As the IFRS world becomes more global, we believe regional organisations which work in close cooperation with, or directly emanate from, National Standard Setters, such as EFRAG and AOSSG, will grow in importance as liaison partners for the IASB at various stages of the standard setting process, including post implementation reviews. We expect other regions to follow and are encouraged by the developments in Latin America and the African initiatives to establish similar regional organisations. These developments should be seen as an addition to, not a substitute for, the enhancement of IASB relationships with National Standard Setters.

Generally we are fully supportive of most of the proposed recommendations. However, we have some comments and concerns related to the proposed recommendations – in addition to the answers to the specific questions and included in the appendix as set out below:

- **Mission, objective of financial reporting:** EFRAG appreciates the reference being made to all users. However we believe that the IFRS Foundation objective should be more precisely directed to providing financial reporting that is best suited to serve sound economic growth and sustainable value creation, and based therefore on a long term perspective of involvement with the reporting entity. Transparent financial reporting is indeed crucial to securing long term stakeholder value and in our view does thus also include the concept of stewardship. We therefore believe that the proposed recommendations and the Constitution should explicitly assign to financial reporting the objective of demonstrating how management has discharged itself of its stewardship duty to ensure the long term sustainable wealth creation. In Europe, economic decisions also include an assessment of how management have discharged their stewardship responsibilities and the actions that shareholders may take in response to management's stewardship.

- **Mission, boundaries:** The IFRS Foundation has now determined that its scope is financial reporting, of which financial statements is a component. We are supportive of the IASB defining financial reporting requirements - beyond financial statements - with the broad objective of providing useful financial information to capital providers and other users. In doing so, the IASB should nevertheless identify separately what belongs directly in the financial statements and what belongs to other areas of financial reporting. This may help to ensure that various financial reporting requirements do not potentially overlap in jurisdictions where, as in Europe, IFRS have been adopted to apply to consolidated financial statements.
- **Governance, communication:** Communication goes beyond providing public reports. Each Trustee should be responsible for liaising with the constituents in his region. The Trustees should assume a stronger and more visible external role, to enhance their pro-active outreach activities and further improve the transparency of their activities. EFRAG is ready to assist IFRS Foundation Trustees by organising liaison activities with European constituents. EFRAG invites Trustees as well to participate in the EFRAG Supervisory Board meetings at regular intervals.
- **Process, agenda setting:** EFRAG wishes to emphasize that agenda setting is not only a technical issue, and should be a shared responsibility between the IASB and those exercising oversight though are the same time retaining the independence of the Board for the technical content of the standards. Public consultation should not be used only to ask for broad directions, but also to ask support for fully developed agenda proposals. Fully developed agenda proposals should be supported by evidence that improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled, or in response to changes in economics have taken place, and that benefits justify the implementation efforts. Agenda decisions should be made by taking into account the comments received and proper feedback should be provided.
- **Process, integration of XBRL in the standard setting process:** We recommend not to integrate the development of the IFRS taxonomy in the IASB standard setting process, but keep it as a separate activity of the IFRS Foundation. XBRL, which we regard a powerful support tool to transfer information, is a facilitator, a language, supporting electronic communication of financial reporting. Integrating the development of the IFRS taxonomy in the IASB standard setting process may take the IASB away from a principle based approach to standard setting, more particularly in the area of disclosures. Disclosures within IFRS have already expanded to an unacceptable level. Any additional encouragement to promote detailed disclosure within the framework of XBRL should not be part of the fundamental IASB or IFRS Foundation remit.
- **Process, research capacity:** We believe strongly in the importance of ensuring that standard setting activities, especially major agenda decisions and discussion papers, take full account of relevant accounting research. Research questions should ideally be addressed ahead of addressing a specific accounting problem. In this respect, we believe that the Discussion Paper phase is at present not properly used by the IASB. Conceptual issues need to be addressed in this phase and be solved during the standard setting process.

- **Process, research capacity:** The IASB should create a favourable environment for research and encourage its pursuit rather than establishing its own dedicated research capacity. The IASB should liaise with the academic community and capitalise on their structures and experience as well as with other organisations that undertake and sponsor accounting research. Efficiency would call the IASB to heavily coordinate with national and regional groups and rely on the efforts they undertake in partnership with National Standard Setters, rather than consuming resources in building complete self sufficiency. Bodies like EFRAG, AOSSG and (hopefully tomorrow) the FASB, are undertaking proactive projects in order to be helpful to the IASB work in areas in which need for improvement has been identified.

If you would like further clarification on the points raised in this letter, please do not hesitate to contact Saskia Slomp or myself.

Yours sincerely

Pedro Solbes

EFRAG Supervisory Board Chairman

Appendix

A. Mission: defining the public interest to which the IFRS Foundation is committed

Purpose of financial reporting standards

A1 In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

- 1 We welcome the overall direction indicated as the purpose of financial reporting standards emphasising high quality and transparency and the focus on adoption of IFRS rather than on convergence. We appreciate the reference being made to all users. However we believe that the IFRS Foundation objective should be more precisely developed to providing financial reporting best suited to serve sound economic growth and sustainable value creation, and be based therefore on a long term perspective. Transparent financial reporting is indeed crucial to securing long-term stakeholder value. A reference to the long term perspective would in particular be helpful in the current financial climate and be consistent with the reference to sound economic growth in the proposed recommendation. We believe that our particular concerns cannot only be met by stakeholder engagement since in our view the long-term perspective should be an essential element of the Trustees' vision and strategy.
- 2 Management of the issuer entrusted with the stewardship of the profitability potential of a reporting entity is also interested in the longer term orientation. We believe that the proposed recommendations and the Constitution explicitly assign to financial reporting the objective of demonstrating how management has discharged itself of its stewardship duty to ensure the long term sustainable wealth creation. The single term "economic decisions" may be inadequate to reflect the full purpose of financial reporting standards. In Europe, economic decisions also include an assessment of how management have discharged their stewardship responsibilities and the actions that shareholders may take in response to management's stewardship.
- 3 We believe that it would be helpful if the Trustees could clarify in the text supporting the proposed recommendations that the notion of capital market is not limited to regulated capital markets only.
- 4 Whilst we understand that the proposed recommendation need to be general and high level, we regret that the second half of the Consultation Report providing broader context for the strategy review and challenges facing the IFRS Foundation, and the observer note for the Monitoring Board meeting of 1 April providing a strategy review comment letter summary, do not discuss some of the significant issues EFRAG raised in its letter of 8 March, in relation to the objective of financial reporting, notably: the risk of disconnecting external and internal financial reporting. Reporting entities wish to use the same financial information they employ for managerial purposes, also to inform their investors and other users. This would also help to avoid further proliferation of non-GAAP financial information.

Additionally, we are concerned about the scope and boundaries of IFRS since the formulation in the recommendations on the mission leaves room for different interpretations by sometimes referring to the financial statements and sometimes

referring to financial reporting in a wider sense. The IFRS Foundation has now determined that its scope is financial reporting, of which financial statements is a component. We are supportive of the IASB defining financial reporting requirements – beyond financial statements - with the broad objective of providing useful financial information to capital providers and other users. In doing so, the IASB should nevertheless identify separately what belongs to financial statements and what belongs to other areas of financial reporting, to ensure that various financial reporting requirements do not potentially overlap in jurisdictions where, as in Europe, IFRS have been adopted to apply to consolidated financial statements alone.

Adoption of IFRSs

A2 As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

- 5 EFRAG welcomes the statement that the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRS and fully agrees that convergence as such is no longer sustainable as the driving objective and should not be a substitute for adoption. We strongly believe that, in the future, no jurisdiction should exercise dominant influence on the standard setting process.
- 6 We would appreciate it if the Trustees could clarify that the word “mechanism” is referring to the process rather than to the statement of achievement, since otherwise the sentence could be read as the Trustees allowing for an outcome other than full adoption of IFRS in its entirety.
- 7 The last sentence of the recommendation conveys the message that, whatever adoption mechanism involved, reporting entities should be able to comply with full IFRS. We believe this message can be made without referring to the audit opinion. Moreover the current wording seems to put the responsibility for full compliance with the auditor, whereas it is the responsibility of the reporting entity to prepare financial statements in compliance with full IFRS. The wording used in the proposed recommendation could be changed to read in the seventh line of A2 after “relevant entities” the words: *”to prepare financial statements in full compliance with IFRSs as issued by the IASB.”*.

A3 With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

- 8 EFRAG understands that the IASB wishes jurisdictions and companies to be fully transparent when the standards resulting from the adoption mechanism are not in full compliance with IFRS, and that it wishes to seek proper disclosure in the notes to the financial statements and in general. We wish to underline that if IFRS are of sufficient high quality there would not be any reason for the adoption mechanism in a particular jurisdiction to diverge from full IFRS. Therefore the drive and commitment to high quality standards is essential for the world wide acceptability of IFRS. The IASB can

stimulate full disclosure where adoption of IFRS is incomplete, or where there is divergence from the full set of IFRS.

- 9 Compliance with IFRS is not the responsibility of the Foundation, but rests with the national or regional authorities adopting IFRS and the enforcement mechanisms they have established. However the first responsibility lies with the management of the reporting entity to prepare financial statements in compliance with full IFRS. The auditors have a responsibility to ensure that management of the reporting entity discharges its responsibility. We seek clarification of the Trustees as to what is meant by a mechanism since enforcement of IFRS is not within the responsibility of the IASB. In addition it would be helpful to know what monitoring process the Trustees have in mind.

Scope of standards and IFRS activities

A4 In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e., both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.

- 10 EFRAG agrees with the proposed recommendation on the scope of standards and IFRS activities. However, EFRAG would encourage the Trustees to consider whether there would be merits in creating a committee separate from the IASB that would take responsibility for setting standards applicable to private sector entities without public accountability.

Consistency of application and implementation

A5 In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

- ***The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.***
 - ***The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. All application guidance and examples must be necessary to understand the principles.***
 - ***The IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify divergence in practice. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.***
 - ***The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.***
 - ***The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.***
 - ***The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.***
- 11 EFRAG agrees, subject to the comments in relation to proposed recommendation A3 and the comments set out below, with the proposed recommendation on consistency of application and implementation.
- 12 We wish to express some caution about providing guidance and interpretations. Companies in the early stage of IFRS implementation face many challenges, particularly in jurisdictions where the existing accounting framework relies heavily on a detailed body of rules, as well as, or instead of, principles-based standards. The publication over the next several months of major new standards will add to such challenges. However, few of the issues involved are likely to merit the publication of formal interpretations or material with a similar status, including education services.

Differences in IFRS implementation that arise from differences in corporate governance, auditing and regulatory regimes will persist for a longer time to come.

- 13 We believe that in the first bullet point specific reference should be made to the issue of standards that are capable of being implemented. Standards should articulate clear principles and be written in a way that makes them capable of being applied in practice without the need for extensive further interpretations or guidance or excessive additional work by those using them.
- 14 We wish to underline that constituents in all jurisdictions need an appropriate period of time to examine and respond to the IASB consultations, and to feel that their views are considered carefully by the IASB (even if ultimately they are not accepted). Proposals on all major projects also need to be field-tested to test their practicability and the results made available, so that constituents can assess them (see also our comments under C3).

B. Governance: independent and publicly accountable

B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.

- 15 EFRAG fully supports that the independence of the standard setting decision-making process is key and should remain without intervention, for accounting technical reasons, from the Monitoring Board or the Trustees. However, it needs to be accompanied by a high degree of accountability, notably through appropriate due process, free from undue influence and with appropriate oversight conducted in the public interest. The legitimacy of IFRS depends on the independence of the IASB.

B2 The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.

- 16 We welcome the commitment of the Trustees to coordinate the conclusion of their review with the Monitoring Board, in order to arrive at an integrated set of proposals on the basis of the Trustees proposed recommendations and the final decisions reached by the Monitoring Board following its separate public consultation. We appreciate that the primary focus of the Monitoring Boards Governance Review is the composition and respective responsibilities and roles of the Monitoring Board, Trustees and the IASB. The governance of the Monitoring Board, as the board that exercises overall oversight of the organisation, is of crucial importance in a governance structure and in the accountability of the organisation. EFRAG appreciates the proposed clarification and definition of the roles and responsibilities of each element of the organisation's governance. The exercise of governance and supervision should be accompanied by an appropriate level of transparency throughout the organisation to facilitate accountability.
- 17 EFRAG is of the opinion that post 2011 the focus should be on the needs of jurisdictions that have already adopted IFRS and have clearly demonstrated their intention to apply IFRS. Those jurisdictions must be involved within the IASB process to foster consistent application and implementation on a global basis. In order to do so the geographical composition of the various bodies should be reviewed in that

representatives of jurisdictions currently applying IFRS or demonstrating their intention to adopt IFRS should have a more prominent role.

B3 Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

- 18 EFRAG agrees with proposed recommendation to clarify the discharge of the Trustees' oversight responsibilities and believes that there should be more involvement of the Due Process Oversight Committee throughout the standard setting process. EFRAG welcomes the intention to enhance the role of the Due Process Oversight Committee bringing more substance to the exercising of oversight. EFRAG in particular welcomes the development of a dedicated staff resource reporting directly to the Trustees to remove any perceived conflict of interest. We also refer to our comments under C2.
- 19 We believe it would be helpful if the Trustees in the proposed recommendations or in the supporting explanatory text could indicate a mechanism for the Due Process Oversight Committee or Trustees to act where the due process has not been followed properly.
- 20 One of the issues to which the Due Process Oversight Committee in our view should pay attention is monitoring compliance with the Conceptual Framework and ensuring that it is amended as and when necessary. It is important that the IASB completes its work on the Conceptual Framework as a whole since this will provide structure and direction to the development or amendment of and individual standards.

B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

- 21 As indicated in our letter of 8 March, EFRAG believes that Trustees have an important role in communicating and explaining the overall strategy of the IASB (in particular in their respective regions), and need to build up a close relationship with the relevant stakeholder organisations - such as EFRAG in partnership with the National Standard Setters in Europe - both at global and regional level. We regret that proposed recommendation and the text on the broader context do not refer to the responsibilities of the individual Trustees in liaising with the constituents in their region. The Trustees should assume a stronger and more visible external role, to enhance their pro-active outreach activities and further improve the transparency of their activities, taking example on the IASB which is being widely praised on both accounts. We believe that communication includes but goes beyond providing public reports. EFRAG is ready to assist IFRS Foundation Trustees by organising liaison activities with European constituents. EFRAG invites Trustees to participate in the EFRAG Supervisory Board meetings at regular intervals.
- 22 We believe that it would be helpful if the Trustees clarified the meaning of the word "elements" in proposed recommendation B4. In this respect it would help "all elements" instead of to "elements" since all components of the Foundation should be transparent.

C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

C1 A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is, and should continue to be, reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

23 EFRAG fully agrees that a thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. This is an area where improvement would be difficult to make. However in our letter of 8 March we have made a series of comments and recommendations as to how in our view the due process and in particular the substance of the due process oversight could be improved. Although several of our observations and recommendations have been considered, others have not and therefore we have referred to them below.

C2 The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.

24 We welcome the intended clarification of the framework of the due process oversight but we want to emphasize the need for an understanding of the substance of the oversight included in the individual due process oversight steps. EFRAG was amongst those providing the criticism that the IASB does not account adequately for the views expressed by stakeholders, and does not sufficiently explain how it reconciles different viewpoints in agenda setting, strategy and the resolution of technical issues. The due process oversight will only function when it looks at, not only whether the different steps and consultations have taken place, but also whether the due process is adhered to in substance. This goes beyond simply monitoring and exchanging of views. In our opinion oversight of the due process should include the review of how decisions made to arrive at a final standard or interpretation have been substantiated technically, and which trade-offs have been made. In this respect we were encouraged by the article on due process oversight that was published on the Foundation's website and in particular the statement of the Due Process Oversight Committee Chairman, David Sidwell about "validating that the due process is being followed in both letter and spirit".

25 Considering the substance of the due process as to how conclusions are reached and decisions are substantiated, has no influence to the technical decisions itself and respects the independence of the standard setting process.

26 Due process oversight cannot replace the responsibilities of the IASB and the need of a clear motivation of the decisions made and the disposition of comments raised in form of a feedback statement (or otherwise).

27 In relation to the need to provide oversight on the due process *substance*, we wish to recall some of the issues raised in more detail in our letter of 8 March, with respect to where oversight needs to be improved:

- The fact that the same comments continue to be raised by a majority, or a significant minority of commentators during every stage of the standard-setting process, should - in itself - oblige the Board to address the concerns again, and to reconsider the impact assessment and needs analysis in order to assess whether all practical implications have been appropriately considered.

- Different accounting solutions can be of equally high quality, and from these, the solution that is the most acceptable to the widest broad-based stakeholder community should be seriously considered. If that solution is ultimately not retained, strong evidence against it should be gathered and displayed.
- Final standards should only be issued when the phased projects are totally finalised, since various requirements in the individual standards are interrelated and require internal consistency.
- Greater ex-ante oversight should be exercised to decide when re-exposure is needed, and hence avoid that changes to IFRS are made without sufficient public consultation.
- Whenever the IASB encounters strong or extensive objections, and even rejections by a wide group of stakeholders to its proposals, this may indicate that either the proposed changes will not bring improvement in practice, or the proposed changes are premature. In these circumstances, we believe that the Due Process Oversight Committee should consider whether the IASB should continue the project to the next phase or take a step back.

28 We also wish to observe that it would be helpful if the Trustees were to clarify the status of the various “new” documents that have recently been introduced by the IASB such as staff drafts, review drafts and the like. We believe that a minimum comment period should be decided upon and an obligation should be introduced for the IASB to provide also in relation to these documents proper feedback on final decisions.

C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- ***Clear demonstration of how priorities on its agenda are set: In the agenda-setting process, and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB’s priorities are set.***

29 We believe that the increased transparency and accountability public consultation will bring, will enhance the legitimacy of the IASB’s agenda decisions. Agenda setting is not a technical issue only, and should be a shared responsibility between the IASB and those exercising oversight to ensure that the wider strategic implications and the public interest dimension are also properly considered. We believe that an agenda decision should start with the examination and description of what demonstrable improvement is expected to be made to the resulting financial reporting.

30 We are also of the opinion that public consultation should not be used only to ask for broad directions, but also to ask support for fully developed agenda proposals. Fully developed agenda proposals should be supported by evidence that improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled or changes in economics have taken place and that benefits justify the implementation efforts. Agenda decisions should be made taking into account the comments received and proper feedback should be provided on the decisions taken including the priorities set. The Trustees may also consider whether a mechanism needs to be introduced how to act if divergence of views were to arise.

- 31 We would like the Trustees to clarify what is meant by “clear demonstration” and to explain what substance is involved in this aspect of the due process oversight - agenda setting being probably the most important step in the standard setting process.
- ***Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).***
- 32 EFRAG welcomes the focus in the proposed recommendations on field testing and effect analyses, and is willing to contribute to the development of an agreed methodology. In this respect we wish to draw the Trustees attention to the Discussion Paper, Considering the Effects of Accounting Standards that EFRAG and the UK ASB have published on 31 January 2011.
- 33 As indicated in our letter of 8 March we are of the opinion that the standard setting process should be evidence-based from start to finish. It is important for the credibility of the standard setting process that impact assessments (in the form of effect analyses or field testing) are carried out and published at several phases of the standard setting process, notably early in the process. Sufficient time should be allowed in the standard setting process for adequate field testing of new proposed standards and major proposed changes to standards before a final standard is agreed, in particular when the proposals turn out to be controversial, and significant concerns are expressed by the constituents.
- ***Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.***
- 34 We have serious concerns about the proposed recommendation to integrate XBRL into the standard setting process and in addition to include relevant extensions in the existing IFRS taxonomy. At this stage we are of the opinion that the IFRS taxonomy should not be integrated in the IASB standard setting process, but remain a separate activity of the IFRS Foundation. We believe that the consequence of such a recommendation should first be examined and discussed before such an integration decision is taken, which may have important implications for the standard setting process. The Trustees indicate that the integration would mean that the IASB would consider the impact of its decisions on how the standards are represented in the IFRS taxonomy and their usability for end-users of financial data with access to XBRL data. XBRL, although being a powerful support tool to transfer information, is no more than a language facilitating electronic communication of financial reporting. XBRL in our view is an important support tool and facilitator for reporting information and we are strongly of the opinion that such a tool should not determine the quality of the standard.
- 35 Integrating XBRL in the standard setting process may take the IASB away from a principle based approach to standard setting, more particularly in the area of disclosures. Disclosures within IFRS have expanded to an unacceptable level. Any additional encouragement to promote detailed disclosure at the level of XBRL should not be part of the fundamental IASB or IFRS Foundation remit. Moreover The IASB has decided to make disclosures more principles based by indicating the objective of the disclosures, rather than a prescriptive list of disclosures. This step should be encouraged and the IASB should not be stimulated to go in the opposite direction.

- 36 In a similar way the integration of extensions in the IFRS taxonomy, reflecting codified common practice that can not directly be linked to authoritative IFRS literature, may increase the disclosures in IFRS when the emphasis should rather be on reducing them. We note that the IFRS Foundation announced already on 8 April that it will publish supplementary tags for the IFRS taxonomy which reflect disclosures that are commonly reported by entities in their IFRS financial statements.
- 37 Additionally, there may be several due process and other issues that need careful consideration, including the impact on the background and competence of the members of the IASB, and the approval procedures of the standards.
- 38 We see a clear risk that the integration would install the tendency to normalise, standardise financial reporting beyond what is the appropriate level of standardisation, and could therefore undermine to innovations and development in the standards. We therefore strongly recommend that the development of the IFRS taxonomy is not made part of the IASB standard setting process.
- 39 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. In addition a formal methodology for considering developing the IFRS taxonomy alongside the development of the standard could be established.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- ***using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.***
 - ***establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.***
 - ***refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.***
- 40 EFRAG welcomes the focus on consistent application of IFRS and in particular welcomes the IASB undertaking post-implementation reviews using an agreed methodology. In addition comparability should not be undermined by divergent application. We wish to underline that for consistent application, it is essential that the pace of change should be reasonable to let issuers, users and other stakeholders manage, and adjust to, the change and that periods of stability in the accounting requirements should be granted, so as to support maximum consistency of financial information over time. National Standard Setters and regional organisations, such as EFRAG, can facilitate the feedback on how IFRS is implemented.
- 41 We believe that post- implementation reviews should be broader in scope than the scope outlined in the proposed recommendation C4 on page 18 which refers to post-implementation reviews of new IFRS, as well as major amendments to IFRS and major interpretations and states that these reviews were designed to be limited to important issues identified as contentious during the development of the pronouncement and would review any unexpected costs or implementation problems encountered. We wish to underline that in our view the IASB should also consider any gaps in existing standards as well as possible missing standards.

- 42 The post implementation reviews should include whether the objectives identified have been met by the standard taking into account the changes in economic and business reality that may have occurred since the development of the standard. Post implementation reviews should have a wider scope, including a consideration of whether the information produced as a result of any pronouncement, is useful, operational, based on economic reality and used by the users of financial reporting. We believe that priority should be given to standards causing application problems. In addition preparers of financial statements will face significant changes when they implement all the new standards which the IASB is currently developing and so the implementation process will inevitably reveal issues that the IASB will need to consider.

C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.

- 43 EFRAG underlines the importance of stakeholder consultation and outreach activities, and the maintenance of a proper network with the main organisations with an interest in financial reporting at national, regional and international level.

C6 To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

- 44 EFRAG believes strongly in the importance of ensuring that standard setting activities, especially major agenda decisions and discussion papers, take full account of relevant accounting research. The IASB should create a favourable environment for research and courage its pursuit rather than establishing its own dedicated research capacity. We are, however, not sure what is envisaged with a dedicated research capacity in the proposed recommendation. Academic research is without any doubt a significant resource that should be used in order to best inform the standard setting process. The IASB should liaise with the academic community and capitalise on their structures and experience as well as with national standard setters, professional accountancy bodies and other organisations that undertake and sponsor accounting research.
- 45 Research questions should ideally be addressed ahead of addressing a specific accounting problem. In this respect we would in particular welcome an enhancement of the Discussion Paper phase, and believe that in the Discussion Papers the possible accounting treatments should be discussed. That said, we believe that the Discussion Paper phase is at present not properly used by the IASB. For example, all major issues that the IASB has had to deal with following its exposure drafts in the Revenue Recognition and the Lease projects had been properly identified at Discussion Paper stage, but had been disregarded. Conceptual issues were identified as needing to be resolved - as in the lease project, for example.
- 46 Further research, including extensive literature study, could assist in the enhancement of the IASB projects. We are of the opinion that such a phase should be included in all major projects. However, one should be very careful that a research capacity should be sufficiently oriented towards practical issues and operational approached. It might be helpful for the Foundation to set the criteria by which it would assess the relevance of such research.

- 47 Bodies like EFRAG in partnership with the National Standard Setters in Europe, AOSSG, and (hopefully in the near future) the FASB, are undertaking proactive projects in order to be helpful to the IASB work, in areas in which the need for improvement has been identified. Efficiency would call the IASB to heavily coordinate with regional groups and rely on the efforts they undertake in partnership with the National Standard Setters, rather than spending resources on building complete self sufficiency.