

Draft Comment Letter

Comments should be submitted by 7 December 2012 to Commentletters@efrag.org

16 November 2012

Michel Prada
Chairman
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr Prada,

Re: Proposal to Establish an Accounting Standards Advisory Forum

On behalf of the European Financial Reporting Advisory Group (EFRAG) Supervisory Board, I am writing to comment on the Invitation to Comment, *Proposal to Establish an Accounting Standards Advisory Forum*.

EFRAG welcomes the Proposal to Establish an Accounting Standards Advisory Forum. In that capacity EFRAG appreciates the initiative by the IFRS Foundation and the International Accounting Standards Board (IASB) to set up the Accounting Standards Advisory Forum (ASAF) with the aim to formalise, rationalise and streamline the relationships with the National Standard Setters and other regional bodies around the world and to engage with them on a collective basis on technical issues. EFRAG in particular supports that the ASAF will be based on multilateral, productive, in-depth discussions on major technical issues, and sees this as a significant step forward in terms of contribution to the due process.

Size

EFRAG supports the IFRS Foundation's view that, to be technically effective and efficient in the discussions as well as globally representative, the size of ASAF should be limited to no more than twelve non-IASB members.

Composition

EFRAG agrees also with the proposed distribution of seats among geographic regions as reflecting the appropriate balance to support the ambition of the IASB of being the global standard setter.

EFRAG believes it is important that the IFRS Foundation should allocate seats to organisations so as to ensure optimum representation of participants in the Forum. However, the IFRS Foundation should give those organisations the flexibility to organise themselves so as to bring not only the right level of expertise and commitment to the discussion table, but also possible alternative views, more particularly in the early stages of projects. This should include the presentation of specific regional or national issues and concerns that need to be addressed.

EFRAG is confident that such flexibility is compatible with the need for continuity, expertise and constructive spirit in technical discussions in meetings.

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EFRAG works in close collaboration with all National Standard Setters in Europe. This circumstance, combined with the mandate it has received from the European Commission at present, makes EFRAG well placed to represent Europe in the technical financial reporting debate, so that the views presented and argued are well informed and are legitimate in their representation.

National Standard Setters are essential contributors to and partners in EFRAG and currently the four larger national standard setters are members of the EFRAG delegation at EFRAG – IASB meetings. EFRAG's current enhancements of its due process have been designed to support greater involvement at an earlier stage of other National Standard setters in Europe. We suggest therefore that EFRAG's constructive and technical participation in ASAF should not be limited to a maximum of three individuals, the others being merely identified as ad hoc observers or technical experts. We think that EFRAG, involving all National Standard Setters in Europe, like any other organisation with one or more seats on ASAF is best placed to organise its representative delegations in ASAF, taking into account the agenda of the meetings and the various views or issues arising in Europe.

Moreover, EFRAG suggests that the representation of the IASB at the ASAF should be extended. In our view the IASB should be represented in each ASAF meeting by the IASB Chairman, the IASB Vice Chairman and the IASB Board members who are Board advisors in the projects. This is necessary, we believe, to ensure that ASAF becomes a strong technical discussion forum whereby the IASB is directly involved in the technical debate rather than in listening mode.

Commitments

EFRAG agrees that participants in the ASAF are asked to make specific commitments, in particular the commitment to support the IFRS Foundation's mission to develop, in the public interest, a single set of globally accepted financial reporting standards, and with the idea of formalising those commitments in a Memorandum of Understanding.

We however believe that some rewording of the commitments is necessary. We also strongly recommend avoiding that the wording of those commitments would be such as to impede representatives of certain jurisdictions from participating, although they would be both able and genuinely willing to participate positively and constructively to serving the goal of one single set of high quality globally accepted financial reporting standards.

Our detailed comments and responses to the questions in the proposal are set out in Appendix.

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

Yours sincerely,

Chairman

EFRAG Supervisory Board

APPENDIX 1

Question 1

Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

EFRAG's response

EFRAG agrees with the proposed commitments to be made by ASAF members and with the idea of formalising those commitments in a Memorandum of Understanding.

- 1 EFRAG supports the creation of the ASAF in order to have the development of IFRS benefit from effective and efficient technical discussions, between the IASB and accounting standard bodies sharing the same goals as the IASB on the one hand, among accounting standard bodies having an interest in the development of IFRS on the other hand, hence building a multilateral technical discussion forum that has the potential of helping the IASB to significantly enhance the suitability and acceptability of IFRS worldwide.
- 2 We believe that participants should share common commitments to achieve the level of quality and effectiveness that the discussions in the ASAF should have (paragraph 6.4 of the *Proposal to Establish an Accounting Standards Advisory Forum (the Proposal)*). We, however, have a few comments to make and suggestions for change:
 - (a) *“Supporting the IFRS Foundation’s mission to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.”*

Sharing that goal is in our view necessary to participate constructively in the technical discussions.

- (b) *“Encouraging input from their jurisdiction/region to the technical activities of the IASB, in order to contribute to a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.”*

We do not see the need to repeat the objective in this second commitment; we believe that commitment b) should be worded differently to reach a better focus on the goal of the ASAF. We believe that participants should “organise their internal processes so as to have a legitimate representativeness of their jurisdiction and region in their participation to ASAF”; this representativeness should indeed be one of the keys to success of ASAF.

- (c) *“Supporting consistent application of IFRSs by jurisdiction and in the region.”*

We agree that regional bodies and National Standard Setters should support consistent application of IFRS and that this may relate to the activities in the ASAF, however we would not see that as the primary focus of ASAF.

- (d) *“Making their best efforts to promote the endorsement/adoption of IFRSs in full and without modification over time (recognising that, at present, jurisdictions are at different stages in moving towards IFRSs and have adopted different mechanisms to achieve this).”*

We believe that this should be explained as a shared goal and responsibility of the IASB and the participants. If multilateral technical discussions are to be supported and encouraged, it is to create the conditions in which all participants strive to understand the needs of the various regions and take them into account in

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formulating positions and recommendations, so that final accounting requirements are well suited for all jurisdictions.

No participant that has some form of responsibility in an endorsement process can commit to promote endorsement if their assessment of the requirements is that they should not be endorsed. EFRAG wants to make best efforts to contribute to the development of IFRS that can be endorsed in the EU. Any commitment beyond this would be contradictory to our mandate and the independent spirit in which we need to serve the public interest and advise the European Commission.

(e) *“In addition, any member would need to have the resources and capability to play a full role in the ASAF’s technical work, including preparation for meetings and participation in substantive technical discussions. There is a wealth of experience and expertise within the community of NSS and regional bodies and the aim is to harness that to best effect.”*

We agree that this is necessary to guarantee the level of quality that the discussions in ASAF should reach.

- 3 We also want to strongly recommend avoiding that the wording of those commitments would be of such nature as to impede representatives of certain jurisdictions, that have not yet adopted IFRS, from participating, although they would be both able and genuinely willing to participate positively and constructively to serving the goal of one single set of high quality globally accepted financial reporting standards.
- 4 EFRAG supports the idea of formalising the commitments in a Memorandum of Understanding since this would bring solemnity to the commitments and transparency to the outside world.
- 5 We see in the IFRS Foundation proposals a strong commitment in engaging in a constructive technical discussion with regional and national accounting standard bodies. We believe the IASB could formalise that commitment in the Memorandum of Understanding to provide a good balance in the commitments of all participants in the Forum, including the IASB.
- 6 For the avoidance of doubt, our recommendation above does not contradict our full support for the emphasis put on the advisory role of the Forum.

Question 2

The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

ASAF geographical balance according to the IFRS Foundation proposal contains 12 seats divided as follows:

- Africa: 1 seat
- Americas: 3 seats
- Asia-Oceania: 3 seats
- Europe (including non-EU): 3 seats
- World at large: 2 seats.

EFRAG's response

EFRAG thinks that, to be technically effective and efficient as well as globally representative, the ASAF should be limited to no more than twelve non-IASB members. EFRAG believes flexibility should be left to each organisation to organise its representative delegation on the ASAF.

- 7 EFRAG thinks that, to be technically effective and efficient as well as globally representative, the ASAF should be limited to twelve non-IASB members. EFRAG believes that number is appropriate to combine the largest representation possible of all regions or jurisdictions with the required level of expertise and involvement in the monitoring of IASB's activities. A larger number would lead to a loss of benefits in terms of technical discussions, without bringing a supplementary array of views or arguments to the debate. We would not be able to reach this conclusion, however, if the IFRS Foundation decided to limit appointment to a strict number of individuals rather than organisations.
- 8 As regional organisations involve in their structures most or all National Standard Setters in their region, large and small, they are in a position to gather and discuss a wide variety of views and issues that may exist in the countries within their region, and bring those in a 'well-considered' way to the ASAF early in the technical discussion process before a majority or single view may have eventually emerged in the regional organisations. National Standard Setters are closest to their constituents and have a good knowledge of local, regulatory, economic and cultural factors that they can share first within their regional organization. Early consideration of all possible views and circumstances would give the resulting standards higher chances of acceptability and endorsement.
- 9 EFRAG believes it is important that the IFRS Foundation should allocate seats to organisations so as to ensure optimum representation of participants in the Forum. However, the IFRS Foundation should give those organisations the flexibility to organise themselves so as to bring not only the right level of expertise and commitment to the discussion table, but also possible alternative views, more particularly in the early stages of projects. This should include the presentation of specific regional or national issues and concerns that need to be addressed.
- 10 ASAF will discuss major technical issues throughout the standard setting process and provide advice and a variety of views to the IASB to enrich the IASB discussions and to ensure that the IASB's fully considers all alternative views including national and regional issues.
- 11 Moreover, EFRAG suggests that the representation of the IASB at the ASAF would be extended. In our view the IASB should be represented in each ASAF meeting by the IASB Chairman, the IASB Vice Chairman and the IASB Board members who are Board advisors in the projects. This is necessary, we believe, to ensure that ASAF becomes a strong technical discussion forum whereby the IASB is directly involved in the technical debate rather than in listening mode.

Europe

- 12 Where Europe is concerned, EFRAG notes that the ASAF is intended to replace the bilateral EFRAG-IASB meetings that were held three to four times a year. EFRAG's delegation to these meetings already reflected the strong cooperation EFRAG enjoys with National Standard Setters to conduct its work. The EFRAG Chairman is accompanied to these meetings by the Chairmen of the NSS of France, Germany, Italy and the UK, each of them being a non-voting member of EFRAG Technical Expert Group and hence participating directly to EFRAG internal technical discussions.

- 13 In concluding the limited governance review it conducted in the first half of 2012, EFRAG decided to enhance its due process in seeking early input from – primarily but not only – National Standard Setters, in such a way that this early input would not emanate only from the four major National Standard Setters, but also from all the other National Standard Setters in the European Economic Area. The early input contributes to the development of the EFRAG Draft Comment Letters and helps to ensure that EFRAG TEG considers at all stages of its considerations all views held. The early input seeking process will also serve the preparation of the ASAF meetings.
- 14 Indeed EFRAG invites in its Consultative Forum of National Standard Setters all National Standard Setters from the European Economic Area to participate in its meetings and activities. The EFRAG Consultative Forum also includes National Standard Setters from Switzerland and Turkey.
- 15 EFRAG would therefore be in a position to well prepare for the ASAF meetings in a collective manner involving all National Standard Setters in Europe. With the operational and due process improvements identified in the limited governance review the involvement of the National Standard Setters in Europe will be further enhanced.
- 16 This early input seeking process will be a strong basis to ensure that EFRAG's delegations to ASAF bring to the discussions the views and arguments, the understanding of specific circumstances, that are necessary to have Europe fairly represented and in a position to exercise the influence as it should, per the mandate entrusted by the European Commission.
- 17 ASAF providing early input to the IASB on main technical issues would bring an overall added efficiency since many comments that at present only come to the surface in the consultation phase will be identified, discussed and addressed at an earlier stage in the standard setting process.
- 18 EFRAG believes that its participation in the Accounting Standard Advisory Forum will satisfy the European Commission's concern¹ that Europe is not enjoying, despite EFRAG's best efforts, the level of influence it should enjoy.

EFRAG's further comments

Chairmanship

- 19 We believe that to ensure that ASAF will be successful it is essential that it is organised as a multilateral form where technical discussions take place with all views held on subjects being thoroughly considered and debated.
- 20 In this respect we observe that 1) the IFRS Foundation demonstrates in making its proposals a strong willingness to engage with a representative group of regional bodies and National Standard Setters in discussing all major technical issues; 2) participation in ASAF includes the commitment and willingness to prepare agenda papers so that it is a joint effort of the IASB and the ASAF members; 3) the

¹ On 11 October 2012, EFRAG and the Trustees of the IFRS Foundation held a joint conference in Brussels to discuss an 'EU perspective on the move towards global accounting standards', involving a large range of prominent speakers. Please refer to the speech at the conference of Olivier Guersent, Head of Cabinet of Michel Barnier, Commissioner Internal Market and Services at the EFRAG website:

http://www.efrag.org/files/News%20related%20documents/121016_PR_EFRAG_joint_conference_11_October_FINAL.pdf

agenda setting for the ASAF meeting should be a joint effort of the IASB and the ASAF members.

- 21 Given our observations above we fully support that meetings of the ASAF be chaired by the IASB Chairman.
- 22 In addition we believe that the Chairman of all advisory forums or committees of the IASB needs to be accountable to the IFRS Foundation and none of the other participants would qualify.
- 23 EFRAG welcomes the dedication of at least one staff member of the IFRS Foundation to support the ASAF and to act as liaison with the ASAF members.

Timing of meetings

- 24 EFRAG agrees that it is essential to allow ASAF members sufficient time before the meetings to consult with their stakeholders and to come with the perspectives from their jurisdictions/regions to the ASAF meetings. ASAF members can indeed be expected to already be tracking the projects on the IASB's standards level agenda or the research agenda and having discussed in their organisation and having sought (early) input on the main technical issues. It is therefore important that the agenda of ASAF meetings includes issues that have been first deliberated by the IASB sufficiently in advance of the ASAF meetings.
- 25 Having issues discussed in ASAF after they have first been considered by the IASB has the supplementary advantage to alleviate the risk of being seen to be compromising the independence of the IASB by giving the NSS and regional bodies an apparent potential direction power in the IFRS standard setting process.

Bilateral relationships

- 26 We agree that the IASB – EFRAG regular public meetings are no longer needed if EFRAG participates in ASAF and enjoys the flexibility in the composition of its delegations.
- 27 In relation to other activities between EFRAG, the National Standard Setters in Europe and the IASB, we welcome the recognition in the IFRS Foundation's proposals for ASAF that these activities including research, implementation challenges, outreach activities, field testing and post-implementation reviews, will run alongside these roles and will not replace them. We appreciate that all activities the IASB leads with EFRAG and the National Standard Setters in Europe should continue and develop further.
- 28 In our letter of 20 September 2012 to the IFRS Foundation on the *Proposed IASB and IFRS Interpretation Committee Due Process Handbook* we promote a shared due process between the IASB and regional and national accounting standards bodies as the way forward. Involving, and coordinating with, regional and national accounting standards bodies in IASB's technical activities in the research programme phase, in outreach activities and field testing, in post-implementation reviews and other surveys is an effective way to improve transparency, efficiency and mutual understanding of the standard setting process.
- 29 In particular we believe that the participation of IASB members and IASB staff in EFRAG TEG and EFRAG Consultative Forum of Standard Setters meetings should continue as part of the IASB's permanent outreach activities.