



IASB

30 Cannon Street
London EC4M 6XH
United Kingdom

7 December 2011

Dear Sir or Madam,

RE: AGENDA CONSULTATION 2011

BUSINESSEUROPE is grateful for the opportunity to respond to the IASB's first agenda consultation. We believe that opening up the future work program for formal public input is a positive and necessary step.

Setting the agenda of the work programme for the coming three years as well as the broad strategic direction requires the IASB to take account of the outcome of the reviews that are currently taking place by the Trustees and the Monitoring Board on the governance framework of the IASB. The agenda setting process should be evidence based, which would require further consultations and collection of evidence when choosing the specific projects to be included in the agenda. We believe that the IASB should not begin any individual project without first confirming that there is a need for improvement and that the net benefit of doing nothing is likely to be outweighed by the net benefit of making a change. Therefore, before being presented with the concrete, evidence based project proposals, BUSINESSEUROPE finds it premature to comment in detail on projects in the appendix. As we have indicated below, BUSINESSEUROPE believes that a number of issues will be solved once the conceptual framework – including disclosures – are finalized.

However, before choosing specific projects it is also important both to decide on the allocation of resources between the strategic priorities outlined in the consultation paper and to agree on the more fundamental, overarching principles or perspectives on financial reporting. We compliment the IASB for also opening this debate in the beginning of the consultation paper, as this is a very important debate to enable the IASB to reach broad agreement on the agenda priorities and to elaborate on specific standards in the years to come.

In our view the key fundamental principles or perspectives on financial reporting that need to be set before specific projects can be prioritized are:

- Perspective on financial reporting
 - reflect the performance of the business
 - focus on “need to know”, not “nice to know”
- High-quality standards
- 5 year stable platform - The amount of changes the preparers and users can grasp



Perspective on financial reporting – reflect the performance of the business

Our fundamental objective with financial reporting in general is that the financial statements should reflect the underlying performance of the business. We oppose changes that would reduce transparency by making communicating with shareholders and other users of those statements unnecessarily more difficult. Even now, the effort required both in explaining our performance and in providing the obligatory disclosures are constantly increasing.

Internal and external reporting should not be driven apart as then it may no longer be possible to run the business based on financial statements prepared under IFRS. The further proliferation of “Non-GAAP” measures that would result is not welcome.

In a speech in February, 2011 Mr Hoogervorst said *“The distinction between the P&L and Other Comprehensive Income is another example of accounting standards being sensitive to preventing noise in the income statement. ... It is a pragmatic way of shielding the P&L from volatility in the balance sheet that does not truly reflect the financial performance of the entity”*. It is encouraging to hear these views, but it is also important that accounting standards do not generate any unnecessary “noise” in the first place.

Perspective on financial reporting – focus on “need to know”, not “nice to know”

A general concern from BUSINESSEUROPEs perspective is the increase in volume that the financial statements have shown over the last decade. The amounts of resources put into these statements from preparers side, both in costs and hours, has steadily increased. The consequence is to draw management resources away from managing the business. Therefore it is important for BUSINESSEUROPE that focus in the broader standard setting process is shifted from the individual standards to the complete set of financial statements. Focus should be on “need to know”, not “nice to know”, and the need should be demonstrated – and weighed – against other information requirements (including information requirements outside the scope of IFRS)

The changed focus should impact both agenda decisions and the standard setting activities. The increase in volume – both in standards and the financial statements themselves – is not helpful to investors, as it becomes steadily more difficult to “see the wood for trees”.

The overarching principle of materiality combined with a more holistic approach should – in time – streamline the standards and reduce complexity. As stated before, the standards needs to be accessible, practical and applicable.

In this respect, a disclosure framework project is needed in order to get the holistic view on the reporting as such. The project should aim to remove irrelevant, duplicative and unnecessary disclosures

High-quality standards

We agree with the IFRS Advisory Council (Appendix B) that the future programme should not be focused on convergence with the FASB. The primary focus should be on providing high-quality standards for those already applying – or committed to apply – the standards.



However, as the current set of projects were not completed by the original deadline of mid-June 2011, much of the Board's time in the next year or so is expected to continue to be occupied on Memorandum of Understanding convergence projects. These projects should be finished within a foreseen future and the resulting standards should – as all standards – be accessible, practical and applicable.

Further, we believe that for the current projects, the IASB should – before issuing the standards – review the outcome to ensure that the final standards are not driven by convergence only, but achieves the best outcome for those already applying IFRS making them accessible, practical and applicable.

5 year stable platform - The amount of changes the preparers and users can grasp

Once the above projects are finalized, preparers will be spending a considerable amount of time on their implementation and communicating the consequences to users. It is important to underline that changes in financial reporting standards impact the entire reporting chain. The consequence is that users will also need to devote time to understand the changes, change their models and update the historic and present data in accordance with the changes. In addition, preparers are already working on the implementation of the new standards issued this year.

Constituents are therefore unlikely to welcome further substantial changes over the next few years or have the time to devote to being fully involved with providing input on any new major projects. As your Chairman Hans Hoogervorst states in his introduction to the consultation paper, *“many may want a stable platform before further substantial projects are undertaken”*. We would suggest in fact that this period should extend to five years rather than three, given that other major standards are still work-in-progress and so preparers cannot yet start the implementation process with certainty.

We would also ask that the IASB provide for a minimum of three years between the issuance of a new accounting standard and its mandatory implementation date. For companies subject to the EU adoption process and to SEC reporting requirements, this is vital in order to carry out all the necessary changes to systems and processes to capture both retrospective information and information going forward.

Our comments on the specific questions that are raised in the consultation paper are set out in the appendix to this letter. We remain at your disposal should you wish to discuss this subject further.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department



COMMENTS ON THE SPECIFIC QUESTIONS RAISED IN THE CONSULTATION PAPER

Question 1

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

- *Question 1(a)*
Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?
- *Question 1(b)*
How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

BUSINESSEUROPE finds that only one of the strategic areas in reality qualifies as being “strategic”. The rest of the “strategic areas” are essentially “core” standard setting activities. Having said this, we agree with the two categories identified by the IASB, and certain aspects of the strategic (or core standard setting) areas. From our point of view, the strategic area could be denominated “The future shape of financial reporting”, while the core standard setting activities should include the following strategic priorities:

- Conceptual framework
- Disclosure framework
- Developing new standards
- Post-implementation reviews
- Updating existing standards

The future shape of financial reporting

According to the Trustee strategic review, the IASB should provide “thought leadership”. In order to achieve this, the Trustee strategic review includes the following in paragraph C5:

“Dedicated research capacity

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

The IFRS technical staff has no dedicated resource for accounting research to understand how existing standards are operating, to analyse trends of financial reporting and to identify future issues. This is the consequence of limitations on financial resources and the focus on completing the present work programme. The Trustees recommend establishing, or facilitating the establishment of, a research capacity that could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees would necessarily seek dedicated, separate financing to support such a research capacity.”

BUSINESSEUROPE finds it important that appropriate academic research is being conducted. This is vital to any evidence-based approach and provides an important pillar for the future. However, the key issue is whether the IASB should conduct the



research themselves; whether the research should be conducted by the Foundation or by an independent research capacity or whether the research should be conducted locally – potentially orchestrated by the IASB.

With the present constraints, BUSINESSEUROPE are not convinced that the IASB and its staff should use many resources on its own research during this period; the research necessary should instead continue to be led by national standard-setters including, in the future, potentially the FASB) as the consultation paper recognises on page 15 (. However, the IASB could play an important role as facilitator by making research publicly available on its website. This should be done in a way that does not require the IASB to agree with the results and findings, but simply ensures that relevant discussion papers and research are shared.

Another important aspect is the interaction with other standard setters and independent initiatives relating to financial reporting. In the Trustee strategic review, it is clearly outlined that the Trustees play an important role in the relationship to other areas related to financial reporting:

“The Trustees will actively consider other areas related to financial reporting (eg not-for-profit, public sector, sustainability and others) as the system stabilises and as resources permit.

The Trustees note that other standard-setting organisations produce standards on matters outside the current scope of the IASB’s work. For example, companies should not establish a particular legal structure merely to avoid accountability using IFRSs. The IFRS Foundation should continue its co-operation, as appropriate, with these organisations. As appropriate, the IASB should agree to memoranda of understanding with these standard-setting organisations to formalise co-operation.”

BUSINESSEUROPE thinks that the future shape of financial reporting is a more fundamental, strategic concern. Some of the discussions extend beyond the mandate of the IASB and should essentially be a topic for the Trustees to discuss. This specifically relates to discussions on Integrated Reporting, but also to topics like management reports etc. The key, strategic question is whether the IASB should use their resources to discuss these topics, or whether the Trustees should decide whether the mandate of the IASB should be extended or whether these discussions have to take place elsewhere in the organization.

BUSINESSEUROPE agrees with the view, that in order to provide “thought leadership”, the IASB needs to be involved to a certain extent in these other areas or activities. In respect of financial reporting boundaries, we note that one of the IASB’s tentative views in the paper is to explore the interaction of IFRS with integrated reporting.

Whilst we do not object to this in principle, it is important that the boundaries of financial reporting are agreed with constituents first in order that the IASB does not stray into areas beyond its remit and for instance engage in standardsetting activities outside the current scope.

Having said this, it is crucially important that in the event that integrated reporting progresses, then the IASB needs to agree with the overall level of materiality discussed by the parties involved in the development of integrated reporting, the intended users



and how to incorporate the disclosures with the integrated reporting concept. Therefore there are linkages with for instance the conceptual framework and disclosure framework. BUSINESSEUROPE is aware of the fact that a discussion paper on integrated reporting is presently exposed for comments, but already know it is clear that all the standard setters and legislators needs to reduce their own reporting requirements in order for any integrated reporting initiatives to be successful.

We accept the IASB's proposal to consider the completeness and consistency of integration of XBRL with IFRS. However the IASB should not consider XBRL as anything more than a facilitator; it should be a separate activity of the IFRS Foundation. We think that "integration" must not mean that the IASB would consider the consequences on XBRL during the development of accounting standards themselves as this would put the concept of principle-based standards at risk.

Core standard setting activities

We have deliberately identified the disclosure framework as a core standard setting activity in line with our overarching principle of materiality – focus on "need to know", not "nice to know", and the importance of focusing on the holistic issues. At present disclosure objectives and the disclosures themselves are generally developed on a piecemeal basis, standard by standard. A disclosures project should in the long term (a) develop a standard set of principle-based objectives and (b) address (and revise accordingly) all existing disclosures against these objectives to produce a cohesive set that meets a cost/benefit hurdle - without any "encouraged" disclosures. Whilst there is already a materiality override in IFRS, such a project should also clarify that materiality extends to the disclosures in a set of financial statements as a whole, not simply on a standard-by-standard basis. We would refer to the UK Financial Reporting Council Discussion Paper "Cutting Clutter", April 2011: Clutter includes "immaterial disclosures that inhibit the ability to identify and understand relevant information".

BUSINESSEUROPE finds that the Core standard setting activity regarding disclosures should focus on phase "a", the principle-based objectives, creating a set of principle-based disclosure objectives/criteria. These objectives/criteria should also take into consideration whether the disclosure requirements need to be identical in both the consolidated statements and individual parent or subsidiary financial statements, and we would refer to work done by national standardsetters in this area. Phase "b" would be part of the core standard activity denominated "updating existing standards".

In general, we find that there are inherent linkages between the core standard setting activities, but there are also logical steps to be followed. As we are asking for an evidence based approach to setting the agenda, we will have to include the lessons learned from relevant post-implementation reviews, as well as knowledge gained from research, studies, surveys and other sources. Thus, the IASB would need to ensure that relevant research is being conducted in areas that IASB may see as future priorities. Otherwise, the evidenced based agenda setting cannot work smoothly.

The conceptual framework should play a more important role in the standard-setting process, acting as the guiding principle and point of reference when developing new standards or reviewing old standards. The conceptual framework plays an important role when the Board has to evaluate the importance of new disclosures above other, existing requirements. It is also our clear perception that following the logical steps of



completing the review of the conceptual framework and the disclosure framework followed by focusing on performance reporting would should solve a number of the present problems (especially if conducted without the straitjacket of convergence). BUSINESSEUROPE would point out that, in particular, solving (or at least working on) the elements such as definition of assets and liabilities, definition of performance, clear measurement attributes and disclosure objectives/criteria will allow the IASB to get new standards right and consistent.

Within BUSINESSEUROPE we have discussed how we would suggest that the IASB devote its resources. Over the next three years BUSINESSEUROPE believe that the Board should concentrate its remaining resources (i.e. after taking into account the completion of existing projects and the activities they are already committed to) on 1) the conceptual and disclosure frameworks and 2) Post-implementation reviews and corresponding narrow-based updates of existing standards. Activities relating to development of new standards were not seen as a top priority for the next three years.

In the view of BUSINESSEUROPE post-implementation reviews should be given priority in the beginning of the three year period, as they form an important element in the evidence based agenda-setting, we are advocating for. Therefore work on updating the existing standards would start towards the end of the three year period when the appropriate steps in the agenda setting process (see below) have been met.

By allocating resources to the post-implementation reviews and the framework in the beginning of the period, the IASB also has the opportunity to complete the revision of the conceptual framework (with a priority given to financial reporting aspects) taking into account the lessons learned from the post-implementation reviews before undertaking further major projects.

Agenda setting – evidence based approach

Our view is that the IASB should only take on projects when it is supported by documented and communicated evidence that there is a concrete problem in financial reporting that needs to be solved. The IASB would therefore need to further develop the criteria for agenda-setting as the current criteria are too vague, not really requiring the IASB to demonstrate the business-case.

A description of what the problems are regarding financial reporting is needed in order to make priorities for the agenda. Is it e.g. divergence in practice, lack of guidance, interpretational problems or changes in underlying business models that is the concrete problem? We believe that such questions should form the base for setting the agenda. The process should also identify minor projects where users demonstrate a gap in IFRS and the gap could be filled without undue cost for preparers.

The agenda consultation paper emphasizes that post-implementation reviews are important in order to identify e.g. implementation problems and cost issues regarding standards. While such reviews are important, we believe that the IASB must put more emphasis on the analysis of issues before they are put on the agenda. This is necessary in order to clarify why it is necessary to take on the project, i.e. what the evidence is that there is a concrete problem, and what the potential benefits of and costs for change will be. We propose that before taking on a specific project,



constituents should have the possibility to comment on if the project should be put on the agenda or not, based on a “pre-agenda paper” sent out by the IASB.

Therefore we see the present agenda consultation as a significant first step in the agenda consultation process, as it targets the overarching issues. However, in order for BUSINESSEUROPE to give advice to the IASB on the specific topics to be added to the agenda, the IASB would need to publish the criteria and to present a more detailed agenda paper highlighting their proposals for the agenda and demonstrating the alignment with the criteria, including scope, resources needed and the potential benefits. This proposal should also clearly highlight the number of projects that the IASB would be able to handle. It is our perception that the IASB with the present agenda as well as the work derived from the core standard setting activities should have sufficient topics on the agenda for at least 2012 and 2013, and therefore there should be sufficient time to expose a more detailed agenda paper for comments. This would also allow the IASB to create a link between the core standard setting activities and the specific agenda setting.

Question 2

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

- *Question 2(a)*
Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?
- *Question 2(b)*
Adding new projects to the IASB’s agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB’s agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB’s agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

BUSINESSEUROPE has noted the comments in the consultation paper, indicating that there are a number of projects on the agenda already. Further, BUSINESSEUROPE has already under question 1 asked for resources to be devoted to the conceptual framework, a disclosure framework and post-implementation reviews. Finally, we have asked for evidence based agenda setting. Therefore, BUSINESSEUROPE thinks that there are probably not further resources available in the next two years to add further items to the agenda. This also allows the IASB the time needed to get the criteria right.

We accept that the agenda consultation paper has deliberately been kept in an open form. However, as we are convinced that an evidence based agenda setting is necessary. Without the appropriate “business case” we cannot give clear indications on which projects should or should not be added to the agenda. Also, making use of the next few years to gain information from the post-implementation reviews is necessary. Together with a revised Framework this will allow the IASB to revise the list of topics and to present them in accordance with the above principles.



For avoidance of any doubts the projects listed in appendix C should be reassessed in due course on the basis of their business case and on their own merits and the fact that some work was previously carried out should be disregarded.

We therefore suggest that the IASB starts with the topics already highlighted in the cover letter and above.
