



European Financial Reporting Advisory Group ■

Proposal to Establish an Accounting Standards Advisory Forum (ASAF)

Feedback to constituents – EFRAG Final Comment Letter

December 2012

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the *Proposal to Establish an Accounting Standards Advisory Forum (ASAF Proposal)* on 21 December 2012. This feedback statement summarises the main comments received by EFRAG on its Draft Comment Letter and explains how those comments were considered by the EFRAG Supervisory Board (EFRAG SB) during its discussions.

Background to the ASAF Proposal

The IFRS Foundation has proposed 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. Further details are available on the EFRAG [website](#). The IFRS Foundation proposal was published on 1 November with a 45-day comment period.

EFRAG draft comment letter

EFRAG published a [draft comment letter](#) on the ASAF Proposal on 16 November 2012 with a deadline for comment of 7 December. In the draft comment letter EFRAG welcomed the proposal and supported the idea that the ASAF would be based on multilateral, productive, in-depth discussions on major technical issues, and saw this as a significant step forward in terms of contribution to the due process. EFRAG supported the IFRS Foundation's view that the size of the ASAF should be limited to allow for efficient and effective technical discussions.

EFRAG believed it was important that the IFRS Foundation should allocate seats to organisations rather than to individuals, and give those organisations the flexibility to organise themselves 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.

EFRAG believed that EFRAG's close collaboration with all National Standard Setters in Europe combined with EFRAG's mandate from the European Commission makes EFRAG well placed to represent Europe in the technical financial reporting debate. In forming its delegation to the ASAF, EFRAG intended to build on its past experience of EFRAG-IASB public meetings, involve its Consultative Forum of Standard Setters, and to take into account the agenda of the ASAF meetings and the various views or issues arising in Europe.

EFRAG agreed that participants in ASAF should be asked to make specific commitments, but believed some of them should be reworded so as not to impede representatives of certain jurisdictions from participating.

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Comments received from constituents

Seven comment letters from constituents were received in time for consideration by the EFRAG Supervisory Board. A further six comment letters were received after the EFRAG Supervisory Board meeting, but before the finalisation of EFRAG's final comment letter. The EFRAG staff considered that content of these comment letters were consistent with the issues considered by the EFRAG Supervisory Board. One comment letter was received after the publication of EFRAG's final comment letter. The comment letters came from National Standard Setters, business associations, professional organisations, listed companies and EU authorities and are available on the EFRAG [website](#).

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EFRAG's tentative views expressed in the draft comment letter and respondents' comments

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Size

EFRAG's tentative position

EFRAG agreed with the IFRS Foundation's proposal that, to be technically effective and efficient as well as globally representative, the ASAF should be limited to twelve non-IASB members.

Constituents' comments

The majority of respondents agreed with the IFRS Foundation's proposal that the ASAF should be limited in size, but some wished to have a number (slightly) larger than twelve participants as they believed the world could not be represented by twelve National Standard Setters and regional organisations.

A significant number of constituents felt that Europe (EAA) should be granted at least three seats given the significance and weight of Europe in the IFRS world. In order to grant Europe more seats some argued that the overall number of seats should be increased.

EFRAG still agreed with the IFRS Foundation's proposal that the ASAF should be compact in size, as a large number of participants would lead to a loss of benefits in terms of technical discussions, without bringing a supplementary array of views or arguments to the debate. EFRAG believes that ASAF can only be successful if the quality of the debate is high. However, EFRAG changed its tentative position, and no longer mentioned that the number of non-IASB members should be limited to the specific number of twelve but emphasized that ASAF needed to be compact in size.

EFRAG indicated that Europe (EU), given its diversity and significance in the use of IFRS, should be entitled to at least three seats in ASAF.

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Composition

EFRAG's tentative position

EFRAG agreed 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 believed it was important that the IFRS Foundation should allocate seats to organisations rather than to individuals 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.

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

Constituents' comments

The majority of respondents agreed with EFRAG's position. Some questioned if the IASB should allocate the seats and appoint the organisations and suggested that this may be left to the regions and jurisdictions.

EFRAG agreed that an appropriate balance in the composition of the Forum should support the ambition of the IASB of being the global standard setter while serving the objective of greater acceptability of the IASB's proposals and final standards in jurisdictions where IFRS have been adopted.

EFRAG believed that representativeness in ASAF was important. Therefore it believed that, although the IFRS Foundation should allocate seats to regions, the composition of the seats within the regions or jurisdictions should be the responsibility of the region or jurisdiction concerned, provided that criteria set by the IFRS Foundation are met. This would allow bringing not only the right level of expertise and commitment to the discussion table in relation to the topics on the agenda, but a variety of possible 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. 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 as a single individual cannot, in our view, be an expert in every technical subject, or have the right understanding of each and every local specific circumstance.

Each jurisdiction or region would have the responsibility to organise itself in order to ensure that it is representative of the views held in the region or jurisdiction at different stages of the international standard setting process.

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European representation

EFRAG's tentative position

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.

EFRAG suggested 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 thought that EFRAG, involving all National Standard Setters in Europe, like any other organisation with one or more seats on ASAF was 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.

Constituents' comments

Some of the respondents disagreed and felt that the wording used was envisaging the cooperation with the National Standard Setters which may not have been agreed with them, more in particular with the larger ones. Many of the other Standard Setters mentioned specifically that EFRAG should organise the European delegation and in all circumstances have a seat.

EFRAG modified the wording and indicated that Europe (EU) should be fully represented at the Forum. The European Commission (or if required any other of the European Institutions) should be involved in determining how the EU should be represented. EFRAG is ready, capable and available to participate and help building for each meeting a technically competent and representative European delegation. EFRAG is willing to work in a collaborative process within its Consultative Forum of Standard Setters so that no European constituent feels omitted.

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Timing

EFRAG's tentative position

EFRAG did not address this issue.

Constituents' comments

Many of EFRAG's constituents have indicated that a 45-day comment period is extremely short for proper consultation and consideration, and stressed the importance of having the right level of representativeness for the European delegation in ASAF. They also felt that Europe would need more time to decide on the organisation of its delegation.

EFRAG reflected those thoughts by saying that the interaction with its constituents had evidenced that a 45-day comment period was extremely short for EFRAG for proper consultation and consideration, and probably too short for constituents to provide a fully considered contribution to the EFRAG due process which, as a result of the tight IFRS Foundation deadline, only allowed for a three-week comment period.

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Purpose

EFRAG's tentative position

EFRAG welcomed the aim to formalise, rationalise and streamline the relationships with the National Standard Setters and other regional bodies around the world to engage with them on a collective basis on technical issues, EFRAG did not express particular concerns about the purpose of the ASAF.

Constituents' comments

However, many of EFRAG's constituents expressed concern about the real objective of the Forum, and thought that its purpose should be clarified. Questions raised related to the projects that will be discuss (on the IASB agenda or also proactive work) and at what stage the projects would be when discussed by ASAF (early in the project or close to final standard). An important issue for several commentators was how the interaction with those not involved in ASAF would be achieved.

EFRAG indicated that, according to its understanding, ASAF was a technical discussion forum that was advisory in nature with active participation of all represented in the Forum, including the relevant IASB Board members. ASAF would engage in an exchange of views on technical subjects in order to expose the IASB to the main possible technical views held on a particular subject, including national and regional particularities that are relevant to the IASB's work programme. All questions that our constituents have raised in the course of our due process have led us to acknowledge that the purpose of ASAF, as presented in the proposals, is in need of clarification; some elements therein are the type of projects that will be discussed and how the interaction with those not directly involved will be achieved.

ASAF has envisaged to have productive discussions on technical issues, in sufficient depth, that will contribute to the technical work of the IASB. Clarifications would be helpful as to what is meant by technical issues. In this respect we believe that the EFRAG and ASB position paper on *Considering the Effects of Accounting Standards* could provide helpful guidance, as it determines what is of the standard-setter's responsibility. We understand that the contribution of ASAF is to be understood within this remit. In contrast, we note that issues of a strategic nature are addressed in the IFRS Advisory Council in support to both the IFRS Foundation and the IASB, and that interactions between standard setting and politico-economic considerations are discussed within the Monitoring Board of the IFRS Foundation.

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Scope

EFRAG's tentative position

EFRAG agreed 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 EFRAG did not see that as the primary focus of ASAF.

Constituents' comments

Some constituents indicated that consistent application was in their view within the scope of ASAF and believed that in particular jurisdictions that apply IFRS had an important role to play. However, many commentators believed that consistent application would not be in the scope of ASAF since it is related to final standards.

EFRAG's response to constituent comments

The role of ASAF would be, in EFRAG's view, to provide advice and views to the IASB on major technical issues related to its standard setting activities, and to provide input on national and regional issues. Our understanding is that ASAF will discuss issues that are on the IASB agenda, including standards that are revised following the IASB's maintenance activities resulting from issues raised with the IFRS Interpretation Committee.

However, in our view, ASAF is not meant to actively contribute to achieving consistency in practice, since this relates to final standards. While we strongly support all efforts developed to that end, and consider that National Standard Setters should contribute to the overall effort, we agree that also market security regulators under the leadership of ESMA in Europe and audit firms should be heavily involved in this effort, and that the participation of National Standard Setters runs alongside ASAF. Finally relevant contributions to this overall effort should obviously stem from jurisdictions where IFRS are applied in practice, a limitation that is rightfully not considered for ASAF. In this respect, we believe that the commitment set out in the proposal to support consistent application does not fit well with the scope of ASAF.

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Institutional structure

EFRAG's tentative position

EFRAG did not address the issue.

Constituents' comments

Some constituents wondered whether the ASAF would be outside or within the IFRS Foundation institutional structure. They also questioned the difference with other advisory and consultative bodies notably with the IFRS Advisory Council and expressed their concerns about possible duplication. Some also questioned how the issues discussed could be differentiated between the various bodies in place.

The proposals state that ASAF, "because of its advisory role as a representative group, is not required to be formalised in the institutional structure of the Foundation", and mentioned in the Constitution. This could, however, be revisited at a later stage. We believe that the status of ASAF, and whether or not ASAF is part of the governance structure, may have implications in terms of accountability, chairmanship, commitments from the side of the IFRS Foundation and IASB. This also determines the distinction of ASAF from other representative or advisory groups where many of our constituents had questions on as to whether ASAF is part of these groups or has a distinct separate capacity. These factors are all important for the success of ASAF. In this respect ASAF seems to be a hybrid vehicle with elements of the IFRS Advisory Council (within the Constitution), and elements of other advisory platforms (outside the Constitution).

EFRAG believes the IFRS Foundation needs to consider how ASAF fits in the overall structure with the related responsibilities, commitments and accountability for those involved. In our view ASAF is the technical advisory group and the IFRS Advisory Council the strategic advisory group. Also ASAF should in our view be part of the institutional structure going forward and hence of the Constitution if the trial period of the first two year is successfully concluded.

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Commitments

EFRAG's tentative position

EFRAG agreed that participants in the ASAF should be 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.

EFRAG however believed that some rewording of the commitments was necessary notably in relation to consistent application and endorsement of IFRS, and strongly recommended avoiding that the wording of those commitments 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.

Constituents' comments

Several constituents, like EFRAG, did not agree with the list of commitments in paragraph 6.4 of the Proposal. Some thought the real issue was with having to accept all five commitments. Others thought it was odd to have to meet criteria to be allowed in the Forum, and did not see the relation with its purpose.

Some constituents felt that there was no commitment from the IASB itself.

Commentators agreed that the commitment should not form an impediment for participation in the Forum.

To ensure that ASAF is effective in its advisory role and a positive contribution to the IASB due process, EFRAG agrees that participants in ASAF should be 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 EFRAG can support the idea of formalising those commitments for each participant in ASAF in a Memorandum of Understanding.

We believe, however, that the commitments as presented in the proposals are not appropriately aligned with the purpose and scope of ASAF, or respectful of the independence that participants in ASAF necessarily have in fulfilling the mandate received from their jurisdiction.

We believe that the initiative of the IFRS Foundation to launch the proposal in itself is a sign of the commitment from the side of the IASB as further evidenced by the overriding principles on which the relationship between the IASB and National Standard Setters and regional bodies is based. This includes the shared goal of a single set of globally accepted high-quality standards; independence; transparency and openness (including progress reporting to ASAF); and maintaining open relationships with other stakeholders.

We also recommend avoiding that the wording of those commitments, in their revised form as suggested above, be such as to impede representatives of certain jurisdictions from participating – for regulatory or political reasons – where they are both able and willing

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to participate positively and constructively in the public interest

EFRAG expressed specific reservations and requested the commitments to be removed or changed in relation to supporting consistent application of IFRS and making best efforts to promote the endorsement/adoption of IFRS in full and without modification over time.

In EFRAG's view ASAF should therefore not deal with whether IFRS are applied consistently in practice. Hence we suggest this proposed commitment to be deleted in relation to ASAF. Having said that, we consider this commitment as highly relevant to the participation of National Standard Setters in the IFRS Foundation efforts for greater consistency in practice. These activities are running alongside the ASAF.

In relation to the endorsement/adoption commitment, EFRAG believes that this commitment should be explained as a shared goal and responsibility of the IASB and the participants in ASAF. 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 formulating positions and recommendations, so that final accounting requirements are well suited for all jurisdictions.

EFRAG is of the opinion that no participant with some form of responsibility in an endorsement process can commit to promote endorsement if their assessment of the requirements is that the relevant endorsement criteria of that jurisdiction are not met. 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.

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Operations

EFRAG's tentative position

This issue was not specifically addressed in EFRAG's comment letter.

Constituents' comments

Commentators posed questions about the agenda setting: would the IASB set the agenda for the Forum or would this be a shared responsibility with the members of the Forum. Moreover, they observed that in order to coordinate within the jurisdiction or region with those not directly represented on the Forum the agenda papers should be circulated well in advance of the meetings.

EFRAG believes that further thought should be given to the structuring of the meetings, the ways the agendas are determined, preparation of agenda items and the transparency of ASAF.

We welcome the fact that all ASAF members can be involved in the agenda setting and in the preparation of papers.

This fact in itself provides a clear proof that being a delegate also requires a certain level of development of the participant's organisation.

It is essential that the agenda and supporting papers are circulated well in advance of the meetings in order to allow each organisation to prepare for the discussion in a coordinated and cooperative manner in its region with appropriate consultation of the stakeholders.

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Participation of the IASB

EFRAG's tentative position

The participation of the IASB at the ASAF should be extended. In EFRAG's view the IASB should be represented in each ASAF meeting by the IASB Chairman, the IASB Vice Chairman and the IASB Board members that are Board advisors in the projects

Constituents' comments

The commentators had diverse views on the issue, in particular on the chairmanship of the Forum. Some felt that there should be an independent chairman, some felt that it should be a member of the Forum on a rotation basis and others shared the view of EFRAG that the IASB Chairman should chair the meetings. Having the Forum chaired by the IASB Chairman would give it stature and weight and demonstrates the importance which the IASB attaches to the Forum.

EFRAG did not change its comment on the representation of the IASB at ASAF but added that the Chairman of ASAF needs to be accountable to the IFRS Foundation. However to this end EFRAG acknowledges that it could be an independent Chairman. Conversely none of the other participants would qualify.