



# About EFRAG

**With the encouragement of the European Commission, the European Financial Reporting Advisory Group (EFRAG) was established in 2001 to provide input into the development of IFRS issued by the IASB and to provide the European Commission with technical expertise and advice on accounting matters.**

EFRAG is a private sector body established by European organisations that play a prominent role in Europe's capital markets, known collectively as "EFRAG Member Organisations". EFRAG's role as technical adviser to the European Commission is formalised in a "Working Arrangement" which states, amongst other things, that "EFRAG will provide advice to the European Commission on all issues relating to the application of IFRS in the EU".

Until 2010, EFRAG was entirely funded by its Member Organisations and the National Funding Mechanisms (national systems that collect contributions to fund EFRAG). From 2010 onwards, EFRAG is co-funded by the European Commission, which matches each euro contributed by the private sector, up to a maximum annual grant amount.

Increased resources allowed EFRAG to enhance its structure and governance and to increase efforts on its proactive work. This enhancement ensured that European views on the development of financial reporting are properly and clearly articulated in the international standard-setting process.

**All EFRAG technical positions are discussed and approved by the EFRAG Technical Expert Group.**

The EFRAG Technical Expert Group comprises of 12 voting members, selected from a range of professional and geographical backgrounds from throughout Europe. EFRAG Technical Expert Group members devote 30% to 50% of their time – free of charge – to EFRAG, except for EFRAG's full-time Chairman, François Flores, who is employed by EFRAG.

The Chairs of the French, German, Italian and UK standard setters are non-voting members of the EFRAG Technical Expert Group. Furthermore, the European Securities and Markets Authority (ESMA), the IASB and the European Commission attend EFRAG Technical Expert Group meetings as observers.

## AIMING FOR WELL-BALANCED AND INDEPENDENT TECHNICAL POSITIONS

Voting members of the EFRAG Technical Expert Group are appointed through a formal process. The process commences with an open call for candidates and the selection process has regard to the knowledge and experience of candidates, in addition to the need to establish a broad balance in geographical and professional backgrounds. As a result, the EFRAG Technical Expert Group is composed of a mix of preparers, auditors, users of financial statements and academics, to ensure its deliberations and its conclusions are independent and not unduly influenced by any interest group or constituency. Members of the EFRAG Technical Expert Group are required to act in the public interest and not to consider themselves as representing sectoral or national interests.

## WELL-INFORMED TECHNICAL POSITIONS

The EFRAG Technical Expert Group benefits from expert advice in specialist areas provided by EFRAG working groups, such as the EFRAG Financial Instruments Working Group, the EFRAG Insurance Accounting Working Group, and the EFRAG SME Working Group. Essential to the work of EFRAG is input received from EFRAG's User Panel. The purpose of the Panel is to provide broad input from users to EFRAG's Technical Expert Group.

EFRAG also works closely with European National Standard Setters, meeting with them every three months in the Consultative Forum of Standard Setters, and by working with them and the IASB to organise and conduct public hearings to seek views from constituents.

EFRAG's secretariat provides technical support for the activities of the EFRAG Technical Expert Group.

## BUILDING STRONG INFLUENCE BEYOND THE BORDERS OF EUROPE

EFRAG enjoys a constructive relationship with the IASB in many ways: EFRAG welcomes IASB members and staff as observers to the EFRAG Technical Expert Group's meetings; EFRAG's staff cooperates with the IASB's staff on a frequent basis; EFRAG and the IASB hold regular joint public meetings; and EFRAG and IASB Chairs meet privately on a regular basis.



EFRAG is a member of the Global Group of National Standard Setters and tends to develop bilateral relationships with regional or national groups interested and involved in IFRS development.

**EFRAG's early stage proactive agenda is decided by the EFRAG Planning and Resource Committee.**

The EFRAG Planning and Resource Committee reflects the extent of cooperation between EFRAG and European National Standard Setters, aiming at pooling, as much as possible, European resources engaged in influencing, from a European perspective, the future development of IFRS. The EFRAG Planning and Resource Committee has been set up on an interim basis to date. It consists of two members of the EFRAG Supervisory Board, the Chairs of three National Standard Setters (from France, Italy and the UK) and the EFRAG Chairman. The Chair of the German Standard Setter and the European Commission participate as observers.

The EFRAG Planning and Resource Committee could expand to full size, including two other members originating from the EFRAG Supervisory Board or the public at large, and one other National Standard Setter Chairman.

The work of the EFRAG Planning and Resource Committee is supported by an informal EFRAG Reference Group of National Standard Setters, not involved in the EFRAG Planning and Resource Committee, but who wish to contribute to the proactive work. The Group acts as a sounding board, advising on existing and potential proactive projects.

**THE WORK OF EFRAG IS OVERSEEN BY AN INDEPENDENT SUPERVISORY BOARD**

The EFRAG Supervisory Board's main duties include selecting membership, and overseeing the work, of the EFRAG Technical Expert Group and EFRAG Planning and Resource Committee; monitoring cooperation with National Standard Setters; and ensuring proper funding for EFRAG.

The EFRAG Supervisory Board consists of senior professionals and leaders with an interest in the global development of financial reporting and with an appropriate balance of professional backgrounds, including users, preparers and accountants, and geographical spread. All EFRAG Supervisory Board members act in a personal capacity and are committed to acting in the European public interest, independent of their professional or sectoral affiliation. The EFRAG Supervisory Board includes three public policy members; one of them being the Chairman of the Supervisory Board,

Pedro Solbes. The European Commission and the European Securities and Markets Authority are observers at the EFRAG Supervisory Board meetings.

The EFRAG Supervisory Board is appointed by the EFRAG General Assembly, following recommendations of the EFRAG Governance and Nominating Committee. This Committee comprises of four representatives of the General Assembly and three representatives of National Funding Mechanisms.

**TRANSPARENCY AND DUE PROCESS CHARACTERISE THE WORK OF EFRAG**

EFRAG has established an open and transparent due process, which allows and encourages European constituents to provide input for the consideration of EFRAG.

The EFRAG Technical Expert Group, the EFRAG Supervisory Board and the EFRAG Planning and Resource Committee, operate similarly.

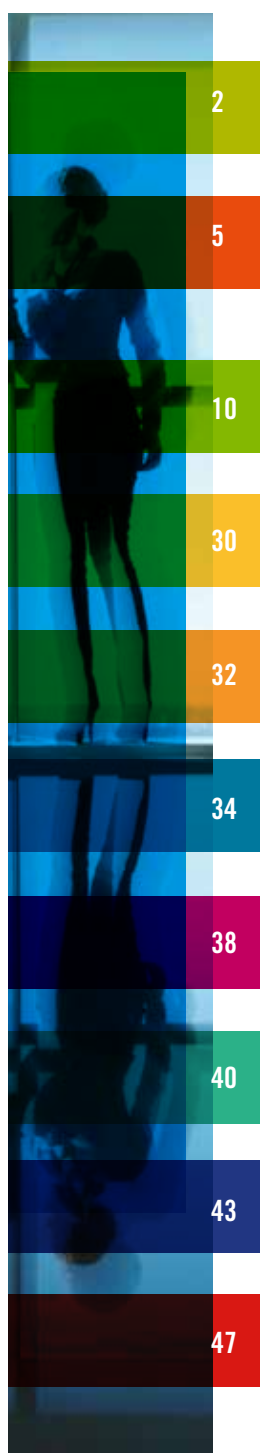
The transparency and independence of EFRAG is mainly achieved by:

- holding all discussions in public meetings, publishing meeting agendas and summaries on the EFRAG website;
- publishing EFRAG preliminary positions, with an open call for comments, regardless of whether these relate to due process documents issued by the IFRS Foundation, the IASB or the draft endorsement advice to support the European endorsement process;
- publishing all comment letters received and of EFRAG's final positions, including presentation of the basis for the EFRAG Technical Expert Group's conclusions for the endorsement advice and reasoned positions for comments to the IASB;
- issuing a public consultation on the EFRAG proactive agenda;
- issuing an invitation for comments on all discussion papers published as part of EFRAG's proactive work.

**EFRAG maintains contact with the European Commission directly and also through the Commission's role as an observer at all EFRAG meetings.**

EFRAG is an official observer at the Accounting Regulatory Committee (ARC) and EFRAG is invited to attend some parts of the Standards Advice Review Group (SARG) meetings.

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- ADVISING THE EUROPEAN COMMISSION ON CHANGES TO THE ACCOUNTING DIRECTIVES AND RELATED TOPICS



# Message and Report from the Chairman of the Supervisory Board

While the International Accounting Standards Board (IASB) has been accelerating its standard-setting process over the last two years, setting for itself an incredibly heavy agenda, EFRAG's own workload and challenges reached a new peak in 2010. This was a critical year for EFRAG, given that the IASB was in the process of shaping some of the most significant financial reporting standards for the next ten years to come. Equally challenging for EFRAG was the need to increase its impact and influence on the early-stage development of International Financial Reporting Standards (IFRS).

Political leaders have increasingly turned their focus to financial regulation. Nevertheless, expectations for improvements and convergence in financial reporting have remained very high, bringing the whole process under tight time pressure. The wider context did nothing to release that pressure. Major jurisdictions (the US, Japan, China, India...) have entered into active decision-making processes on the adoption of IFRS within their jurisdictions.

2010 was also the year when the nomination process for the IASB Chairman and Vice-Chairman reached its conclusion, so that the future of IFRS development in the next decade can be associated with new faces, different skill sets and backgrounds. The ability of the IFRS Foundation to meet the overall high demand for accountability will play a significant role in determining whether IFRS will have met the challenge of becoming the single set of financial reporting standards applicable worldwide.

EFRAG welcomes Hans Hoogervorst as the new Chairman of the IASB and is encouraged by his public messages concerning the quality and independence of the international standard-setting process. EFRAG will continue its close cooperation with the IASB as established under the Chairmanship of Sir David Tweedie, evidenced by the joint public meetings and outreach events EFRAG organised in partnership with the IASB.

Pedro Solbes  
Chairman of the  
Supervisory Board



## 2010, A PARTICULARLY CHALLENGING YEAR FOR EFRAG

As for all stakeholders involved in the IASB consultation process, 2010 was a challenging year for EFRAG.

EFRAG had to cope with the unprecedented flow of consultation documents, most of them being of great significance for the future of IFRS financial reporting. This included the projects on Financial Instruments, Revenue Recognition, Insurance Contracts and Leases – significant issues indeed. In addition to these projects, EFRAG continued its ongoing monitoring work of other IASB projects.

It took the IASB and the Financial Accounting Standards Board (FASB) six months to finally agree with the longstanding comments expressed by EFRAG and others, that meeting the deadline of the original convergence programme was not realistic, either in volume or in timing. In June 2010, following the progress report received from the IASB and FASB, the Group of Twenty (G20) continued to encourage the two Boards to reach convergence, but with a new deadline of end 2011. However, the IASB has disregarded - until April 2011 - this extended deadline as well as EFRAG's and others' recommendations to take advantage of the new timeframe, in order to ensure that concerns raised in the consultation process would be duly solved in the final requirements, and not cause operational difficulties.

Despite the heavy workload, EFRAG has met the ambitious objective of issuing its draft comment letters early in the IASB's consultation process, no later than one month after publication, while diversifying and increasing the many ways in which Europe can exercise influence on the development of IFRS. In parallel with this effort, EFRAG has significantly increased its involvement in, and leadership on, the proactive projects on its agenda. In doing so, EFRAG hopes to assist the IASB in appropriately responding to European requests to reduce the volume of disclosures, to

EFRAG welcomes Ian Mackintosh as the Vice-Chairman-elect of the IASB. Ian has been involved in EFRAG for over six years, in his position as Chairman of the UK Accounting Standards Board. EFRAG is grateful for Ian's valuable contributions to the technical debates and looks forward to continued cooperation with him in his new role.

consider the effects of new requirements, and to issue guidance on business combinations under common control, as part of post-2011 IFRS developments.

The heavy 2010 workload also coincided with major changes taking place at EFRAG.

As from 1<sup>st</sup> January 2010, EFRAG is the recipient of public funding granted by the European Commission, on the basis that one euro of private funding raised by EFRAG is matched by one euro of public monies. This has allowed EFRAG to increase its staff resources to a level that was necessary to, first comment on the various IASB's proposals in a timely fashion, second provide both leadership and resources to EFRAG's proactive activities. Indeed, the staff secretariat increased by 50% during the course of the year, including a change in chairmanship and a brand new management team. 2010 has been the first full year after the 2008 EFRAG governance reform was put into place, with a sharper focus on EFRAG serving the European public interest.

Stig Enevoldsen has not disappeared from the EFRAG scene. He is active as the Chairman of EFRAG's Disclosure Framework Advisory Panel and of EFRAG's Business Combinations Under Common Control Advisory Panel, as Vice-Chairman of the EFRAG SME Working Group and as adviser to EFRAG. EFRAG is delighted to continue to benefit from his extensive experience and competencies. EFRAG is particularly grateful for Stig's efforts in establishing the Danish National Funding Mechanism in 2010.

I am pleased to report that this transition has been both effective and successful. I am happy to stress that Stig Enevoldsen, Chairman of EFRAG until 31 March 2010, has contributed immensely to this success, with his involvement as Chairman of EFRAG until the very last day and his very careful and positive transition efforts in handing responsibilities over to the current EFRAG Chairman, Françoise Flores.

### STRIVING FOR HIGH QUALITY FINANCIAL REPORTING STANDARDS

"High quality should come first" is the key message that EFRAG has conveyed systematically over the past years and one that most stakeholders in the IFRS process share today. This message applies to various perspectives. Setting high quality international financial reporting standards should exclude any possible compromises that detract from quality in order to converge the international standards with national GAAP, as the latter will lose all relevance if the adoption of IFRS is decided. In the past, setting up convergence programmes was a valuable means to ease the adoption of IFRS across diverse jurisdictions during the IFRS Foundation's first ten years of existence. However, with so many jurisdictions having adopted, or being in the course of adopting, IFRS today, convergence programmes should belong to the past.

High quality financial reporting standards are standards which can drive high quality financial reporting in practice. Such standards need to be rigorously tested before final adoption; this includes impact assessments such as field testing in "real-life" conditions. Final adoption should also rely on evidence-based due process from start to finish. Standard setting needs to pay heed to a reasonable pace of change and to allow for periods of stability in financial reporting, and to exclude unnecessary cost and complexity. Finally, the standards need to be reasonably understood and accepted by those who must implement, audit, or rely on financial reporting that is compliant with them.

### EUROPE HAS A KEEN INTEREST IN IFRS BEING APPLICABLE WORLDWIDE

During 2010, the IASB and FASB debate on the convergence process led to the result that many European stakeholders had increasing difficulty accepting the proposals that changes in some existing standards, such as Revenue and Leases, needed to be dealt with on an emergency basis. Indeed, those stakeholders believe – and probably rightly so – that new Revenue and Lease standards are needed from a US GAAP perspective, but not to the same extent from an IFRS perspective. A very relevant question is being asked: should we in Europe incur the costs associated with implementing such changes?



Even if we wish to forget about the weaknesses of the existing Revenue and Lease standards, and assume that the cost of change is only related to the cost of converting the US to IFRS, EFRAG would answer in the affirmative – that there is a benefit for Europe in incurring this cost. The benefit of adopting IFRS in Europe cannot be limited to sharing the same accounting language within Europe, and possibly with other capital markets. Europe has a keen interest in IFRS being applicable worldwide, and obviously IFRS will become truly global only if it is also applied in the US – not only by foreign issuers, but also by US domestic filers. Additionally, while jurisdictions such as Japan or China have shown strong willingness in their roadmaps to the adoption of IFRS, a negative decision by the US Securities and Exchange Commission (SEC) by the end of 2011 could have adverse effects on decisions in other jurisdictions.

As IFRS are adopted by a growing number of jurisdictions, these will seek to play a more active role in the IASB's standard-setting process. Europe therefore needs a strong EFRAG to ensure that its voice continues to be heard in the international accounting debate.

**Pierre Delsaux**, *Director, Free Movement of Capital, Company Law and Corporate Governance, DG Internal Market and Services, European Commission*



EFRAG was privileged by having had several meetings with Tommaso Padoa-Schioppa during his period as Chairman of the Trustees. EFRAG was greatly saddened by the news of his sudden passing away. Tommaso had already managed to strengthen relationships between the IASB and Europe in line with his significant commitment to building Europe's financial infrastructure. In his short period in office, Tommaso gained our highest respect and we very much valued his wisdom.

projects will be finalised and proposals for a review of the IASB's governance will be discussed and agreed upon. The new Chairman of the IASB may propose and develop a somewhat different standard-setting strategy. Indeed, the IASB post-2011 agenda will be prepared for the first time, following public consultation. Lastly, the US decision on the use of IFRS is expected to be made towards the end of the year.

In this changing environment, EFRAG has an important role to play. As the IFRS world becomes more global, EFRAG's role also increases in significance. The creation of the Asian Oceanian Standard Setters Group (AOSSG) in late 2009, and the Memorandum of Understanding signed by Japan, China and India in early 2011, show that influence on the development of IFRS will be built by regional groups rather than at national level. Europe has shown the way by adopting IFRS in 2005. Europe also showed the way in creating EFRAG ten years ago and I am pleased to see that other regions have an interest in replicating EFRAG's model.

So 2011 is a year of change... and EFRAG is working hard to make that change in the best of European interests!

### LOOKING INTO THE FUTURE

2011 is expected to be a very critical year in IFRS history. A lot of decisions and conclusions will be reached this year and these will shape IFRS and the IFRS standard-setting process for the next decade. Major

## EFRAG PLANNING AND RESOURCE COMMITTEE

2010 was the first full year of operation of the EFRAG Planning and Resource Committee under the interim Chairmanship of Peter Sampers. The Committee sets the agenda for the proactive work of EFRAG, provides guidance on the allocation of available resources to proactive projects and monitors the progress of the work concerned. In addition, in 2010 the Committee developed a strategy for proactive activities and coordinated a public consultation on EFRAG's future proactive work plan.



**Peter Sampers**  
**Hans van Damme**  
**Angelo Casó**  
**Jérôme Haas**  
**Roger Marshall**  
**Françoise Flores**

Interim Chairman of the EFRAG PRC / EFRAG SB Member  
EFRAG SB Member  
OIC Chairman  
ANC Chairman  
UK ASB Chairman  
EFRAG Chairman





## COMMENTING ON IFRS FOUNDATION PRONOUNCEMENTS

The EFRAG Supervisory Board developed the EFRAG comment letters on three IFRS Foundation consultation papers, in consultation with its constituents:

- The Annual Improvements Process: proposals to amend the Due Process Handbook for the IASB;
- Request for views to assess the operational effectiveness of the IFRS Interpretations Committee; EFRAG issued preliminary views only in 2010;
- Status of the Trustees' Strategy Review; EFRAG issued preliminary views only in 2010.

In relation to the consultation on the annual improvements process, EFRAG's main observations addressed the concern that extensive use of annual improvements procedures raises questions about the stability and quality of the original underlying standards. In EFRAG's view, the IASB should ensure that the need for annual improvements or interpretations is kept to a minimum by an adequate use of field testing and effect studies and other forms of impact assessments during the standard-setting process.



Saskia Slomp Director

EFRAG's main comments in relation to the IFRS Interpretations Committee Review concerned the criteria for agenda-making decisions; the wordings for rejection that are in some cases themselves interpretations; and the concern that some of the interpretations are based on tentative decisions taken by the IASB.

EFRAG contributed to the strategy review of the IFRS Foundation by issuing a draft comment letter in December and by organising a meeting between the European Stakeholders and the Trustees at the end of November. EFRAG developed several messages and recommendations in relation to the improvement of the quality of the standard-setting process, since the quality of the standard-setting process has a significant influence on the ultimate acceptability of the resulting standards in Europe and elsewhere. EFRAG believes that strong coordination and cooperation between the IFRS Foundation Trustees and the Monitoring Board is essential for the overall governance of the Foundation.

## EFRAG TECHNICAL EXPERT GROUP ROTATION

In 2010, the EFRAG Supervisory Board discussed the recommendations of the Nominating Committee and decided on the new composition of the EFRAG Technical Expert Group, appointing five new members and a new Chairman, effective from 1 April 2010. Stig Enevoldsen, Chairman of EFRAG for 6 years, stepped down on 1 April 2010, to be replaced by Françoise Flores. In preparation for the 2011 EFRAG Technical Expert Group rotation, a review of the nomination process and procedures took place, resulting in terms of reference for the Nominating Committee. In August, the 2011 EFRAG Technical Expert Group rotation process was started with the launch of a call for candidates.

## FINANCIAL INFORMATION

The Audit and Budget Committee, assisting the EFRAG Supervisory Board in fulfilling its oversight responsibility for audit and oversight matters, reviewed the financial information for, and made recommendations to, the EFRAG Supervisory Board, including the 2009 financial statements, the financial situation as per 31 July 2010 and the 2011 budget. The 2009 audited financial statements and the 2011 budget were approved by the EFRAG General Assembly, consisting of the EFRAG Member Organisations.

## FUNDING

The EFRAG Supervisory Board established a special Funding Task Force in 2010, with the aim to broaden the EFRAG funding base and to ensure a sustainable basis for the long-term financing of EFRAG. The Funding Task Force presented its recommendations to the Supervisory Board, focusing on consolidating the contributions of European Member Organisations and on obtaining a better coverage of National Funding Mechanisms in Europe. At the end of 2010, the Danish Funding Mechanism was established (having already contributed to the 2010 financing of EFRAG). Subsequent to EFRAG's 2010 efforts, National Funding Mechanisms are expected to be set up in Germany, the Netherlands and Spain.

## STATUTES AND INTERNAL RULES

During 2010, two General Assemblies took place in which the EFRAG Member Organisations approved amendments to the statutes and the internal rules.

**Pedro Solbes**  
Chairman of the EFRAG Supervisory Board

# Report of the EFRAG Chairman

2010 has been a very challenging and successful year for EFRAG. EFRAG has remained very supportive of the IASB efforts to facilitate adoption of IFRS in the US, while being adamant that high quality should have priority in the IASB final decisions. All the IASB efforts – and those of EFRAG consequently - have been driven in the past few years by the IASB-FASB Memorandum of Understanding active projects and the requests resulting from the financial crisis. Was all this worthwhile?

## IS THERE ANY OTHER WAY FOR THE US THAN TO ADOPT IFRS AS PUBLISHED BY THE IASB?

One of the most awaited events expected to happen in 2011 is the decision of the US Securities and Exchange Commission (SEC) on whether to adopt IFRS for domestic filers. It has indeed the potential to shape our IFRS environment for at least the next two decades. In 2010, the SEC progress in its roadmap to making a decision has been scrutinised. The speech delivered at an AICPA conference by Paul Beswick, SEC Deputy Chief Accountant responsible for accounting matters, attracted a lot of attention, most especially when the idea of a “condorsement” process was discussed. As for every jurisdiction which contemplates IFRS adoption, some form of endorsement is necessary to give IFRS mandatory legal power. The idea of a “condorsement” process seems to illustrate that, yes, the US SEC could be leaning towards the adoption of IFRS; however, not in one go, as Europe and others have experienced it. Some form of transition period may be observed when US domestic filers would not have to comply with IFRS. US domestic filers would comply with US GAAP, which at some point in time would happen to be identical to IFRS. It is worth noting that the successful finalisation of converged standards as part of the IASB-FASB Memorandum of Understanding plays a very positive role in this context. The determining factor in the forthcoming SEC decision may well be the basis on which each individual IFRS would be judged to qualify as “US GAAP”. If the hurdle is low and plays a safeguard role only, as in the European endorsement process, the adoption decision can be considered as genuine, more especially if a date when the adoption is expected to be effective is defined at the outset. If the hurdle happens to be difficult to pass, or no specific timeframe is defined, this would be another story.

Françoise Flores  
EFRAG Chairman



## HAS THE FINANCIAL CRISIS CHANGED ANYTHING IN FINANCIAL REPORTING?

Shortly after the financial crisis broke out, the issue of whether IFRS and more particularly fair value measurements bore responsibility for the crisis, or for aggravating it, was actively and widely debated. EFRAG agreed with those commentators who denied IFRS had caused the crisis while acknowledging that improvements to IFRS financial reporting were needed. That said, the financial crisis constitutes an important turning point in recent IFRS history and has had great influence on the IASB technical decisions and due process. You do not need to remember many years back when the Boards of the IASB and FASB unanimously expressed the view that fair value was the most relevant measurement attribute for ALL financial instruments. Now, the very widely held view is that mixed measurement based requirements are the most useful to investors and other capital providers. Fulfilling G20 requirement, taking into account stakeholders' views has become paramount and the IASB has undertaken unprecedented levels of outreach activities, starting with IFRS 9 phase 1 in 2009. In addition, coordination with regulators and the Financial Stability Forum has been encouraged. Finally, the G20 has given a strong push in favour of one single set of high quality financial reporting standards and is therefore playing an important role in the current convergence efforts. Yes, we can say that the financial crisis has helped shape IFRS standard setting and IFRS financial reporting dramatically... and for the better.

## INFLUENCE RELIES ON QUALITY, INFLUENCE RELIES ON TIMELINESS

Early in 2009, EFRAG had assessed the IASB work programme as being too heavily loaded and too ambitious in terms of both the number of significant changes and the timing of those changes. However, it was not before June 2010 that the IASB and FASB announced that they would, at last, prioritise among projects on their convergence programme. EFRAG had set for itself the ambitious objective of issuing its draft comment letters on all projects no later than one month after publication of an exposure draft. This ambitious objective has been met, thanks to the dedication of EFRAG TEG members and EFRAG staff under the leadership of the EFRAG Technical Director, Pieter Dekker, and also because the IASB and FASB

prioritisation, though late, provided relief. This objective was all the more difficult, given that it had to be met in a year of transition for EFRAG, when change in chairmanship and technical leadership occurred both at the same time, by the end of March 2010.

EFRAG draft comment letters happen to play a significant role in EFRAG exercising influence on Europe's behalf, as they are issued early and timely and read widely, far beyond European borders. The outcomes of the various consultation processes have shown a lot of convergence around positions defined by EFRAG, outlining their relevance and overall quality. Whether this is effective overall influence or coincidence is impossible to say. However, it is quite comforting to see that EFRAG's views are widely shared, as if consensus had been created around them.

## HAS EFRAG MADE A DIFFERENCE IN 2010?

Some examples can illustrate how EFRAG's recommendations have been followed.

In the debate on the measurement of liabilities (IAS 37 revision), EFRAG questioned very early on whether an expected value measurement technique should be extended to all liabilities, including litigations. EFRAG also expressed the view that appropriate due process was not followed. The IASB decided to resume its work at a later stage and expose a full redraft of the revised proposals. In the meantime, the IASB is addressing when, and to what extent, expected value measurement techniques should be used and when other measurement techniques may be more appropriate. Hopefully the IASB will, in 2011, question and limit the use of expected value measurement techniques in the finalisation of the Revenue Recognition and Leases projects.

When the IASB attempted to force a single comprehensive income statement as the price to pay for relevance in the Financial Instruments and Employee Benefits projects, EFRAG objected strongly to a move that was not justified. EFRAG advocated once more in favour of the IASB launching the fundamental debate of what difference there should be between net income and other items of comprehensive income, and whether elements of other comprehensive income should be recycled. This is an area that has proved controversial over the last ten years and in which the IASB various and successive decisions have been made without any conceptual justification. In the course of the year, the IASB decided not to go ahead with that project and many Board members acknowledged that a debate on performance reporting was needed.

We can also highlight that EFRAG has for years been claiming that reflecting changes in own credit risk in net income was not meaningful. The IASB has at last revised the measurement of financial liabilities accordingly. Finally, we observe that the IASB's plan for re-deliberations of the Revenue Recognition and Leases projects include all significant issues EFRAG has raised, in agreement with most stakeholders. 2010 is certainly a year in which EFRAG can be satisfied with the influence it has had, some of it building on several years of patient and tenacious contribution to the IASB consultation process.



## BEING ACTIVE IN THE POST-COMMENT LETTER STAGE

Having all areas of concerns expressed by EFRAG well identified in the IASB re-deliberations plan is certainly a satisfactory outcome of EFRAG's activity in 2010. However, EFRAG believes that it must remain active, bringing input to the IASB as the re-deliberations develop. EFRAG intends to monitor closely in 2011 the IASB's progress towards finalisation of the standards on Revenue Recognition, Leases, Financial Instruments and Insurance Contracts.

Without a substantial increase in resources, EFRAG would never have achieved success in meeting its ambitious objective of issuing draft comment letters no later than one month after the IASB publication of an exposure draft. EFRAG is grateful for the European Commission funding which doubled the EFRAG budget and allowed EFRAG to increase the European influence on the IASB, both through the comment letter work and the proactive work.

of substance over form, the existing requirements putting too much emphasis on the legal contract boundary. Finally, discussions with the FASB on how to converge financial instrument accounting may bring the issue to the forefront again.

EFRAG also believes that there is merit in revisiting the option of presenting changes in the fair value of equity instruments as other comprehensive income items without recycling. As indicated above, the decision to abolish recycling was made without a proper debate on performance reporting and hence without conceptual justification. The discussion of the hedge accounting model has highlighted that this decision is creating difficulties. Discussions held in the insurance contract project show that there may be merit in revisiting the decision. Finally, that decision may have to be reconsidered as part of convergence efforts under the Memorandum of Understanding with the FASB. A decision that is likely to be widely supported in Europe, Japan and the US is certainly worth considering.

Some claim that IFRS 9 phase 1 decisions should not be reconsidered as IFRS 9 and this has been implemented in certain jurisdictions. The Global National Standards Setters meeting, held in New York in March 2011, has brought evidence that no bank has implemented IFRS 9 yet, whether it be in Hong Kong, Australia, Japan, or South Africa. Others consider that decisions made after a positive and constructive due process should not be subject for review. EFRAG believes that as long as IFRS 9 is not in the form of a complete standard, no significant opportunity of improving what has been achieved so far should be lost.

## BUILDING ON IMPROVEMENTS BROUGHT BY IFRS 9 PHASE 1

IFRS 9 is certainly an area where EFRAG has – so far – failed to convince the IASB that there is merit in reconsidering early decisions taken in the project, in light of subsequent decisions being made. This should be the consequence of having decided to revise IAS 39 in phases, an option that EFRAG did not support at the outset. The debate on financial instruments accounting has clearly highlighted that, referring to the purpose of why financial instruments are being held in selecting a measurement attribute, provided relevant information to users and that the use of a mixed measurement model was appropriate. The massive pushback the FASB encountered with their financial instrument accounting proposals clearly illustrates this widely held view.

EFRAG believes there would be merit to reconsider whether embedded derivatives should be separated when a host contract meeting both the characteristics of the instrument and the business model tests can be identified. EFRAG believes that there is room for a principle-based approach to the separation of embedded derivatives, consistent with IFRS 9 basic measurement principles. This approach would also be consistent with the approach to components that the IASB has adopted in its hedge accounting general model, which is widely praised. Furthermore, the approach would be consistent with the general principle

## CONCEPTUAL DEBATE SHOULD COME FIRST

EFRAG and European stakeholders have been advocating for years that no fundamental change should be made to IFRS without prior conceptual debate. The issue of performance reporting mentioned above illustrates this issue quite well. The Revenue Recognition and Leases projects provide lessons for the future in this area also. New standards are in the process of being finalised without having benefited from prior discussions of what revenue should portray, on the one hand, and of what makes leases so different that they should be dealt with differently from other non-executory contracts, on the other hand. While it is now likely – and we are working hard to ensure that this is the case – that changes brought by the new standards will be limited, significant time, cost and effort can be saved, and the financial reporting debate can gain in wisdom, if no further fundamental change is brought to IFRS, without previously being debated at conceptual level. It is worth noting that addressing the revision of the Conceptual Framework as a matter of priority is not the solution if core issues are not debated as part of the project. We observe, for example, that in the state it has been exposed, the chapter dealing with the reporting entity fails to explain why control, and exclusive control solely, would provide useful information to capital providers and other users.



## BEING CLOSER TO EUROPEAN STAKEHOLDERS

While the quality of EFRAG technical experts and staff has helped establish EFRAG's credibility in the first nine years of existence, EFRAG's legitimacy needs to rely on a close relationship with European stakeholders to ensure the best understanding possible of the underlying economics that financial reporting must depict and of potential implementation difficulties. The increased funding in 2010 has allowed EFRAG to devote resources to the organisation of meetings with European constituents, either in formal events (Understanding Users' Needs in Accounting for Financial Instruments (Brussels, 15 September), Discussion Forum with the IASB on Revenue Recognition, Leases and Financial Instruments (Brussels, 28 September), Identifying European Views on the Financial Statement Presentation Project (Amsterdam, Helsinki, Oslo, Stockholm, London, Paris, Frankfurt, Madrid, Rome, Warsaw, Basel – from late October to early December), or in a series of meetings held at EFRAG offices or by conference call.

In 2010, EFRAG was willing to extend its communication with its constituents beyond the IASB consultation process to its own proactive activities. EFRAG first published its proactive strategy "Focus on Improvement" and launched a public consultation on its present and future agenda. The results of the consultation have been published on the EFRAG website as a feedback statement, revealing that a vast majority of European stakeholders support EFRAG's proactive activities. However, they strongly recommended that the proactive activities be aimed at solving identified problems and adopt a practical approach in addition to robust conceptual analyses. Those activities should be led in close coordination with the IASB in order to avoid any form of overlap and to be most fruitful. EFRAG is grateful for the directions given by its public and has started implementing the recommendations received, including in active projects.

## BEING PROACTIVE IN RESPONSE TO EUROPEAN EXPECTATIONS

While developments of the IASB active projects seemed to attract everyone's attention, EFRAG did not lose sight in 2010 that it was expected to play a leading role in shaping the longer term future of IFRS. Everyone agrees that it is in building influence at an early stage that EFRAG, on behalf of Europe, will be the most effective in contributing to the development of IFRS. To ensure that EFRAG is capable of doing so, European authorities have decided to grant funding to EFRAG. In the first year it benefited from public funding, EFRAG had to ensure significant progress in its proactive activities.

Thanks to the dedication and skills of EFRAG's full-time Research Director, Mario Abela, all proactive

projects on the EFRAG agenda are now led, under Mario's guidance, by fully European teams, embodying EFRAG's partnership with National Standard Setters of France, Germany, Italy and the UK. 2010 will have been the opportunity to develop a learning curve in operating these international working teams, and also revisiting approaches to projects already under development, in order to best fit to recommendations received from European stakeholders. This is the case, for example, for the projects developing a possible approach to *Business Combinations under Common Control* and to a revision of IAS 12 *Income Tax*. The project *Considering the Effects of Accounting Standards* led to the finalisation of a Discussion Paper, issued in January 2011. Due to a shortage of resources, the project on *Analysing the Role of the Business Model in Financial Reporting* was put on hold.

EFRAG participated in the Global National Standard

EFRAG welcomes the Chairman of the Organismo Italiano di Contabilità (OIC) as a non-voting member in the EFRAG Technical Expert Group and as a national standard setter member of the EFRAG delegation, in addition to France, Germany and the UK. We appreciate the excellent cooperation over the last year with the OIC in all EFRAG activities, including the proactive projects. We are particularly grateful for the project manager made available to EFRAG as a contribution in kind, in addition to the Italian financial contribution to the funding of EFRAG.

Setters meetings held in April in Seoul and in September in Rome. These meetings presented an opportunity to exchange information and views with National Standard Setters of jurisdictions who have adopted, or are in the course of adopting, IFRS. EFRAG proactive projects were presented and discussed in this forum.

EFRAG also worked in 2010 to develop closer links to the academic community in order to foster possible synergies and cooperation, benefiting EFRAG's proactive activities.

All these developments will help EFRAG to stimulate debate in Europe – and probably beyond Europe – in 2011.



## PARTICIPATING IN A GLOBAL WORLD

Thanks to the dedication of its previous Chairman, Stig Enevoldsen, EFRAG has gained in standing and recognition in the past seven years. EFRAG is now acknowledged as an important player in the financial reporting debate. To develop cooperation and increase its visibility further, EFRAG undertook visits to the US, Japan and China in 2010, meeting with the respective National Standard Setters, Security Regulators and Accounting Institutes, and in the US, with the World Bank and IMF. EFRAG will work on building closer relationships with these stakeholders in 2011.

## EFRAG SUPPORTIVE OF EUROPEAN EFFORTS IN SME ACCOUNTING

2010 has been a very active year for the European Commission on SME accounting issues and consequently EFRAG has been active in providing support as technical adviser to the European Commission. Although the IFRS for SMEs is not a candidate for adoption in Europe, some Member States are interested in bringing their National GAAP as close to the IFRS for SMEs as the European Directives will permit. Many therefore realise that the IFRS for SMEs will be influential in the developments of Member States' 'local' GAAP. EFRAG has therefore decided to continue participating in the development of the IFRS for SMEs. It has done so in 2010, and will continue in 2011, in participating as observer to the IASB SME Implementation Group.

## PROVIDING ENDORSEMENT ADVICE

2010 has not been a demanding year for the endorsement process. EFRAG has diligently provided advice where needed and participated in the Standards Advice Review Group (SARG) and Accounting Regulatory Committee (ARC) meetings accordingly. With the IASB's ambition to finalise significant projects in 2011, EFRAG is expected to be quite active supporting the EU endorsement process next year. The extent of EFRAG's analyses will depend on the extent and nature of the changes that new standards will trigger in practice.

## EFRAG OPERATIONS AND FINANCIALS

From the outset, EFRAG has been a cost-conscious organisation and this has been confirmed in 2010, in the context of the change of chairmanship, increased internal delegations and the benefit of public funding granted by the European Commission.

During the year, EFRAG's Secretariat has grown in size significantly, increasing its staff by 50%, and relying on a strong management team. Appropriate delegations, a new split of responsibilities and increased internal coordination and communication have had to be set up. This was successfully performed in 2010. In its current condition, EFRAG is ready to grow further in 2011 and beyond, without undergoing a need for another reorganisation. EFRAG can also grow according to plans without moving offices.

# Developing proactive financial reporting

- STRATEGY FOR PROACTIVE ACTIVITIES, FOCUS ON IMPROVEMENT
- PUBLIC CONSULTATION ON FUTURE PROACTIVE WORK
- LINKS ESTABLISHED WITH EUROPEAN ACCOUNTING ACADEMIC COMMUNITY
- SIGNIFICANT PROGRESS ON PROACTIVE PROJECTS

## STRATEGY FOR PROACTIVE ACTIVITIES, FOCUS ON IMPROVEMENT

To guide the increased focus on proactive work, EFRAG launched its Strategy for Proactive Activities, *Focus on Improvement*, in June 2010. The Strategy sets out the strategic aims for proactive work and has the full support of the National Standard Setters contributing resources to proactive projects. The Strategy also provides a means for setting priorities and assessing the performance of projects.

## PUBLIC CONSULTATION ON FUTURE PROACTIVE WORK PLAN

Consistent with its strategic aims, EFRAG has also considered it important to ensure that it is close to its constituents and undertakes proactive work that matters to them. At the end of June 2010, EFRAG launched a public consultation on its proactive work to effectively 'market test' priorities and also to gather input about its future proactive agenda. The results of this consultation were set out in a feedback statement, which assists the EFRAG Planning and Resource Committee in deciding what projects to undertake going forward.



## LINKS ESTABLISHED WITH EUROPEAN ACCOUNTING ACADEMIC COMMUNITY

EFRAG has been working closely with the accounting academic community in Europe – principally through the European Accounting Association (EAA). At the EAA Conference in Istanbul, EFRAG gave a presentation on the benefits that could result from greater collaboration between EFRAG and the accounting academics that have an interest in financial reporting and standard setting. Several meetings have been held with accounting academics, both during and after the conference, to explore further the opportunities to work together.

EFRAG's work on the IASB's proposed asset definition was presented to the American Accounting Association's Annual Meeting in August – the conference is the largest academic conference in the world. Presentations were also made at the Accounting and Regulation conference in Siena, where EFRAG was present with members of the IASB and the FASB to debate the role of the Conceptual Framework in financial reporting. EFRAG staff also participated in an INTACCT workshop in Ljubljana. The INTACCT research network is a major collaboration between some of the leading university accounting and finance research groups in Europe. The workshop provided an opportunity for EFRAG to forge closer links with the academic community and to better understand current research activity in Europe.

EFRAG also met with leading accounting bodies - the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Certified Chartered Accountants (ACCA) - that undertake research in financial reporting, in order to look for opportunities to share resources and collaborate on projects.

## SIGNIFICANT PROGRESS ON PROACTIVE PROJECTS

The proactive work in 2010 consisted of the following:

### ► Performance Reporting

In April 2010, EFRAG and the European National Standard Setters published *Performance Reporting – Summary of Comments in Response to the*

*European Discussion Paper*. The Discussion Paper was issued for public comment in March 2009, as part of the European proactive work and addressed some fundamental issues about the presentation of financial performance. The summary of comments provides an analysis and evaluation of the comments received. Issues addressed include the definition of performance, key and bottom lines, including the notion of 'net income', recycling and disaggregation models. EFRAG will continue to monitor the IASB's work on financial statement presentation and reactivate work on performance reporting, if appropriate.

### ► Asset Definition

EFRAG and the French Autorité des Normes Comptables (ANC) published a jointly-prepared research paper, *Definition of an Asset*, at the beginning of 2010, on the proposed new definition of an asset, tentatively adopted by the IASB and FASB. The paper was published on the EFRAG and ANC websites, respectively, and was communicated to the IASB to serve as input to its deliberations. More specifically, the purpose of the paper was to test whether the proposed new definition of an asset would work and result in an improvement over the existing IASB definition, and to stimulate thoughts and research on conceptual accounting issues.

In the paper, it was noted that the proposed new definition removes some of the problems related to the notion of 'control' and the identification of a 'past event' included in the existing definition. However, new problems could arise as a result of the proposed new definition. The proposal that the notion 'capable' should replace the notion 'expected' could result in many items with low economic value meeting the proposed definition of an asset. The cost of such a change might exceed the benefits. Furthermore, the paper observed that it would be useful to clarify the nature of an 'economic resource' used in the proposed new definition. It seemed to be unclear whether an economic resource was meant to be a promise/ right referring to an underlying property item or the property item itself.

These and other observations led EFRAG and the ANC to pronounce that it could not be concluded whether or not the proposed new definition of an asset was an improvement over the existing IASB definition.

### ► Understanding the Effects of Accounting Standards

The project is a partnership between EFRAG and the UK Accounting Standards Board (ASB) and its objective is to contribute to improving the way in which accounting standard setters develop and implement standards. There have been several calls on the IASB to produce effect studies, both from its own Trustees and from the European Commission. To date, the IASB has only produced one such study on IFRS 3, in 2008, after finalisation of the standard and prior to its publication. Whilst the IASB has made some attempt to embed effect analyses throughout its due process and to make that transparent to its constituents, further work is needed to meet the needs and expectations of key stakeholders.

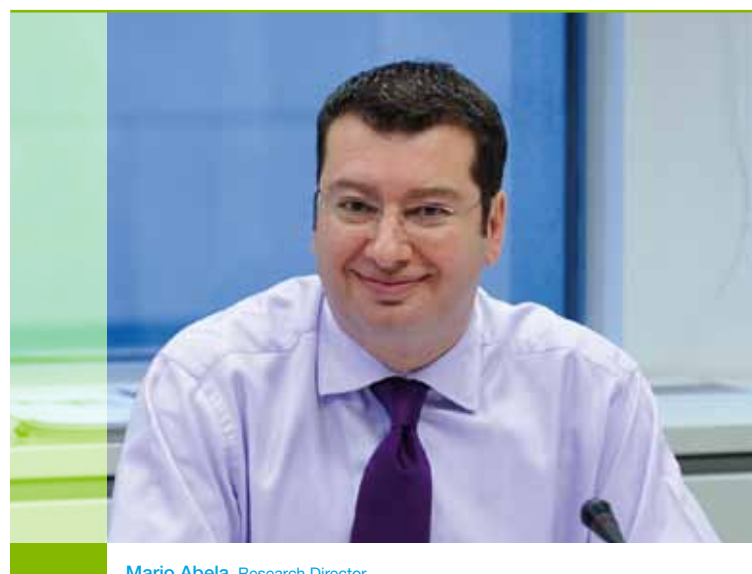
The proposals call on standard setters to consider the effects of accounting standards throughout their due process, from start to finish. Feedback from the consultation process will be used to assess support for the proposals and enhance them, so that they can form the basis of possible improvements to the IASB's due process. The Discussion Paper was published in January 2011 with a comment deadline of 31 August 2011.

### ► Corporate Income Tax

The *Corporate Income Tax* project, which has been running since October 2008, is undertaken as a partnership between EFRAG, the UK Accounting Standards Board (ASB) and the German Accounting Standards Board (GASB). The aim of the project is to critically examine key aspects of accounting for corporate income tax separately from the requirements in the existing IAS 12, with a view to develop a discussion paper that aims at solving IAS 12 shortcomings, starting from first principles, and sets out proposals that might form the basis of a new standard on accounting for income tax issues. The sponsoring boards, in reviewing the direction of the project at the end of 2010, have decided to split the project into two phases.

The first phase addresses the identification of existing problems, providing an analysis of the fundamental problems with IAS 12. This phase started by identifying the complexities in the application of IAS 12 and understanding why users generally find it difficult to make sense of information about tax effects in financial statements. The analysis will also be grounded in recent comment letters of constituents on proposed changes to IAS 12. The first phase discussion paper is intended to be issued in 2011. The second phase of the project will address the possible direction of accounting for income taxes and in solving the problems identified.

Most would agree that developing a comprehensive new approach to tax accounting is a challenging task, given that there are fundamental differences between tax rules and accounting, not least because tax rules differ widely across international jurisdictions. Discussions to date have indicated that, although conceptual merit is important when setting out the proposed approach, it is not the only consideration. The project proposals must also be tested against pragmatic considerations in particular the proposals must be capable of practical implementation and provide useful and easily understood information.



Mario Abela Research Director

### ► Business Combinations under Common Control

The *Business Combinations Under Common Control* project is a partnership between EFRAG, the Organismo Italiano di Contabilità (OIC), Italy and the Autorité des Normes Comptables (ANC), France. The objective of the project is to develop an approach to accounting for "internal" business acquisitions within a group, i.e. business combinations when all of the combining entities are, before and after the transaction, ultimately controlled by the same party or parties. The accounting literature is silent on how these transactions should be measured. Indeed, such transactions are currently excluded from the scope of IFRS 3 *Business Combinations*. The lack of specific accounting guidance under IFRS has created diversity in financial reporting practice. Upon request by European stakeholders, the





European Commission had asked the IASB to make an appropriate agenda decision, which was done, albeit with no progress to date and none to be expected in the very near future. As a result, the outcome of this project is expected to be very useful to the IASB when they restart their project.

Different problem areas have been analysed and discussed throughout the year and tentative approaches have been proposed by the parties involved.

#### ► Disclosure Framework

The *Disclosure Framework* project is a partnership between EFRAG, the UK Accounting Standards Board (ASB) and the Autorité des Normes Comptables (ANC), France. The aim of the project is to improve the disclosure of information in the notes to financial statements. The project has three phases. The first is to develop a set of principles that can be applied to determine what information standard setters should require to be disclosed in the notes to financial statements, including principles on how that information should be presented. The principles can be used to distinguish clearly disclosures which belong to the financial statements – i.e. are necessary for the understanding of the entity's current financial position and past performance – from other useful disclosures that belong to other parts of the financial report.

The second phase is to look at existing disclosure requirements under IFRS and to determine how such

requirements might be improved in terms of cohesiveness, content, presentation and display. The final phase of the project is expected to reconsider the principles developed and applied in the first two phases and make any necessary changes to ensure they are operational and result in decision-useful information. In the project, there is an ongoing contact with the FASB, Canadian Standard Setter (AcSB) and other National Standard Setters.

#### ► The Implications of the Business Model for Financial Reporting

The *Business Model* project is a partnership between EFRAG, the UK Accounting Standards Board (ASB) and the Autorité des Normes Comptables (ANC), France. EFRAG made the decision to launch the project in 2009. However, EFRAG developed the proposal into a concrete project in the second half of 2010, as no resources were available to the project at an earlier date. The project really commenced in the last quarter of 2010, with EFRAG Technical Expert Group holding its first deliberations.

The importance of reflecting upon an entity's business model, in the way it prepares its financial statements and conveys financial information, continues to dominate many financial reporting debates. The aim of this project is to help define what is meant by a "business model" and explore how and to what extent the financial statements should reflect the business model of an entity.

# Participating in the IASB consultation process

- LARGE NUMBER OF MAJOR IASB DRAFT PRONOUNCEMENTS IN A SHORT TIME-FRAME
- DEVELOPMENT OF OUTREACH ACTIVITIES ON A GREATER SCALE
- FOCUS ON FINANCIAL INSTRUMENTS
- ADDRESSING IFRS INTERPRETATIONS COMMITTEE REJECTION NOTICES

## FINANCIAL INSTRUMENTS

The G20 re-emphasised in the November Seoul summit declaration the importance to be placed on achieving a single set of improved high quality global accounting standards and called on the IASB and FASB to complete their convergence project by the end of 2011. Financial instruments is one of the core areas in the convergence project. The IASB project to replace IAS 39 *Financial Instruments: Recognition and Measurement* consists of three phases: classification and measurement, impairment, and hedging (IFRS 9). EFRAG commented on the IASB and FASB proposals with the important input of its Financial Instruments Working Group, Insurance Accounting Working Group and User Panel. EFRAG has not yet been asked by the European Commission to provide endorsement advice on IFRS 9. It is expected that such advice will only be requested once all the phases of IFRS 9 are completed, including portfolio hedge accounting.

### ► Impairment of Financial Instruments

In November 2009, the IASB issued the Exposure Draft, *Financial Instrument: Amortised Cost and Impairment*. In conjunction with the draft comment letter, EFRAG staff initiated outreach activities that sought to gather views from European preparers on the operational concerns arising from the proposals. A sum-

mary of the responses received to a questionnaire was published in May. The key message was that the proposals needed to be simplified in order to reduce the operational burden of implementing the expected cash flow approach. Otherwise, the operational costs of implementing the proposals would outweigh the benefits.

EFRAG finalised its comment letter to the IASB in June 2010. Although concerns were raised about aspects of the measurement principles, EFRAG was supportive overall of their direction. In particular, EFRAG supported the IASB's decision to replace the incurred loss impairment model with an expected cash flow approach, rather than a fair value approach or a through-the-cycle impairment approach.

### ► Fair Value Option for Financial Liabilities

In May 2010, the IASB issued the Exposure Draft, *Fair Value Option for Financial Liabilities*. In its comment letter issued in July 2010, EFRAG agreed that fair value changes, due to changes in an entity's own credit risk, from re-measurement of liabilities designated under the fair value option, should not affect profit or loss, unless presenting changes in own credit risk in other comprehensive income would result in an accounting mismatch. EFRAG asked for that exception to be made in order to take into account the specific Danish mortgage bank asset liability management model. However, EFRAG did not support the two-step approach whereby changes are taken to profit and loss and then reallocated to other comprehensive income. **The IASB published the financial liabilities section of IFRS 9 in October 2010, after having made changes in accordance with EFRAG's recommendations.**

### ► Fair Value Measurement – Limited Amendment

The IASB issued a limited re-exposure of the fair value disclosure proposals entitled, *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* in June 2010. It proposes to change the sensitivity disclosure of assets and liabilities measured at fair value



Pieter Dekker Technical Director

EFRAG aims to issue draft comment letters as soon as the IASB issues its pronouncements, in order to be of maximum assistance to its constituents. EFRAG draft comment letters are read all over the world and tend to support non-European stakeholders in their analysis of the IASB's proposals also.

within Level 3 of the fair value hierarchy to focus on unobservable inputs and consider the effect of correlation between inputs, where relevant and significant. EFRAG supported the proposals in September 2010.

► **Proactive work on the classification and measurement of financial instruments**

In April 2010, EFRAG co-chaired with the European Commission a series of informal stakeholders' meetings convened to discuss IFRS 9 requirements and directions. These meetings have been an opportunity

Germany, Sweden, Italy, Austria and Luxembourg, on the practice prevailing in the financial industry for accounting for hybrid financial instruments and embedded derivatives. The objective of this survey was to collect as many practical examples as possible of existing practices and to consider the impact of the new classification requirements of IFRS 9. The result of this proactive work has been communicated to the IASB and FASB in order to support amendments to IFRS 9, as a result of both Boards' efforts in reaching agreement on a converged standard for financial instruments.

**Assisting a country to avoid an unintended major economic impact, due to IASB proposals**

IASB proposals for the measurement of financial liabilities would have resulted, had they been confirmed, in a significant accounting mismatch for the Danish mortgage industry, because of the very specific way in which that industry finances its mortgage business. As soon as it was made aware of the issue, EFRAG entertained a constructive dialogue with the Danish mortgage industry and helped in reinforcing its action towards the IASB. The outcome has been successful!

to identify issues in classification and measurement for financial instruments where adjustments to IFRS 9 could be sought, in order to provide for a potentially wider basis for acceptance of IFRS 9 in Europe. The most significant concerns raised at those meetings were whether IFRS 9 (perceived or real) limitations to the use of amortised cost where appropriate, whether the elimination of the separation of embedded derivatives was appropriate, and whether the elimination of recycling for equity securities valued at fair value through other comprehensive income was appropriate.

EFRAG decided to undertake some proactive work aimed at:

- understanding whether the restrictions in IFRS 9 to the use of amortised cost were causing problems and finding evidence thereof;
- potentially identifying a basis for recommending a principle-based approach to the separation of embedded derivatives from host contracts managed on a contractual cash flow basis.

A first study was carried out in July and August with the support of FEE. Additional outreach with European financial institutions on the anticipated effects of the classification model on their existing accounting practices was conducted by interviewing sixteen financial institutions (including banks and insurance companies), primarily operating in the UK, France,

► **FASB Exposure Draft**

In May 2010, the FASB issued the Exposure Draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. The IASB published a request for comments, inviting constituents to respond directly to the FASB. EFRAG decided that it would respond positively to the IASB's request to submit comments to the FASB. EFRAG provided a set of recommendations to both the IASB and FASB on what should be required by a converged standard on accounting for financial instruments in September 2010. As part of the outreach effort in the context of this project, EFRAG organised a user outreach event on 15 September 2010, attended by more than 30 participants from 8 different countries, representing a wide range of European stakeholders in financial reporting. From the discussion, it emerged that users broadly supported the IASB's proposal of a mixed measurement model for financial instruments, as opposed to the FASB's proposal that requires measurement of all financial instruments at fair value on the face of the statement of financial position.

EFRAG concluded that the FASB proposals did not provide a basis for a high-quality standard on accounting for financial instruments. The comment letter was supportive of the broad direction set by the IASB in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and as the basis for the development of a converged standard, albeit enhanced with a few significant improvements.

EFRAG considered the need for excluding so-called 'illiquid instruments' from the requirement for measurement at fair value and conferred with the Accounting Task Force of the Basel Committee on measurement uncertainty and fair value measurement of illiquid financial instruments. EFRAG performed a full analysis addressing the role that reliability should play in cases of significant valuation uncertainty, the role of an active market in the context of the classification of a financial instrument and the role of disclosure. In November 2010, EFRAG concluded, in line with the Basel Committee Accounting Task Force, that no exception to the fair value measurement requirement was needed.

#### ► Hedge accounting

In mid-December 2010, the IASB issued an ED on *Hedge Accounting* which proposed significant changes to the general hedge accounting model. The IASB started discussions on portfolio hedge accounting in November 2010, but hardly made progress. EFRAG

regrets that the IASB intends to finalise the requirements in the general hedge accounting model before having concluded portfolio hedge accounting requirements.

#### ► Asset Liability Offsetting

In response to stakeholders' concerns, including those of the Financial Stability Board and of the Basel Committee, the IASB and the FASB started to work jointly on a separate exposure draft addressing the presentation of financial assets and liabilities, being one of the most significant financial instrument presentation differences between IFRS and US GAAP. The achievement of a converged solution would assist banking supervisors in establishing the requirements on a leverage ratio for banks, while impacting significantly on the reporting of derivative industry participants around the globe.

## EFRAG'S RECOMMENDATIONS FOR A CONVERGED STANDARD ON FINANCIAL INSTRUMENTS

EFRAG strongly recommends that a converged standard be built, having IFRS 9 as a starting point. Indeed EFRAG supports the IFRS 9 approach in:

- adopting classification criteria based on the characteristics of the financial instruments and the business model used by the entity in managing those financial instruments, leading to a mixed measurement model that allows financial instruments to be reported at either amortised cost or fair value;
- requiring reclassification when there is a change in the conditions that led to initial classification;
- limiting primary financial statements to reflect one measurement attribute only for each financial instrument;
- using an expected loss approach to the impairment of financial assets measured at amortised cost, that uses all available credit-related information, including forecasts of future events and future economic conditions; and
- recognising fair value changes due to changes in an entity's own credit risk outside profit or loss, when liabilities are designated under the fair value option, except in extremely rare circumstances where the fair value changes of financial assets are directly linked to an issuer's own credit risk.

However EFRAG believes that a converged standard should differ from IFRS 9 in the following areas and:

- put greater emphasis on the business model whilst remaining faithful to a need to consider the characteristics of the financial instrument, and therefore,
- provide for separate accounting for embedded derivatives for both hybrid financial assets and hybrid financial liabilities,
- recognise in profit or loss realised gains and losses on equity instruments measured at fair value when unrealised changes are recognised in other comprehensive income; and to
- provide for consistent measurement of assets and liabilities when they are linked together.



Chiara Del Prete  
Project Manager





## REVENUE RECOGNITION

In June 2010, the IASB issued the Exposure Draft, *Revenue from Contracts with Customers*. In its final comment letter of October 2010, EFRAG expressed support for one single revenue recognition model, provided that the concerns raised by the Board's proposals would be fully addressed and, more particularly, that all industries would benefit from relevant revenue recognition patterns. EFRAG recommended that the IASB should engage in field testing activities. EFRAG expressed concern about the IASB issuance of an exposure draft on revenue recognition, which omitted consideration as to why and how revenue is considered an important figure, what it should represent to ensure that performance of an entity is adequately depicted, and why it should be deemed to provide useful information.

Most commentators share EFRAG's major concerns related to the revenue recognition proposals for construction and service activities in the Exposure Draft, particularly in relation to the notion of control. This concern is key to the IASB's and FASB's deliberations in arriving at the final standard.

EFRAG did not support the view expressed that revenue should be recognised when control of a good or service has been transferred to the customer, as this principle would not result in the most decision-useful information for all industries. Specifically, EFRAG did not think the proposal would result in relevant revenue figures for all construction entities and service providers. EFRAG thought that financial statements would be most decision-useful were revenue to be considered from the perspective of the entity (rather than from the perspective of the customer) and to reflect how the entity progresses in establishing unconditional rights to consideration, subject to continued performance in a contract with a customer. In addition, EFRAG thought it inappropriate to base revenue recognition on the transfer of 'control' as it did not seem possible to define this term in a manner that could be applied consistently in all relevant standards and also result in the most useful revenue figures.

EFRAG launched some outreach activities, meeting representatives from the telecommunications and construction industries on various occasions. EFRAG also hosted an IASB discussion forum that addressed Revenue Recognition as part of its agenda.

## LEASES

Following the publication of the Discussion Paper on Leases in March 2009, the IASB started re-deliberating the project and issued an Exposure Draft in August 2010 addressing both lessor accounting and lessee accounting. EFRAG supported the decision to develop an accounting model to improve IAS 17, but expressed concern on some aspects of the proposals. EFRAG is concerned that the boundary between leases (particularly those currently categorised as operating leases) and service contracts is difficult to determine. The proposed criteria carried over from IFRIC 4 do not provide the necessary robust and operational distinction required to determine which (very different) accounting treatment is appropriate and most meaningful for the specific transaction. Additionally, the IASB proposals may result in requirements costly to meet on a recurring basis.

The hybrid model for lessors replicates in substance the existing model in IAS 17. However, the justification for the performance obligation model contradicts the rationale for having lessees apply the right-of-use approach to all leases. EFRAG can support the right-of-use approach for lessees and a single, partial derecognition model for lessors. The analysis of a sale and leaseback transaction as a sale of the asset, followed by a lease, contradicts the analysis of an asset as a bundle of rights. According to EFRAG, in such a contract the lessee sells all the rights to the asset except for the right-of-use that is retained in the lease. EFRAG recommends that lessees apply the accounting of operating leases in the existing IAS 17 to short-term leases. In the proposals, amounts due under options and contingent rentals based on the entity's performance should not be included in the measurement of the lease assets and liabilities. According to EFRAG, these components are distinct from the contractually unavoidable rental payments and should be subject to separate recognition and measurement.

Like EFRAG, most commentators highlighted the critical cut between leases and service contracts and requested that only liabilities meeting the definition of a liability be recognised in the balance sheet. Subsequent deliberations by the IASB and FASB seem to be aiming to solve EFRAG's main concerns.

## INSURANCE CONTRACTS

On 31 July, the IASB issued the Exposure Draft *Insurance Contracts*. As part of its due process, EFRAG received a large number of comment letters from stakeholders in response to the EFRAG draft comment letter. EFRAG's Insurance Accounting Working Group contributed to the development of the EFRAG

position. EFRAG's main messages were that, although many of the proposals were seen as a significant development in insurance accounting, some key issues, such as the interaction between the Exposure Draft and IFRS 9, the resulting accounting mismatch, and the proposals regarding presentation and transition needed to be further considered by the IASB. EFRAG offered to assist the IASB in solving some of these issues.

## IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In 2009, the IASB concluded its re-deliberation of the proposals to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. In December 2009, the IASB re-exposed the guidance on measurement and in February 2010 posted a working draft of the new standard on its website.

In its final comment letter in May 2010, EFRAG stated that it did not support the conceptual model in the proposals and believed that the objective of the measurement should be to depict the future outflows that the entity expects to incur to discharge its obligation. As a result, EFRAG disagrees with the requirement that an external price should always be used to measure a service obligation, regardless of how the entity expects to fulfil it. EFRAG believes that, for some classes of liabilities (such as litigation), the expected value does not provide decision-useful information, leads to quite subjective estimates and is too complex to be applied. EFRAG notes that in the insurance project the IASB adopts a fulfilment value approach. EFRAG also disagrees with the systematic and explicit inclusion of an adjustment for risk and with the addition of a profit margin; EFRAG favours reflecting the cost to the entity of fulfilling the obligation.

EFRAG disagrees with the decision to remove the 'probability of outflows' recognition criterion, before the analysis of whether recognition criteria should be maintained is assessed as part of the revision of the *Conceptual Framework*.

## MANAGEMENT COMMENTARY

In its final comment letter issued in March 2010, EFRAG supported the IASB's decision to develop high level, principle-based, non-mandatory guidance on management commentary, although EFRAG

did not think the project should be developed at that time, given the IASB's other priorities. EFRAG broadly supported the detailed proposals, but raised concerns about the desirable qualitative characteristics that management commentary should have. EFRAG did not support the IASB's decision to defer the development of placement principles until Phase E of the *Conceptual Framework* project was completed. EFRAG thought that some placement principles were required to increase financial reporting effectiveness if a management commentary was to be prepared; and EFRAG thought that the IASB should clarify that financial statements could still be said to comply with IFRS, even if they were not accompanied by management commentary in accordance with the proposed guidance.

The IASB issued Management Commentary as a practice statement, not an IFRS. The basis for conclusions to the practice statement states very clearly that the practice statement is not of mandatory application for compliance with IFRS. EFRAG does not intend, and will not be required, to consider the Management Commentary practice statement further.

## CONCEPTUAL FRAMEWORK: THE REPORTING ENTITY

In March 2010, the IASB issued the Exposure Draft, *Conceptual Framework for Financial Reporting: the Reporting Entity*. EFRAG's final comment letter of July 2010 broadly supported the IASB proposals, but also raised some important concerns. EFRAG supported the broad description of a reporting entity, the proposal that a portion of an entity can qualify as a reporting entity if that portion meets the description and characteristics of a reporting entity, and the proposal not to delay the completion of the *Reporting Entity* chapter of the *Conceptual Framework* until the completion of the standards on consolidation.

In contrast, EFRAG did not support the proposal that 'control over an entity' should be defined in the *Reporting Entity* chapter of the *Conceptual Framework*. EFRAG considered that 'control' should be defined at a higher level in the *Conceptual Framework*, so that it may be applied more broadly. Concrete application of the definition and all the specific issues should be

Most constituents shared EFRAG's concerns about the proposals to amend IAS 37. EFRAG welcomes the IASB staff analysis showing that expected value measurement is not necessarily the most relevant measurement basis for provisions and contingent liabilities in all circumstances.





dealt with at the standards level. EFRAG also commented that the IASB had not made the case for making exclusive control the necessary condition for consolidation. EFRAG insisted that joint control, albeit in a different manner to exclusive control, was still to be considered 'control.'

In addition, EFRAG raised other issues in its comment letter, which were not included in the invitation to comment by the IASB, but which were related to this chapter of the *Conceptual Framework*. EFRAG shares the view that parent-only financial statements can provide useful information. However, EFRAG considers that the manner in which those financial statements are issued should not be defined in the *Conceptual Framework*, because this issue belongs to the competency of national legislators or regulatory authorities.

### IAS 12 RECOVERY OF UNDERLYING ASSETS

In September 2010, the IASB issued an Exposure Draft *Deferred Tax: Recovery of Underlying Assets – Proposed Amendments to IAS 12*. In its final comment letter of November 2010, EFRAG agreed that IAS 12 lacks specific guidance on the accounting for income tax, in relation to assets for which the tax consequences depend on the way the carrying amount of the underlying asset is recovered. For that reason, EFRAG supported the IASB in its efforts to address the issue.

However, EFRAG had a number of concerns. Firstly, EFRAG disagreed with the use of an exception to the measurement principles in IAS 12 to resolve the issue, and recommended that the issue should be addressed by extending application guidance on the measurement principle, as it would be clearer and it would produce the right answer based on the 'manner of recovery' of the underlying asset. A second concern related to the scope of the ED, which EFRAG thought to be overly broad and indicated that it should be restricted to investment properties that are accounted for on a fair value basis.

In early December 2010, the IASB re-deliberated its proposals in light of the comments received and tentatively decided to limit the scope of the exception to investment properties measured at fair value (and therefore not to allow the exception to apply to property, plant and equipment and intangible assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*, as had been proposed). Although one of EFRAG's main concerns with the proposal had been satisfied, EFRAG remained concerned that the IASB maintained an exception to the measurement principle where appropriate guidance would have been more effective and less troublesome.

### IFRS 1 AMENDMENTS (REMOVAL OF FIXED DATE AND HYPERINFLATION)

During 2010, the IASB issued two exposure drafts amending IFRS 1: Exposure Draft *Removal of Fixed Dates for First-time Adopters* and Exposure Draft *Severe Hyperinflation*. EFRAG is generally supportive of these amendments as a way to facilitate companies to adopt IFRS. However, in the case of the amendment for situations of severe hyperinflation, EFRAG raised its concern on the scope and application of the proposals. EFRAG also believes that a more fundamental review of current IAS 29 *Financial Reporting in Hyperinflationary Economies* would be necessary.

### EXTRACTIVE INDUSTRIES

In April 2010, the IASB issued a Discussion Paper on Extractive Industries. Given the specialised nature of the proposals and their application, EFRAG conducted extensive outreach activities as part of EFRAG's due process. These outreach meetings varied in structure and included meetings with National Standard Setters, industry analysts, preparers and auditors.

In July 2010, EFRAG submitted its comment letter to the IASB. EFRAG argued that the Discussion Paper did not adequately explain why a separate accounting model, different from that applied by pharmaceutical companies, for example, was appropriate for these activities. EFRAG suggested that the IASB first consider the application of current IFRS before industry-specific guidance was developed. Therefore, EFRAG did not support the proposals in the discussion paper other than historical cost measurement being deemed an appropriate measurement basis and the disclosure objectives.

### IAS 19 AMENDMENTS

In April 2010, the IASB issued the Exposure Draft, *Amendments to IAS 19 Employee Benefits*. EFRAG's final comment letter of September 2010 was supportive of certain amendments such as the elimination of the corridor, the elimination of options and the disaggregation of the pension cost in the income statement. However, it rejected other proposed changes, such as the proposal to remove the requirement in IAS 19 to reflect, in profit or loss, a return on assets based on an expected rate return. The proposed alternative methodology for calculating the finance cost was not considered to be an improvement. Finally, EFRAG called for clarifications to be brought into the final requirements, after having assessed risk-sharing features of Dutch pension plans.

EFRAG urged the IASB to undertake a comprehensive review of employee benefit accounting that deals with the 'new' schemes of defined benefit plans and defined contribution plans (i.e. plans in which an employer and its employees share certain risks). This issue is particularly relevant in Dutch pension schemes. A deeper debate on fundamental aspects related to both pensions and performance reporting is required.

EFRAG supported the Dutch position and the activities of the Dutch Accounting Standards Board in arguing their positions with the IASB and appreciated the positive outcome of the process in the final standard. EFRAG is pleased to work in cooperation with National Standard Setters to help solve difficulties arising in their countries.

### FINANCIAL STATEMENT PRESENTATION

The IASB's work on the Financial Statement Presentation project has been divided into separate sub-projects, with some issues taking precedence on the IASB's agenda.

#### ► IAS 1 Presentation of Items of Other Comprehensive Income

EFRAG strongly objected to the IASB's initiative, as set out in the May 2010 exposure draft, to remove the option of presenting performance in two statements, prior to the discussion on fundamental issues related to performance reporting (for example, the notion of performance and the impact of the business model on it, the content of performance statements and recycling). However, EFRAG was supportive overall of the proposal to disaggregate items of other comprehensive income into recyclable and non-recyclable groups. EFRAG's views on the issue received overwhelming support from constituents in Europe. Therefore, the final EFRAG comment letter conveyed a strong message about the urgent need for a proper debate on fundamental issues underlying performance reporting. ***EFRAG was very pleased to learn that, following the feedback on the proposals, the IASB, at its November 2010 meeting, decided to retain the option of presenting non-owner changes in equity in two statements.***

### EFRAG'S OUTREACH WITH NATIONAL STANDARD SETTERS ON FINANCIAL STATEMENT PRESENTATION

The IASB and the FASB reconsidered their priorities and decided to postpone further detailed discussions on the Financial Statement Presentation project until after June 2011. However, while the project was being postponed the IASB expressed interest in gathering stakeholders' views on the tentative decisions made to date. In July 2010, the IASB released on its website a staff draft of the exposure draft Financial Statement Presentation in order to solicit input and views from constituents, prior to finalising the proposals.

EFRAG has decided to assist European constituents to seize the opportunity to influence the future financial statement presentation proposals. To that purpose, EFRAG has relied on strong co-operation with European National Standard Setters. Joint outreach events were organised throughout Europe from September to early December 2010. The extent of this initiative was unprecedented, as EFRAG, National Standard Setters and the IASB met face-to-face with constituents in Amsterdam, Helsinki, Oslo, Stockholm, Madrid, Rome,

Warsaw, Frankfurt, London and Paris. A supplementary meeting was organised in Basel with an industry organisation. Overall, 472 constituents participated in these meetings. The outreach meetings focused on controversial issues, including the scope of the joint project and the need for a proper debate on fundamental issues underlying performance reporting; the definition and content of the financing section; disaggregation proposals; mandating the direct method for presenting operating cash flows; disclosure of re-measurements; and costs and benefits of the new presentation model.

As part of the outreach activities, EFRAG published a paper outlining its preliminary views on the tentative decisions included in the Draft ED. The overall feedback received during the meetings with constituents in Europe was generally consistent with EFRAG's preliminary views on controversial issues.



## CONSOLIDATION

In December 2008, the IASB issued the Exposure Draft, *Consolidated Financial Statements*. The IASB published a Staff Draft on Consolidation in September 2010, after having completed its due process on the project, instead of a final standard, in order to promote its requirements as the basis for a converged consolidation standard with the FASB. The IASB Staff Draft establishes a model based on 'control' to determine consolidation, stating a single mechanism to assess the existence of control, which applies equally to both structured entities and subsidiaries. This mechanism requires the existence of the following three conditions, to ensure that an investor controls an investee:

- power over the investee ;
- exposure, or rights, to variable returns from its involvement with the investee;
- ability to use its power over the investee to affect the amount of the investor's returns.

EFRAG considers that the cumulative nature of the criteria may lead an entity not to consolidate investees that are, in fact, currently considered to be 'suitable' types of subsidiaries or SPEs for consolidation. The model for consolidation as contained in the IASB Staff Draft contains a series of judgemental areas which could put its operability into question. EFRAG drew the IASB's attention to its concerns in the November 2010 EFRAG-IASB public joint meeting. EFRAG did not carry out any particular assessment in 2010, beyond what is described above.

## IFRS INTERPRETATIONS COMMITTEE

### ► Rejection notices

Agenda decisions are published by the IFRS Interpretations Committee in the IFRIC Update soon after the respective meetings, with a 30-day comment period. At the time when the IFRS Interpretation Committee started the process of issuing tentative decisions not to develop an interpretation following the receipt of a request for an interpretation (rejection notices), EFRAG decided that it did not have the resources to consider and assess the rejection notices.

The key messages received from constituents included the following:

- **Is a new presentation model needed?** – Overall, constituents in Europe questioned whether a new presentation model was really needed, especially considering the high costs involved. The majority rejected a complete overhaul of the presentation model, favouring instead amendments focused on solving problems identified in practice.
- **Performance reporting issues** – There was a very strong view that, prior to proceeding with the presentation matters, there is a need for debate on some fundamental issues underlying performance reporting, including the notion of performance and the impact of the business model on it, the content of performance statements and the principle that underpins presentation of items in other comprehensive income.

EFRAG issued a full feedback report to its constituents in mid-February 2011.



### EFRAG more responsive to specific European concerns!

EFRAG has decided to assess and comment on specific rejection notices following a specific demand from its European constituents, when those rejection notices risk having a significant and undesirable effect in practice. EFRAG helps in resolving the issues, despite the very short comment period.

During 2010, and after EFRAG received requests from constituents to assess specific rejection notices, EFRAG decided to address rejection notices by exception (i.e. when European constituents express concern that they expect them to cause significant and undesirable effects in practice), and by exception only, given the limited comment period and the need for proper due process. EFRAG also decided that it would not assess the issue from a technical point of view (i.e. to define what the accounting treatment should be in practice in the specific circumstances), but would only consider whether the rejection notice was akin to an implicit interpretation or could cause confusion in practice. EFRAG received strong support from its Consultative Forum of Standard Setters for this new initiative.

#### ► Put Options Written over Non-controlling Interests

The IFRS Interpretations Committee received a request for guidance on how an entity should account for changes in the financial liability for a put option that has been written over shares, held by a non-controlling interest in the consolidated financial statements of the parent entity. In September 2010, the IFRS Interpretations Committee tentatively decided not to add this issue to its agenda.

EFRAG issued its comment letter to the IFRS Interpretations Committee in October 2010 and emphasised its broad concern that rejection notices should not be written as though they were authoritative guidance or implied interpretations of debatable requirements. In relation to the issue in question, EFRAG noted that it considered it inappropriate to include an implied interpretation with potentially widespread consequences in the wording for rejection on this complex, long-running issue.

#### ► Calculation of Value in Use under IAS 36 Impairment of Assets

The IFRS Interpretations Committee received a request for guidance on whether an entity is permitted to use a dividend-based model when calculating value in use when performing an impairment test in accordance with IAS 36. The IFRS Interpretations Committee decided not to add this item to its agenda.

EFRAG did not support the way the rejection notice on this issue was drafted. In its view, it was inappropriate for the IFRS Interpretations Committee to create, what amounted to, a rebuttable presumption in the wording for rejection by stating that 'using dividend-based models would rarely be appropriate'.

***The IFRS Interpretations Committee subsequently issued revised rejection notices that solved EFRAG's concerns on both issues***

#### ► IFRIC stripping costs

In August 2010, the IFRS Interpretations Committee published the Draft Interpretation, *Stripping Costs in the Production Phase of a Mine*. EFRAG, in its comment letter issued in December 2010, supported the IFRS Interpretations Committee in their efforts to address diversity in practice. However, EFRAG did not believe that the Draft Interpretation significantly reduced diversity in accounting for stripping costs. Rather, EFRAG argued that the IFRS Interpretations Committee should consider requiring application of the accounting model in IAS 16 to all forms of stripping costs. In EFRAG's view, this would avoid introducing unnecessary complexity in IFRS.



# Providing endorsement advice to the European Commission

After the IASB publishes a standard or an amendment to a standard, or the IFRS Interpretations Committee publishes an interpretation, the European Commission requests endorsement advice from EFRAG. Additionally, the European Commission requests an effects study on the pronouncement to be endorsed.

In 2010, EFRAG finalised its endorsement advice to the European Commission on the following:

- Amendments to IAS 24 Related Party Disclosures
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards
- Annual Improvements (as issued in May 2010)
- Amendments to IFRS 7 Financial Instruments

In each case, EFRAG issued an invitation to comment on its draft endorsement advice and draft effect study report. EFRAG issued its final endorsement advice and effect study report to the European Commission, after having considered the comments received. The EFRAG website contains the widely used EU endorsement status report which is updated for each relevant development and always provides the most recent information.

EFRAG participated in the ARC and SARG meetings organised by the European Commission throughout the year as part of the endorsement process.



# Providing comments and advice to the European Commission on SME accounting matters

## COMPATIBILITY ANALYSIS OF IFRS FOR SMEs – EUROPEAN UNION ACCOUNTING DIRECTIVES

In November 2009, the European Commission asked EFRAG to provide advice on the requirements in the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* considered to be incompatible with the EU Accounting Directives. EFRAG, with the valuable input of its SME Working Group, and after full due process, issued a final report, identifying 6 incompatibilities between the IFRS for SMEs and the EU Accounting Directives.

The final report published consisted of:

- A letter to the European Commission specifying the requirements of the IFRS for SMEs, which were assessed and were considered to be incompatible with the EU Accounting Directives. This letter also included a description of the scope and limitations of the assessment.
- A feedback statement explaining EFRAG's reasons for not considering requirements identified by EFRAG's constituents to be incompatible with the EU Accounting Directives.
- A working paper including EFRAG's assessment of all the requirements of the IFRS for SMEs.

EFRAG identified 6 incompatibilities between the IFRS for SMEs and the Accounting Directives:

- Extraordinary items
- Financial instruments at fair value
- Useful life of goodwill
- Recognition of negative goodwill
- Reversal of goodwill impairment losses
- Presenting unpaid capital as an offset to equity

## EU ACCOUNTING DIRECTIVES – SOUNDING BOARD

In 2010, the European Commission was working on a revision of the EU Accounting Directives. Although EFRAG was not directly involved in these activities, members of the EFRAG SME Working Group acted as a sounding board in providing their personal views in relation to the revision.

## SMEIG OBSERVER

EFRAG was appointed as observer to the IASB's SME Implementation Group (SMEIG) established by the IFRS Foundation in 2009. The Group has two main responsibilities in assisting the IASB: the first is to consider implementation questions raised by users of the IFRS for SMEs and the second is to consider, and make recommendations to, the IASB on the need to amend the IFRS for SMEs.



Rasmus Sommer  
Project Manager

**Françoise FLORES**  
EFRAG Chairman





### Why is EFRAG active in the IASB SME Implementation Group?

In Europe, widely different views are held on the suitability of IFRS for SMEs and there is no plan to adopt the IFRS for SMEs at European level. However, some Member States are interested in converging their National GAAP as close to the IFRS for SMEs as possible, i.e. after eliminating all incompatibilities and making other possible limited adjustments. EFRAG is keeping active in the development of the IFRS for SMEs, in order to be useful to those Member States who have an interest in the standard.

# A User Perspective on financial reporting under IFRS




Users, including investors, have a fundamental role in the development of high quality IFRS. It is therefore important for EFRAG to engage regularly with users to understand their needs and their views on the new “package” of IFRS being developed by the IASB. The EFRAG User Panel was established in 2006, and comprises of eighteen analysts from different European countries, including banking analysts, financial analysts and institutional investors. In late 2010, EFRAG welcomed two new Panel members - Peter Malmqvist, financial analyst and Chairman of the Swedish Financial Analyst Federation (SFF), and Ivano Francesco Mattei a member of the Board of the Association of Financial Analysts and at present working with an Italian Bank. EFRAG also said goodbye to Sergio Lamonica and thanked him for his valuable contribution during his four years as a Panel member. Françoise Flores, appointed Chairman of EFRAG in 2010, was also appointed as Chairman of the EFRAG User Panel, replacing Stig Enevoldsen.

2010 was a busy year for financial reporting, with the IASB working at a rapid pace on developing numerous proposals, including its own projects and the various joint projects with the FASB, as well as finalising the deliberations of various other projects which are expected to be issued as final IFRS in the first quarter of 2011. The wide range of complex issues with the various proposals being developed has made understanding their impact on financial reporting an extremely difficult and challenging task to all those affected, including the user community. It goes without saying that users are finding it increasingly difficult to respond to the many requests being imposed on them. EFRAG met with the User Panel four times

during 2010 to discuss various aspects of accounting for financial instruments, leases and revenue as well as the proposals for Phase II of the project on insurance contracts which will replace IFRS 4. Other than these four “flagship” projects, the Panel was also asked to consider the proposals on Financial Statements Presentation, some aspects of pension accounting and the near-final requirements on Fair Value Measurement, as well as various Proactive projects being undertaken by EFRAG in partnership with the National Standard Setters.

**The replacement of IAS 39** continued to be a high priority item for the two Boards. Given the mixed measurement model in IFRS 9, the IASB devoted a substantial amount of its agenda time to developing an impairment model that would be acceptable for assets measured at amortised cost. Generally users were supportive of the IASB approach, as it would address their concern about recognising credit losses “too late” in time. Panel members also considered the classification and measurement standard being developed by the FASB and issued for comments in May 2010. Some users thought the FASB model had the advantage of being simple (everything is valued at fair value except when options are exercised). However, they were concerned that the model might provide less meaningful information, because it would focus on “liquidation values” for the entity’s net assets, rather than on the way an entity effectively does business. With respect to hedge accounting, the Panel thought the IASB’s proposals would relax the current effectiveness test, which was thought to be overly burdensome. Overall, there was support from the Panel for using hedge accounting to





reflect the risk management strategy of an entity. However, it remained to be seen to what extent the proposals would achieve this.

With regard to the proposals on **fair value measurement**, the Panel supported having more disclosure information about fair values of assets and liabilities for which there are no observable markets (the so-called level three assets and liabilities) as it would help users understand an entity's financial position and performance in general and provide valuable insights about how the fair value information had been determined.

To assist EFRAG in understanding user needs with regard to revenue, EFRAG asked the Panel for input on various aspects of the revenue recognition proposals, including the proposed pattern of recognition and the underlying disclosure requirements. Disclosure of revenue information was thought to be important to users to assist them in understanding the revenue generating activity of an entity. Overall, Panel members supported the proposals for disaggregation, although it was noted that the key point on revenue disclosure was how the information would be presented, which layers of revenue numbers would be disaggregated and the type of revenue information included. Panel members noted that it was useful to have information that explains the reasons which might result in revenue contracts becoming onerous.

With regard to the proposals on **lease accounting**, the Panel broadly supported the basic idea that leased rights and underlying obligations should be reflected on lessee balance sheets – this would allow them to obtain a better understanding of the return of capital of the respective entity. Although some users preferred a “whole-asset” lease model, they thought that a “right of use” model was an acceptable compromise. Some Panel members considered that recognition could be limited to leases of assets linked to the revenue generating activity of an entity; however it was acknowledged that such a distinction requires a significant amount of judgement.

As for the project on **insurance accounting**, Panel members supported the proposed current measurement model for insurance contracts, based on a fulfillment notion, but expressed a concern with the accounting mismatch which arises when insurers measure assets at amortised cost and insurance liabilities at a current value. Panel members thought that the main problem with the accounting mismatch was the discount rate used to

measure liabilities and the volatility it creates due to changes in the discount rate. However, there was a question about which discount rate to use, given that in reality a risk-free rate is not always available. Generally, the Panel supported recognition of changes in value (that result from changes in the discount rate) in other comprehensive income.

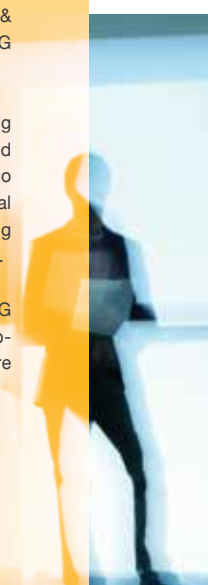
In relation to the project on the proposed **Financial Statements Presentation**, the Panel supported the maintenance of the option of the indirect method for cash flows and the improvements to enhance comparability when using this method. Panel members affirmed their support for having net debt directly presented in the balance sheet and noted that they were not concerned with the definition of net debt per se, provided the definition was applied consistently by the entity. In terms of disclosures, Panel members generally welcomed the proposals.

EFRAG remains highly appreciative of the excellent level of commitment offered by the Panel, and would encourage more users and investors to join EFRAG's user representative group. Furthermore, we would be delighted if members of EFRAG's User Panel would also consider joining the EFRAG Technical Expert Group.

**Françoise Flores** – User Panel Chairman – EFRAG Chairman; **Jean-Baptiste Bellon** - Financial Analyst (Trapeza Conseil); **Javier de Frutos** – CEO (Grupo BBVA); **Jacques de Greling** - Equity Analyst (CDC IXIS Securities); **Sue Harding** – Credit Analyst (Standard and Poors); **Roar Hoff** – Financial Analyst (Norske Finansanalytikers Forening); **Thomas Justinussen** – Financial Analyst (Danskebank); **Thomas Kaiser** – Accounting Analyst (Landesbank Baden-Württemberg (LBBW)); **Vincent Papa** - Director, Financial Reporting Policy EMEA - (CFA Institute); **Michael Schickling** - Director (Brunswick Group); **Friedrich Spandl** – Director (BAWAG); **Alison Thomas** – Director (PwC); **Jerome Vial** – Senior Manager (EY Zurich, Transaction Services); **Guy Weyns** - Managing Director Global Valuation & Accounting (Morgan Stanley); **Jed Wrigley** - Fund Manager, Director of Accounting & Valuation (Fidelity International); **Carsten Zielke** – EFRAG TEG Member.

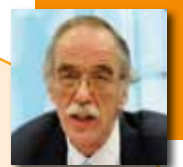
**Sergio Lamonica** – Managing Director (LECG Consulting Italy) left the Panel in December 2010, and was replaced by **Ivano Francesco Mattei** – Financial Analyst (Banco Popolare Italy). In addition, **Peter Malmqvist** – Financial Analyst (Malmqvist EQR AB) re-joined the Panel during the course of the year, after having left the Panel in 2007.

Representatives of the European Commission and EFRAG TEG members are given observer seats. In addition, representatives from the IASB and other organisations, are sometimes invited to observe the Panel meetings.





# Tribute to an excellent EFRAG TEG performance in 2010



Through-  
out the years, EFRAG has built its credibility on the technical skills and independence of its Technical Expert Group. EFRAG is grateful to all past and present EFRAG TEG members for their contribution to the EFRAG technical work over the past ten years.



We have chosen to pay a special tribute to the members of the Technical Expert Group this year because 2010 has been, as we know, quite a challenging year. EFRAG had set for itself the objective of issuing its draft comment letters no later than one month after the exposure draft was issued and to send its final comment letters timely. Such an ambitious objective would not have been met without the exceptional involvement of all EFRAG TEG members, supported by - and in good coordination with - the EFRAG secretariat. As part-timers, EFRAG TEG members have to comply with the high demand of their professional responsibilities. Preparing meetings, analysing exposure drafts and reviewing draft letters: all the time contributed beyond meetings is often time outside working hours. Meeting EFRAG's ambitious objective has meant accepting supplementary meeting days, starting meetings at 8:30 in the morning and not finishing before 6:30 in the evening, granting constituents as late deadlines for comments as feasible and accepting thereby to work within very tight timeframes, providing input and views in between meetings, reviewing letters in between successive meeting days and participating in conference calls to ensure that EFRAG would deliver all its duties in a timely manner.



To best participate in the IASB consultation process, EFRAG benefited from the involvement of the Italian, UK, German and French standard setters, their chairmen being non-voting members of EFRAG TEG, either active, or represented by their Technical Directors, in EFRAG TEG meetings. It also relied heavily on the valuable assistance and input of its permanent working groups: the User Panel, the Financial Instrument and the Insurance Working Groups. We wish to say a special thank you to all members in those groups, and more particularly to Carsten Zielke, Mike Ashley and Hans Schoen who have dedicated themselves to managing and chairing the meetings of the groups at an unprecedented frequency throughout the year.



**Isabelle Grauer-Gaynor**  
Technical Director  
ANC



**David Loweth**  
Technical Director  
ASB



**Liesel Knorr**  
President  
GASB



**Alberto Giussani**  
Vice-Chairman  
OIC



**Tommaso Fabi**  
Technical Director  
OIC





2010 was also the last year of Alan Dangerfield's mandate as member of the group after 4 years in office. EFRAG is very grateful to Alan for having provided valuable insights from an industry perspective to EFRAG TEG's and EFRAG Advisory Panels' discussions. Alan also made a significant contribution to EFRAG's understanding of user needs. Alan's mandate terminated on 31 March 2011. Alan is sharing below his experience as EFRAG TEG member.



Two years of spending three days a month talking about financial reporting principles with auditors and academics. Do I really need this? I asked myself as I began my first term as an EFRAG TEG member 4 years ago - as many preparers would. It turned out to be not only two, but four, fascinating years. Not only the subject-matter of the discussions - after all, much of it in recent years has been financial instruments, which for this old-fashioned Cost & Works Accountant are at best soporific and at worst brain-pain. No, primarily for the interaction with other EFRAG TEG members and with EFRAG staff: they turned out - without exception - to be open-minded and willing to exchange experience and to respect others' opinions: I think this has contributed decisively to the high quality of EFRAG's output. But they also turned out to be jolly good fun. I've really appreciated all of these colleagues and learned a lot from them. I'll miss them.

EFRAG works hard to listen to all interested parties among European constituents, so that it can genuinely claim to function as "the accounting voice of Europe". In this, it also provides a very useful link with the real world: many preparers often have the feeling that accounting standards are drafted on Planet Neptune, but the IASB has laudably shown itself very ready to attend EFRAG TEG meetings and send their staff along to discuss matters, absorbing input and experience collected by EFRAG TEG from "the coal-face". Long may EFRAG continue to perform this essential function!



**Alan Dangerfield**



Starting 1<sup>st</sup> April 2011, Friedrich Siener has joined the group as new EFRAG TEG member, thereby ensuring that the EFRAG TEG continues to benefit from valid preparer input in its discussions.

**Friedrich Siener**

# Tribute to Stig Enevoldsen

Stig Enevoldsen has been involved in EFRAG since EFRAG's establishment in 2001, firstly as an EFRAG TEG member and then, from April 2004 to March 2010, as Chairman of EFRAG. Since summer 2009, I have personally been able to witness the significant contribution Stig Enevoldsen has made to the success of EFRAG. We wish to pay tribute to Stig's vision for EFRAG and the way in which he has tirelessly promoted EFRAG's role, and the interests of Europe, in the creation of a common financial reporting language. EFRAG has developed under his leadership into a rapidly growing organisation. Stig has been so kind to provide us with a personal reflection on his time with EFRAG.

In April 2010, Françoise Flores successfully took over the leadership of EFRAG, facing the challenge of making EFRAG even more successful than it already is. The turbulent year 2010 and even more demanding current year have demonstrated her capability, ambitions and commitment to developing EFRAG further, notably as thought leader in the proactive domain.

## Pedro Solbes

*Chairman of the EFRAG Supervisory Board*

Stig did an outstanding job in getting EFRAG on its feet and building it into the influential body that it is today. I remember with affection the night we put together the "Flander's Agreement" (named after a restaurant) which paved the way for EFRAG and European Standard Setters to work together co-operatively. Stig served Europe well.

**Ian Mackintosh,**  
*former Chairman, UK ASB,  
and IASB Vice-Chairman-elect*





There are Danes. Great Danes. And STIG. All of us who believe in the European Union fully realise that the departure of STIG from EFRAG leaves a significant void to be filled. Tireless. Determined. Persuasive. Honest. Very hard working. These are the adjectives that come to mind when I think of STIG. Collectively, we thank him for his significant contribution to European integration.

**David Wright**, *former Deputy Director General for Internal Markets and Services, DG MARKT, European Commission*



As the second Chairman of EFRAG, Stig Enevoldsen succeeded in establishing EFRAG as the focal point of the financial reporting debate in Europe. He and his team established a constructive dialogue with the IASB and provided strong input to the development of IFRS. He organised a historic collaboration between Standard Setters in Europe, thereby building a joint critical mass of resources and competencies that is necessary to interact with parties like the IASB, FASB and other international standard setters. Most importantly, he demonstrated that EFRAG - a private sector body - worked in the public interest and he built confidence in the organisation among politicians and the European Commission.



**Göran Tidström**, *IFAC President*



“When I first met Stig, it was in the early 90’s in the US, when he sat on the Nordic Federation delegation of the IASC. He looked (and was) young and rather modest in his demeanour, often claiming his English was not good enough.

I think some people did not realise at first the strength and will of his personality. He became a successful chairman at a key period when the IAS’s were gaining speed and the world was changing. It may be that the way the IASC was transformed into the IASB was not entirely to his liking, but he accepted it gracefully and constructively.

Later, he had the key role of chairing EFRAG, which is the key institution for the continuous and orderly introduction of IFRS in the European Union. He did it fairly, always frank in his opinions, but always loyal too. As a former IASB Board Member, I owe him a lot and am very grateful.”



**Gilbert GELARD**  
*former IASB Board Member*

It was an immense pleasure to have been part of EFRAG’s development from its very inception in 2001, where we developed the first working procedures without staff, to the position I left on 31st March 2010, as Chairman of an organisation with a strongly staffed secretariat. Now as an ‘outside observer’ with a keen interest in the activities of EFRAG, it is also very satisfying to follow the development under the leadership of Françoise Flores. EFRAG has progressed in the past twelve months and has been able to deliver on many new activities, including the provision of short summaries explaining EFRAG views, in organising meetings with representatives of National Funding Mechanisms and by holding an extensive series of outreach meetings with European constituents. In addition, EFRAG has organised more ‘in substance’ technical convergence meetings with the IASB and a European meeting with the IFRS Foundation Trustees. EFRAG has at the same time managed the substantial number of comment letters issued in the past year in response to IASB Exposure Drafts and, very importantly, has maintained the high quality in its comment letters. The proactive agenda has also progressed very well, and therefore it has been very satisfying to see that EFRAG is a self-sustaining organisation, independent of any single person.







In addition, it is a pleasure to observe on home ground that EFRAG is well-known amongst its constituents and is perceived as the only substantial and credible counterpart in Europe that the IASB will listen to. I was also pleased to receive confirmation that EFRAG's draft comment letters really are used as a basis for considering IASB Exposure Drafts and that many constituents do not additionally send comments to the IASB, if they agree with EFRAG's draft comment letters.

It is clear that EFRAG is well established in relation to being the European voice responding to the IASB's due process documents, and in relation to providing endorsement advice to the European Commission. I am very proud to see that EFRAG is the body that has issued the most proactive technical discussion papers over the last five years. Having said all this, it is clear to me that EFRAG is by now the most important accounting body in Europe and has achieved the goal of being the technical accounting voice of Europe. It makes me proud to have been part of this development and it makes me happy to see the recent, further achievements.

**Stig Enevoldsen**  
Chairman of EFRAG until 31 March 2010



**I wish EFRAG  
all the best for  
the future!**



# Seek close exposure to first-class IFRS expertise in EFRAG!

*Go for a win-win deal: increase the IFRS expertise of your financial reporting team while contributing to the EFRAG work!*

In this fast-paced and IFRS dominant environment, you may be interested in investing to develop high-level technical knowledge in European and international context in order to remain on top of IFRS and be part of the global financial reporting developments and key issues. Joining EFRAG represents a unique opportunity to acquire detailed knowledge and understanding of the new standards that are being developed by the IASB and which are due to be implemented by European companies throughout the period 2013-2015.

Since its creation, EFRAG has introduced the possibility for financial reporting professionals to come and work for a determined period of time as 'seconded'. Seconded by listed companies, banks, insurance undertakings or audit firms, they are integrated into our team of project managers and will be assigned specific projects. A period of 2 or 3 years is usually envisaged in order to enable them to follow a reasonable part of the completion cycle of a project or standard.

So far, both organisations and individuals acknowledge the experience to have been highly valuable in enhancing their understanding of IFRS stakes as well as identifying and building contacts with key players. A secondment with EFRAG is usually considered as an excellent return on investment for organisations and a career booster for professionals!

A secondment at EFRAG gives financial reporting professionals the opportunity to work in an inspiring workplace where they can develop their technical expertise as project managers in a multi-cultural environment and a cooperative atmosphere.

➔ **Interested in joining as an individual or in establishing a secondment scheme for your company? Please do not hesitate to contact Saskia Slomp, Director at EFRAG ([saskia.slomp@efrag.org](mailto:saskia.slomp@efrag.org)).**



"When I was offered the possibility of a secondment to EFRAG, I was initially reluctant because it would result in a significant change in both my professional and personal life. However, the more I pondered over the offer, the more I realised that coming to EFRAG would be a unique professional opportunity.

After one year working at EFRAG, I am delighted to say that the decision to come to EFRAG was the correct one. The opportunity has enabled me to enhance my technical skills on IFRS matters but also, and above all, develop a more rigorous way of approaching and analysing certain issues. This, combined with the privilege of exchanging different views with other colleagues, whom have many different backgrounds, and receiving valuable input from TEG members, has enabled me to grow professionally."

Alessandro Turris, *OIC Italy*





“Joining EFRAG was a challenging decision and now I can say that it has been my best choice. You have the opportunity, not only of improving your technical knowledge and skills, but also to review your way of reasoning and to contemplate IFRS from a different perspective: IFRS are more than a group or a body of accounting standards, there is logic behind all. Besides, you have the chance to work with experts from different industries, backgrounds, interests, etc. All this makes working in EFRAG a highly-recommendable experience for those who want to develop as a professional in technical accounting.”



**Joaquin Sanchez-Horneros,**  
*Deloitte Spain*

“Deloitte Spain is the Leader of professional services in Spain. We believe that it is impossible to achieve such position without the right people and the right initiatives. [...] We believe that having our people participating in the EFRAG’s Team enables them a global environment experience, a culture of diversity, professionalism, and mobility, which we believe are important ingredients in our ability as a professional services Firm to have new ideas for creating value to our clients. Our people, our clients and we are much in favour and highly appreciate such opportunity.”

**German de la Fuente,** *Managing Partner for Deloitte Spain Assurance, Risk and Transaction Services in Spain*

“EFRAG provides a great opportunity to look at technical matters from different perspectives and helps to see a “bigger” picture. It is also a great chance to meet with people who help shaping IFRS in Europe and to learn from them.”



**Irina Ipatova,** *KPMG London*

“EFRAG’s work is immensely important to ensure that Europe speaks with one voice and in doing so, maximises its influence on IASB discussions.

As an international network with a strong European practice, KPMG is pleased to support EFRAG in several ways, including sending some of our people on secondment as project manager. Secondments are a great experience for the individual involved and are beneficial to both EFRAG and us. In the end, our managers return with a broader perspective on accounting issues as a result of working with various European stakeholders and with a better insight into how Europe works.”

**Mark Vaessen,** *Partner, KPMG LLP, Global IFRS Network Leader, International Standards Group, Head of IFRS, KPMG Europe LL.*

# Publications and Activities in 2010

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
<b>IFRS</b>				
Amendments to IAS 24 Relationships with the State <a href="#">Final amendment issued 04-11-2009</a>	22-12-2008	01-04-2009	20-11-2009	29-01-2010
Replacement of IAS 39 Financial Instruments: Classification and Measurement <a href="#">Final standard issued 12-11-2009</a>	28-07-2009	21-09-2009	02-11-2009	Postponed
Replacement of IAS 39 Financial Instruments: Fair Value Option for Financial Liabilities <a href="#">ED issued 11-05-2010 with comment deadline of 16-07-2010, final standard issued 28-10-2010</a>	09-06-2010	16-07-2010		
Replacement of IAS 39 Financial Instruments: Amortised Cost and Impairment <a href="#">ED issued 05-11-2009 with comment deadline of 30-06-2010</a>	22-02-2010	29-06-2010		
Amendments to IAS 19 Defined Benefit Plans <a href="#">ED issued 29-04-2010 with comment deadline of 06-09-2010</a>	21-05-2010	15-09-2010		
Improvements to IFRS 2009 <a href="#">Final amendments issued 06-05-2010</a>	23-09-2009	25-11-2009	17-05-2010	23-07-2010
Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <a href="#">Final amendments issued 28-01-2010</a>	04-12-2009	22-12-2009	29-01-2010	22-02-2010
Amendments to IAS 1- Presentation of Items of Other Comprehensive Income <a href="#">ED issued 27-05-2010 with comment deadline of 30-09-2010</a>	02-06-2010	23-09-2010		
Amendments to IAS 37 Measurement of Liabilities in IAS 37 <a href="#">ED issued on 05-01-2010 with comment deadline of 12-04-2010 extended to 19-05-2010</a>	22-02-2010	20-05-2010		
Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters <a href="#">ED issued 26-08-2010 with comment deadline of 27-10-2010, final amendment issued on 20-12-2010</a>	22-09-2010	29-10-2010		
Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets <a href="#">ED issued 10-09-2010 with comment deadline 09-11-2010, final amendment issued on 20-12-2010</a>	07-10-2010	09-11-2010		
Amendment to IFRS 1 Severe Hyperinflation <a href="#">ED issued 30-09-2010 with comment deadline 30-11-2010 and final amendment issued on 20-12-2010</a>	22-10-2010	03-12-2010		
Amendments to IFRS 7 Disclosures-Transfers of Financial Assets <a href="#">Final amendments issued 07-10-2010</a>	15-06-2009	31-07-2009	09-12-2010	16-03-2011
Count 2010	8	8	3	3
<b>IFRIC</b>				
Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <a href="#">Final amendments issued 26-11-2009</a>	10-07-2009	07-09-2009	14-12-2009	29-01-2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments <a href="#">Final interpretation issued 26-11-2010</a>	21-08-2009	08-10-2009	14-12-2009	29-01-2010
IFRS Interpretations Committee tentative agenda decision in relation to Put Options written over Non-Controlling Interests <a href="#">Published in September 2010 IFRIC Update, taken back on the agenda November 2010 IFRIC Update</a>	21-09-2010	13-10-2010		
Draft IFRIC Interpretation Stripping Cost in the Production Phase of a Surface Mine <a href="#">Draft Interpretation issued 26-08-2010 with comment deadline of 30-11-2010</a>	22-09-2010	03-12-2010		
IFRS Interpretations Committee's rejection decision on IAS 36 Impairment of Assets - Calculation of Value in Use <a href="#">Published in September 2010 IFRIC Update, revised in November 2010 IFRIC Update</a>	13-10-2010	02-11-2010		
Count 2010	3	3	0	2





	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
<b>Other Letters</b>				
Exposure Draft Measurement Uncertainty Analysis Disclosure for Fair Value Measurements <a href="#">ED issued 29-06-2010 with comment deadline 07-09-2010</a>	09-07-2010	16-09-2010		
Exposure Draft Management Commentary <a href="#">Practice statement issued 08-12-2010</a>	16-11-2009	09-03-2010	Not subject to endorsement process	
Discussion Paper Extractive Activities <a href="#">Discussion Paper issued 06-04-2010 with a comment deadline of 30-07-2010</a>	23-04-2010	16-07-2010		
Exposure Draft Conceptual Framework for Financial Reporting: The Reporting Entity <a href="#">ED issued 11-03-2010 with comment deadline of 16-07-2010</a>	13-04-2010	15-07-2010		
FASB Exposure Draft Accounting for Financial Instruments <a href="#">ED issued 26-05-2010 with comment deadline of 30-09-2010</a>	28-07-2010	28-09-2010		
Exposure Draft Revenue from Contracts with Customers <a href="#">ED issued 24-06-2010 with comment deadline of 22-10-2010</a>	27-07-2010	22-10-2010		
Exposure Draft Insurance Contracts <a href="#">ED issued 30-07-2010 with comment deadline of 30-11-2010</a>	17-09-2010	14-12-2010		
Exposure Draft Leases <a href="#">ED issued 17-08-2010 with comment deadline of 15-12-2010</a>	24-09-2010	16-12-2010		
IFRS Foundation Consultation Document on Criteria for Annual Improvements to IFRS <a href="#">Consultation document issued 31-08-2010 with comment deadline of 30-11-2010</a>	01-10-2010	06-12-2010		
IASB staff draft of the forthcoming IFRS Fair Value Measurement <a href="#">Issued 19-08-2010</a>		05-11-2010		
IASB Request for Views on Effective Dates and Transition Methods <a href="#">Request for Views issued 19-10-2010 with comment deadline of 31-01-2011</a>	22-11-2010	31-01-2011		
IFRS Foundation Trustees' Review of the IFRS Interpretations Committee <a href="#">Consultation Document issued 02-11-2010 with a comment deadline of 31-01-2011</a>	17-12-2010	23-02-2011		
IFRS Foundation Review on Status of the Trustees' Strategy Review <a href="#">Consultation Document issued 05-11-2010 with comment deadline of 31-12-2010 extended to 24-02-2011</a>	21-12-2010	08-03-2011		
Count 2010	11	10		
<b>Other Publications</b>				
Analysis of the IFRS for SMEs' compatibility with the EU Accounting Directives	01-03-2010	03-06-2010		
EFRAG Consultation on Operational Effects - Financial Instruments: Amortised Cost and Impairment	18-03-2010			
Amortised Cost and Impairment – Summary of EFRAG's Outreach Activities	07-05-2010			
Performance Reporting – Summary of Comments in Response to the European Discussion Paper	16-04-2010			
Research Paper on the proposed new Definition of an Asset	03-02-2010			
EFRAG Strategy for European Proactive Financial Reporting Activities Focus on Improvement	10-06-2010			
EFRAG Public Consultation on its Proactive Work and Feedback Statement	23-09-2010	01-12-2010		
Count 2010	7	2		
<b>Totals</b>	<b>29</b>	<b>23</b>	<b>3</b>	<b>5</b>

**Letters issued in 2010 in total**

Draft Comment Letters	22
Final Comment Letters	21
Draft Endorsement Letters	3
Final Endorsement Letters	5
Other Publications	9
<b>TOTAL</b>	<b>60</b>

**Number of meetings and conference calls in 2010**

EFRAG Technical Expert Group	27 <sup>1</sup>
EFRAG Insurance Accounting Working Group	8
EFRAG Financial Instruments Working Group	6
EFRAG SME Working Group	5
Disclosure Framework Advisory Panel	3
Business Combinations Under Common Control Advisory Panel	4
Income Tax Advisory Panel	3
EFRAG Planning & Resource Committee	6
EFRAG User Panel	4
EFRAG Consultative Forum of Standard Setters	4
EFRAG Supervisory Board and Committees <sup>2</sup>	19
<b>TOTAL</b>	<b>89</b>



Françoise Flores would like to express her gratitude to the EFRAG staff and acknowledge their accomplishments in support of EFRAG technical and other activities.

<sup>1</sup> Consisting of 11 meetings of three days on average and 16 conference calls.

<sup>2</sup> The EFRAG Supervisory Board operates an Audit and Budget Committee, a Nominating Committee and a Funding Task Force. These committees usually meet by conference call. The EFRAG Supervisory Board held four physical meetings in 2010.

# Financial Highlights

## Abbreviated Financial Statements as of 31 December 2010

INCOME STATEMENT	2010	2009
	000 EUR	000 EUR
Contributions		
Member Organisations	825	825
National Funding Mechanisms	1063	1020
Ad hoc	50	63
European Commission	2252	0
<i>Contributions in kind</i>	<i>1279</i>	<i>499</i>
<b>TOTAL CONTRIBUTIONS</b>	<b>5469</b>	<b>2407</b>
Operating expenses		
Human resources	-3135	-1458
Building	-300	-217
Travel	-150	-87
Special events	-20	0
Publications	-28	-19
Meetings	-47	-44
Other costs	-213	-166
<i>Expenses in kind</i>	<i>-1279</i>	<i>-499</i>
<b>TOTAL OPERATING EXPENSES</b>	<b>-5172</b>	<b>-2490</b>
Operating profit or loss	297	-83
Financial result	15	19
<b>RESULT FOR THE YEAR</b>	<b>312</b>	<b>-64</b>
Contributions related to prior year	0	295
<b>NET PROFIT OR LOSS</b>	<b>312</b>	<b>231</b>

BALANCE SHEET	31/12/2010	31/12/2009
	000 EUR	000 EUR
Tangible Assets	115	133
Office Guarantee	109	72
<b>Total Fixed Assets</b>	<b>224</b>	<b>205</b>
Accounts Receivable	1409	350
Current Investments	319	308
Cash	460	1055
Deferred Charges and Accrued Income	4	47
<b>Total Current Assets</b>	<b>2192</b>	<b>1760</b>
<b>TOTAL ASSETS</b>	<b>2416</b>	<b>1965</b>
Equity: Accumulated surplus	1898	1586
Liabilities		
• Leasing Debt	15	1
• Accounts Payable	98	128
• Taxes, Remuneration and Social Security	303	188
• Rent Accrual	102	62
<b>Total Liabilities</b>	<b>518</b>	<b>379</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>2416</b>	<b>1965</b>

The financial highlights are based on statutory financial statements audited by BDO, Belgium, who issued an unqualified audit report on those statements on 3 February 2011.

### Notes

The financial statements have been prepared on an accruals basis. Tangible assets equipment are recorded at historical cost and depreciated on the basis of the useful life of the assets. Current investments and cash at bank and in hand are recorded at market value. Contributions are recorded on an accruals basis.

In 2009, EFRAG has started to account for its contributions in kind (the amount included for 2009 is based on the fourth quarter only). For 2010, the full amount of the contributions in kind and expenses in kind is included. The contributions and expenses in kind consist of the time members of the various committees dedicate to EFRAG (based on average annual cost to the sponsoring organisation including travel costs) as well as the additional value of the secondments provided to EFRAG.

Contributions in kind 2010		000 EUR
<b>Secondments</b>		<b>154<sup>1</sup></b>
<b>Time and travel contributions</b>		<b>1125</b>
<i>Technical Expert Group</i>		773
<i>Other Groups and Panels</i>		352
<b>TOTAL CONTRIBUTIONS IN KIND</b>		<b>1279</b>

<sup>1</sup> Including the contribution in kind by the Italian Standard Setter OIC of 70K euro

2010 was the first year that EFRAG received the European Commission contribution in the form of a European Commission grant. EFRAG's expenses, excluding expenses in kind, have almost doubled compared to 2009, largely due to the increase of the EFRAG secretariat staff. Additionally, in 2010, the EFRAG Chairman was paid by EFRAG; until 31 December 2009, this full-time role was funded by the then chairman's employer. EFRAG closed the year 2010 with a surplus, due to lower spending on technical staff, reflecting a delay in recruitment.

Accounts receivable as of 31/12/2010	2010	2009
	000 EUR	000 EUR
French National Funding Mechanism	350	350
Danish National Funding Mechanism	27	
ACTEO (Group of Largest French Companies)	50	
European Commission Contribution	977	
Other debtors	5	
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>1409</b>	<b>350</b>

The European Commission contribution is the remaining part of the grant and will be paid after approval of the final report, including the audited financial statements.

All other contributions received from Member Organisations and Other National Funding Mechanisms, including more than 50% of the EC grant, were received during 2010.

The Danish National Funding Mechanism was established late in the year and payments have been received expeditiously.



## Financial Structure of EFRAG

In 2010, EFRAG moved to a three-tier funding model, whereby public sector funding matches private sector contributions and the three pillars complement each other:

- Base funding from Member Organisations
- National Funding Mechanisms
- European Commission funding

The EFRAG Member Organisations are European stakeholder representative organisations with an interest in financial reporting. The National Funding Mechanisms have different structures in different countries, meeting the national requirements and best fitting the national circumstances. Their contribution is based on the GDP of the country. EFRAG seeks to broaden its basis of National Funding Mechanisms supported by the European Commission and the Council of Ministers. From 2010 onwards, EFRAG is co-funded by

the European Commission, which matches each Euro contributed by the private sector, up to a maximum annual grant amount. The EFRAG financial structure combines private and public funding and gives EFRAG the appropriate credibility and standing without impairing its independence.

In addition to cash funding, EFRAG has received and is receiving contributions in kind provided by the members of EFRAG TEG (with the exception of the Chairman), the EFRAG Supervisory Board, the Working Groups and Advisory Panels, and seconded staff at subsidised cost. The Italian Standard Setter (OIC) has made a substantial contribution in kind by making a project manager available to EFRAG.

EFRAG also receives voluntary ad hoc contributions.

### The EFRAG Member Organisations are:

FEE	Federation of European Accountants
BUSINESSEUROPE	European Business Federations
CEA	European Insurance and Re-Insurance Federation
EBF	European Banking Federation
ESBG	European Savings Banks Group
EACB	European Association of Cooperative Banks
EFAA	European Federation of Accountants and Auditors

### National funding mechanisms have been established in:

Denmark	Contributions from important business organisations in Denmark namely Realkreditrådet (Association of Danish Mortgage Banks); Realkreditforeningen (Danish Mortgage Banks' Federation); Dansk Erhverv (Danish Chamber of Commerce); Dansk Industri (Confederation of Danish Industry); Danmarks Rederiforening (Danish Shipowners' Association); and Finansrådet (Danish Bankers association).
France	Collection of funds by the Ministry of Finance through a non-mandatory call on all listed companies and the accountancy profession for the IASB, EFRAG and the Autorité des Normes Comptables (ANC). The coordination of the funding mechanism is entrusted to the ANC.
Italy	Part of the budget of Organismo Italiano di Contabilità (OIC) is obtained from a collection of funds by the Chamber of Commerce from all companies that have to publish financial statements.
Norway	Part of the budget of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).
Sweden	Part of the budget of the self-regulating body, The Association for Generally Accepted Principles in the Securities Market (Föreningen för god sed på värdepappersmarknaden), financed by fees from listed companies calculated as a percentage of the market capitalisation, fees from the principles, as well as fees charged for statements on certain issues.
UK	Part of the budget of the Financial Reporting Council (FRC) financed by a levy on all UK listed companies combined with funding from the government and the accounting profession.





*The breakdown of the contributions is as follows:*

CONTRIBUTIONS	2010	2009
	000 EUR	000 EUR
<b>Member Organisations</b>		
FEE	300	300
BUSINESSEUROPE	200	200
CEA	75	75
EBF	75	75
ESBG	75	75
EACB	75	75
EFAA	25	25
<b>Total Member Organisations</b>	<b>825</b>	<b>825</b>
<b>National Funding Mechanisms</b>		
France	350	350
UK	350	350
Italy	170	170
Sweden	100	100
Norway	50	50
Denmark	43	
<b>Total National Funding Mechanisms</b>	<b>1063</b>	<b>1020</b>
<b>Ad hoc funding</b>		
ACTEO (Group of Largest French Companies)	50	50
Forsikring & Pension, Denmark	0	13
<b>Total ad hoc funding</b>	<b>50</b>	<b>63</b>
European Commission	2252	0
<b>TOTAL CONTRIBUTIONS</b>	<b>4190</b>	<b>1908</b>

# Appendices

**TABLE 1 – EFRAG SUPERVISORY BOARD (since June 2010)**

<b>Pedro Solbes Mira</b>	Chairman, Spanish, former European Commissioner and Minister of Economy and Finance
<b>Pär Boman</b>	Swedish, CEO of Svenska Handelsbanken, Board Member of the Swedish Bankers' Association
<b>Peter Chambers</b>	UK, former CEO of Legal & General Investment Management, non-executive Director of FRC
<b>Claudio de Conto</b>	Italian, Managing Director Finance of Pirelli Real Estate and Executive Chairman of Pirelli Real Estate Credit Servicing, former Member IFRIC
<b>Gérard de la Martinière</b>	French, former Chairman of CEA, former CFO and Board member of AXA, Board member of Schneider Electric and Air Liquide
<b>Patrick De Vos</b>	Belgian, CFO of Groupe Bruxelles Lambert
<b>Gerhard Hofmann</b>	German, Member of the Board of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, Vice- President EACB, Chairman EBIC
<b>Professor Robin Jarvis</b>	UK, Head of SME Affairs at ACCA, Professor of Accounting at Brunel University , member of IASB SME Implementation Group, EC Expert Group - Financial Services User Group, European Banking Authority's Supervisory Boards Stakeholder Group and Technical Adviser to the IFAC SMP Committee
<b>Professor Aldona Kamela-Sowinska</b>	Polish, Chair International Relations Commission of the Accountants Association, former Deputy Finance Minister, former Rector of the University of Poznan, Member IFAC Professional Accounting Organisation Development Committee
<b>John Kellas</b>	UK, former Chairman IAASB, former Partner KPMG, member of the UK FRC Professional Oversight Board
<b>Jorge Gil Lozano</b>	Spanish, Managing Director of the Operative and Financial Areas of the Spanish Confederation of Savings Banks
<b>Patrice Marteau</b>	French, Chairman ACTEO, Vice-Chair IFRS Advisory Council, Former CFO PPR Group
<b>Professor Angelo Provasoli</b>	Italian, former Rector of University Bocconi and Professor of Financial Accounting of the same University, President of the Board of Statutory Auditors of Cassa Depositi e Prestiti and former President of the Board of Statutory Auditors of Banca d'Italia
<b>Jens Røder</b>	Danish, former IASCF Trustee, FEE President and Chairman of the ECG, retired PwC Partner, current member of the IVSC Board of Trustees and Secretary General of the Nordic Federation of Public Accountants
<b>Professor Peter Sampers</b>	Dutch, Senior Accounting Officer at Royal DSM NV, Professor of Financial Accounting, Maastricht University
<b>Hans van Damme</b>	Dutch, immediate past FEE President, retired KPMG partner

The European Commission and the European Securities and Markets Authority (ESMA, formerly CESR) attend the meeting as observers.



**TABLE 2 – EFRAG TECHNICAL EXPERT GROUP (AS OF 31 DECEMBER 2010)**

<p><b>Françoise Flores</b> (France) EFRAG Chairman, Partner Mazars<sup>1</sup></p>		
<p><b>Mike Ashley</b> (United Kingdom) Vice-Chair of EFRAG TEG Audit Partner KPMG</p>		<p><b>Alan Dangerfield</b> (Switzerland) Head of Corporate Finance Accounting and Controlling – External Relations Roche</p> 
<p><b>Nicolas de Paillerets</b> (France) Director Group Accounting Principles</p>		<p><b>Gabi Ebberts</b> (Germany) Team Leader MD&amp;A Group Financial and Regulatory Reporting Allianz SE</p> 
<p><b>Nicklas Grip</b> (Sweden) Senior Vice-President Handelsbanken</p>		<p><b>Araceli Mora</b> (Spain) Professor University of Valencia</p> 
<p><b>Hans Schoen</b> (The Netherlands) Chairman of the insurance Accounting Working Group Former Audit Partner KPMG</p>		<p><b>Anna Sirocka</b> (Poland) Audit Partner EY</p> 
<p><b>Andy Simmonds</b> (United Kingdom) Consultation Partner National Audit and Accounting Department Deloitte</p>		<p><b>Andrea Toselli</b> (Italy) Partner, Leader of National Technical Department PwC</p> 
<p><b>Carsten Zielke</b> (Germany) Managing Director Société Générale</p>		
NON VOTING MEMBERS		
<p><b>Roger Marshall</b> (United Kingdom) Interim Chairman UK Accounting Standards Board (UK ASB)</p>		<p><b>Jérôme Haas</b> (France) Chairman, Autorité des Normes Comptables (ANC)</p> 
<p><b>Angelo Casó</b> (Italy) President, Organismo Italiano di Contabilità (OIC)</p>		<p><b>Liesel Knorr</b> (Germany) President, German Accounting Standards Board (GASB)</p> 

The European Commission, the International Accounting Standards Board (IASB) and the European Securities and Markets Authority (ESMA, formerly CESR) attend the meeting as observers.

<sup>1</sup> During her mandate at EFRAG, any involvement in Mazars activities is suspended.



**TABLE 3 – EFRAG SECRETARIAT AS OF 31 DECEMBER 2010**

<b>Françoise Flores</b>	<b>Chairman and CEO</b>
<b>Mario Abela</b>	Director of Research
<b>Pieter Dekker</b>	Technical Director
<b>Saskia Slomp</b>	Director
<b>Isabel Batista</b>	Project Manager
<b>Chiara Del Prete</b>	Project Manager
<b>Ralitza Ilieva</b>	Project Manager
<b>Irina Ipatova</b>	Project Manager
<b>Filippo Poli</b>	Project Manager
<b>Joaquin Sanchez-Horneros</b>	Project Manager
<b>Katrien Schotte</b>	Project Manager
<b>Rasmus Sommer</b>	Project Manager
<b>Stuart Studsrud</b>	Project Manager
<b>Alessandro Turris</b>	Project Manager
<b>Marius Van Reenen</b>	Project Manager
<b>Annemiek Vromans</b>	Project Manager
<b>Provision of services on a project basis:</b>	
<b>Sigvard Heurlin</b>	Senior Project Manager
<b>Anne Mc Geachin</b>	Project Manager
<b>Patrick Mommens</b>	Project Manager
<b>Aleš Novak</b>	Project Manager
<b>Jeff Waldier</b>	Project Manager
<b>Thérèse Mac An Airchinnigh</b>	Office Administrator
<b>Nathalie Saintmard</b>	Communications Manager

EFRAG would like to thank Kristy Robinson and Svetlana Boysen for their valuable contributions and expertise in all EFRAG financial instruments projects.

EFRAG would like to further thank Gregory Hodgkiss and Emmanuel Gagneux for their valuable contributions as project managers.



**TABLE 4 – EFRAG OBSERVERS IN IASB WORKING GROUPS**

<b>Financial Instruments</b>	Mike Ashley (EFRAG TEG)
<b>Insurance</b>	Carsten Zielke (EFRAG TEG)
<b>Lease Accounting</b>	Dominique Thouvenin (former EFRAG TEG)
<b>Employee Benefits</b>	Andrew Lennard (UK ASB)
<b>Joint International Group on Financial Statement Presentation</b>	Françoise Flores (EFRAG Chairman)
<b>SME Implementation Group</b>	Françoise Flores (EFRAG Chairman)
<b>IFRS Advisory Council</b>	Françoise Flores (EFRAG Chairman) / member status
<b>XBRL Advisory Council</b>	Françoise Flores (EFRAG Chairman) / member status

**TABLE 5 – MEMBERS OF THE FINANCIAL INSTRUMENTS WORKING GROUP**

Mike Ashley – Working Group Chairman - EFRAG TEG Member and Vice Chair - Auditor (KPMG); David Bradbery – Preparer (UBS Investment Bank); Pierre-Henri Damotte – Preparer (Société Générale); Laure Guégan – Auditor (EY); Armin Hausmann – Preparer (Novartis International); Petri Hofste – Preparer (ABN Amro); Gordon Ireland – Auditor (PwC); Dennis Jullens – User (UBS); Roberto Monachino – Banker (UniCredit Banca Mobiliare); Cynthia Mustafa – Preparer (Deutsche Bank AG); Nicolas Patrigot – Preparer (BPCE); Henricus Seerden – Preparer (EIB); Brendan van der Hoek – Preparer (Lloyds TSB); Thierry Veysseyre – Preparer (BNP Paribas); Pietro Virgili – Preparer (Banca IntesaSanpaolo); Yvonne Wiehagen-Knopke – Preparer (DZ Bank AG).

Representatives of the European Commission, the European Securities and Markets Authority (ESMA, formerly CESR) and the European Banking Authority (EBA, formerly CEBS) are invited to participate as observers.

**TABLE 6 – MEMBERS OF THE SME WORKING GROUP**

Françoise Flores – Working Group Chairman - EFRAG Chairman; Jean-Charles Boucher – Auditor (Touillet Audit); José Maria Bové – Auditor (Instituto de Censores Jurados de Cuentas de España; Bové Montero y Cia); Francis Chittenden – Academic (Manchester Business School); Federico Diomeda – Auditor (EFAA); Stig Enevoldsen – Auditor (Deloitte); Johannes Guigard – Auditor (Dottori Commercialisti); Luc Hendrickx – Preparer/ User (UEAPME); Radek Ignatowski – Academic (University of Lodz); Robin Jarvis – Academic (ACCA; EFRAG Supervisory Board Member); Manfred Jutz – Preparer (Dr. August Oetker KG); Gerhard Prachner – Auditor (PwC); Brian Shearer – (Grant Thornton); Marc Spyker – (I'ANR); Danielle Stewart – Auditor (Baker Tilly); Knut Tonne – Auditor (KPMG); Hugo van den Ende – Auditor/ Standard setter (Dutch Standard Setter - DASB); Bart De Leeuw – Auditor (EY).

Representatives of the European Commission are invited to participate as observers.

**TABLE 7 – MEMBERS OF THE INSURANCE ACCOUNTING WORKING GROUP**

Hans Schoen – Working Group Chairman (EFRAG TEG Member and Former Audit Partner, KPMG); Bernard Bolle-Reddat – Preparer (BNP Paribas); Alexander Dollhopf – Actuary (Towers Watson); Hugh Francis – Preparer (Aviva); Helle Gade – Preparer (Danish Insurance Association, Forsikringogpension); Benoît Jaspar – Preparer (Generali); Fabrice Guenoun – Preparer (AMICE); Burkhard Keese – Preparer (Allianz); Joachim Koelschbach – Auditor (KPMG); Jacques Le Douit – Preparer (AXA); Francesco Nagari – Auditor (Deloitte); Sabrina Pucci – Academic (University of Rome); Gail Tucker – Auditor (PwC); Carsten Zielke – EFRAG TEG Member (Société Générale).

Representatives of the European Commission, the European Securities and Markets Authority (ESMA, formerly CESR), the Committee of European Insurance and Occupational Pensions Supervisors (EIOPA – formerly CEIOPS) and the European (re)insurance federation (CEA) are invited to participate as observers.

The International Credit Insurance & Surety Association (ICISA), the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE) and representatives of the Re-insurance industry are associate members of the working group, in which they are invited to participate in meetings of interest to their respective industries

## TABLE 8 – MEMBERS OF THE TAX ADVISORY PANEL

Andrew Lennard - Advisory Panel Chairman (UK ASB); Carl-Eric Bohlin - Swedish Standard Setter (Swedish Financial Reporting Board); Elizabeth Crispin - Auditor (Deloitte); Matthew Curtis - Auditor (EY); Stig Enevoldsen - Auditor (Deloitte); Edouard Fossat - Auditor (Mazars); Prof. Dr. Norbert Herzig - academic (University of Cologne); Peter Holgate - Auditor (PwC); Matthias Jarysek- Preparer (Deutsche Telekom AG); Andrew Jones - User (Makinson Cowell); Liesel Knorr - German Standard Setter (DRSC); Olivia Larmarud - Preparer (PSA Peugeot Citroën); Ugo Marinelli - Academic (University of Roma); Joanna Osborne - Auditor (KPMG); Thomas Senger - Auditor (Warth & Klein); Hugh Shields\* - Preparer (Deutsche Bank); Alfred Simlacher- Preparer (Siemens AG); Mitsuhiro Takemura - Observer (IASB).

\*left the group in the course of the year.

## TABLE 9 – MEMBERS OF THE BUSINESS COMBINATIONS UNDER COMMON CONTROL ADVISORY PANEL

Stig Enevoldsen - Advisory Panel Chairman - Auditor (Deloitte); Oliver Behys - Auditor (KPMG); Michelle Sansom - UK Standard Setter (UK ASB); Mike Davies - Auditor (EY); Egbert Eeftink - Auditor (KPMG); Henrik Z. Hansen - Auditor (Deloitte); Jorge Herreros - Auditor (KPMG); Erich Kandler - Auditor (Deloitte); Didier Rimbaud - Auditor (Mazars), Bjørn Einar Strandberg - Auditor (PwC); Christiane Ohlgart - Preparer (SAP).

## TABLE 10 – MEMBERS OF THE DISCLOSURE FRAMEWORK ADVISORY PANEL

Stig Enevoldsen, Advisory Panel Chairman - Auditor (Deloitte); Bertrand Allard - User (Credit Agricole); Martin Beyersdorff - Auditor (EY); Alan Dangerfield - Preparer (Roche); Manuel Del Olmo - Academic (Madrid University); Jacques Ethevenin - Preparer (Air Liquide); Ann Gaeremynck - Academic / corresponding member (University of Leuven); Paolo Gibin - Preparer / corresponding member (Telecom Italia); Colin Haslam - Academic (Hertfordshire University); Ed Jenkins - Preparer (HSBC); Jes Klausby - Preparer / corresponding member (Nykredit); David Littleford - Auditor / corresponding member (KPMG); Ugo Marinelli - Academic (Roma University); Ivano Mattei - User (Banco Popolare); Michael Pein - Preparer (Bawag PSK); Peter Philbrick - Preparer / corresponding member (BNP Paribas); Gerhard Prachner - Auditor / corresponding member (PwC); Christelle Rochard - Preparer/corresponding member (AXA); Olivier Scherer - Auditor / corresponding member (PwC); Mark Vaessen - Auditor (KPMG).

Representatives of the European Securities and Markets Authority (ESMA, formerly CESR) and the International Auditing and Assurance Standards Board (IAASB) are invited to participate as official observers. Mark Walsh of the Canadian ASB is invited to participate as an informal observer.

## TABLE 11 – MEMBERS OF THE CONSULTATIVE FORUM OF STANDARD SETTERS

AFRAC Austrian Standard Setter; CFSS Luxembourg Standard Setter; CMF Accounting and Auditing Department of Czech Ministry of Finance; CNC - Comissão de Normalização Contabilística; Portuguese Standard Setter; CNC - Commission des Normes Comptables, Belgian Standard Setter; ANC - Autorité des normes comptables, French Standard Setter; DRSC - German Standard Setter; EASB - Estonian Accounting Standards Board; KILA Finnish Accounting Board, Ministry of Employment and Economy - Finnish Standard Setter; FER - Swiss Standard Setter; FRB - Swedish Standard Setter; FSR/REGU - Danish Standard Setter; GMEF - Greek Ministry of Economy and Finance; AAA - Lithuanian Standard Setter; ICAC - Spanish Standard Setter; ICPAC - Cyprus Standard Setter; LMF - Latvian Ministry of Finance; NASB - Norwegian Standard Setter; OIC Organismo italiano di Contabilità - Standard Setter; KSR Accounting Standards Committee, Polish Ministry of Finance; RJ Dutch Standard Setter DASB; TASB- Turkish Standard Setter, UK ASB - UK Standard Setter.



European Financial Reporting Advisory Group ■



**EFRAG**

AISBL - IVZW  
35 Square de Meeûs  
B-1000 Brussels

Tel +32-(0)2 210 44 00

Fax +32-(0)2 210 44 01

[info@efrag.org](mailto:info@efrag.org)

[www.efrag.org](http://www.efrag.org)



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