EFRAG
European Financial Reporting Advisory Group

Annual Review 2011

About EFRAG

EFRAG, the European Financial Reporting Advisory Group, was established in 2001 with the encouragement of the European Commission 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 advisor to the European Commission is formalised in a Working Arrangement which states 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 its proactive work. This enhancement helped ensure 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 is comprised of 12 voting members, selected from a range of professional and geographical backgrounds 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, Françoise Flores, whose services are paid 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 starts 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 the EFRAG Technical Expert Group.

EFRAG 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 outreach events and field-testing to seek views from constituents.

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; the IASB participates in outreach events and field-testing organised by

EFRAG in partnership with European National Standard Setters; 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 International Forum of Accounting Standard Setters (IFASS) and has bilateral relationships with regional or national groups interested and involved in IFRS development. EFRAG also participates in the World Standard Setters meeting. EFRAG is a member of the IFRS Advisory Council and it is represented by its Chairman Françoise Flores.

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 to pool, as much as possible, European resources engaged in influencing, from a European perspective, the future development of IFRS. The EFRAG Planning and Resource Committee consists, from 2012 onwards, of four members of the EFRAG Supervisory Board, the Chairs of four National Standard Setters (from France, Germany, Italy and the UK) and the EFRAG Chairman. The European Commission participates as an observer.

The EFRAG Planning and Resource Committee sets the agenda for proactive work. Development of discussion papers and other outputs is entrusted to the EFRAG Technical Expert Group in close coordination with the Boards of the European National Standard Setters that are partners in each project. The EFRAG Planning and Resource Committee provides guidance on the allocation of available resources to proactive projects, and monitors progress. Proactive work is guided by EFRAG's Strategy for proactive activities, *Focus on Improvement* of 2010.

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

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 the 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 (ESMA) are observers at EFRAG Supervisory Board meetings.

The EFRAG Supervisory Board is appointed by the EFRAG General Assembly, following recommendations from the EFRAG Governance and Nominating Committee. This Committee is composed of four representatives from the General Assembly and three representatives from the National Funding Mechanisms. The terms of all EFRAG Supervisory Board members expire mid-2012.

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.

EFRAG's transparency and independence are 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 on EFRAG draft positions and publishing EFRAG 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 regular public consultation on the EFRAG proactive agenda;
- issuing an invitation for comments on all discussion papers published as part of EFRAG's proactive work.
- organising outreach events and field-testing in partnership with the European National Standard Setters, and in cooperation with the IASB during EFRAG's due process period, followed by the publication of feedback statements.

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). EFRAG organises, together with the European Commission, the Brussels-based European outreach events in the form of public hearings.

The EFRAG secretariat provides support for all activities of EFRAG.

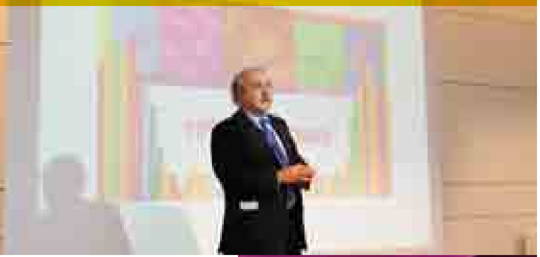
10th ANNIVERSARY

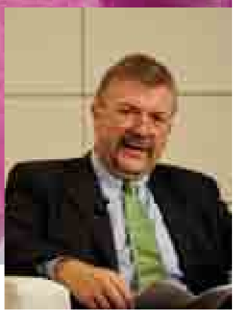
Past-Present-Future

EFRAG
European Financial Reporting Advisory Group

EFRAG celebrated its 10th anniversary on 13 October 2011. The seminar provided an overview of the organisation with reflections on past milestones and achievements, and whether EFRAG has met its objectives. It was also an opportunity to look ahead to the challenges EFRAG is likely to face. The event was a tribute to all the individuals that have contributed, or are currently contributing, to EFRAG by providing knowledge, advice, support, and funding - all of which help in achieving a common purpose.

Past





In the mid-nineties Europe was confronted with the challenge of finding a 'European' set of standards to meet the needs of a single capital market. Major companies, notably in Germany, used US GAAP. At that stage, the IASC had an important governance reform leading to the creation of the IASB. **Göran Tidström**, the first Chairman of the EFRAG Supervisory Board and currently the IFAC President said "with this reform in place, IAS became a real alternative to the development of new EU Directives or European standards and provided the opportunity to defend Europe from a US GAAP takeover". **Karel Van Hulle**, at the time, the Head of the Accounting Unit of DG Internal Market of the EC, and at present Head of Insurance and Pensions Unit, underlined that the introduction of IAS developed by a private organisation was not legally possible without some kind of a two-tier endorsement process scrutinising every standard and interpretation issued by the IASB, at both political and technical levels. The European Commission asked FEE to explore the ways and means to set up a technical advisory group drawn from all the interested parties: EFRAG was born, supported by ten Founding Fathers!

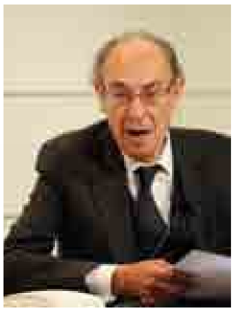
"I was present [on behalf of the IASB] at the EFRAG meetings from an early point. The transformation over the 10 years since has been remarkable and is epitomised by the collaborative project on disclosure with the FASB to find positive, new answers to difficult, longstanding issues. I wish EFRAG well in the next 10 years.

Kevin Stevenson
Chairman, AASB

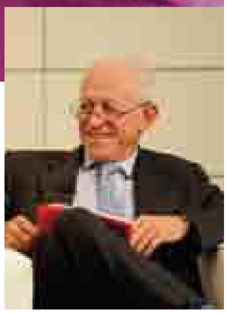
The first EFRAG Technical Expert Group, under the Chairmanship of **Johan van Helleman**, successfully met the first technical demands of Europe and created the due process and draft comment letter concept that are still at the core of EFRAG's activities today. The rationale of having a specialised body and a well-elaborated consultation process became only too clear, when the financial sector raised concerns on IAS 39, leading to the well-known carve-outs. The carve-outs were the price paid for the successful adoption of IAS in Europe. The difficulties around the en bloc endorsement led to the first governance enhancement of EFRAG which included the decision to have a full-time Chairman responsible for EFRAG. Shortly thereafter, **Stig Enevoldsen**, was appointed Chairman of EFRAG. During his chairmanship, EFRAG grew in size, visibility and impact.

Stig Enevoldsen, who has returned to his position as a Partner in Deloitte in Denmark, said that "to better utilize the scarce resources in Europe and to create debate and to influence IASB's long-term work in 2005 I got the support of the National Standard Setters…" and that is how Proactive Activities in Europe (PAAinE) were started. He also emphasized that at that time, Europe was the only region that had taken a decision to actively stimulate the global accounting debate. He continued: "EFRAG has become more important over the years, while we started as little brother to the standard-setters in France, Germany and the UK, today EFRAG is at least equal, and it remains important to work in partnership".

Present and future



The cooperation and partnership with standard-setters enhanced over time with the Chairmen of National Standard-Setters of France, the UK, Germany and Italy being appointed members of EFRAG Technical Expert Group and of EFRAG Planning and Resource Committee. From 2010 onwards, the focus on proactive activities increased even further and the partnership with National Standard-Setters led to projects being run by fully integrated European teams. **Alberto Giussani**, Vice Chair of the Technical-Scientific Committee of the **OIC** (the Italian Standard Setter), witnessed "indeed OIC like other National Standard-Setters considers itself as partner of EFRAG and the work done in these 10 years has really been beneficial to both the National Standard-Setters and EFRAG... EFRAG cannot operate the way it does without the support of National Standard-Setters. Today, EFRAG and the National Standard-Setters working in isolation are less effective as counterpart of the IASB".



Influencing the international debate on accounting matters from a European perspective is EFRAG's primary objective to ensure that the final IFRS are appropriate for Europe. Sir David Tweedie, former Chairman of the **IASB**, would refer to the relationship with EFRAG as 'constructive' with EFRAG 'sometimes being very critical friend'. **Philippe Danjou** believes from his experience as an IASB Board member and before that the independence and technical competence and expertise are essential attributes of EFRAG. The importance of IFRS will be impacted by the forthcoming SEC decision on the use of IFRS by US issuers. This may also have implications for the importance of the European influence.

"In its ten short years, EFRAG has gone from a standing start to being a thoughtful and influential contributor to the international discussions of accounting standard setters. All my colleagues in the International Forum of Accounting Standard Setters and I congratulate EFRAG on reaching this milestone."

Tricia O'Malley
Chair, Global National Standard Setters

Hans Hoogervorst, Chairman of IASB, noted that in his personal opinion he was convinced that the SEC would make a positive decision, hoping that the conditions in which IFRS are to be integrated into US GAAP will, in practice, be similar to our endorsement mechanism in Europe. Given the increasing use of IFRS worldwide, the IASB is adding to its present communication channels a closer link with the group of regional bodies, so as to create a platform helping the IASB reach decisions that are to the benefit of capital markets around the world.

EFRAG is a private entity with a public interest objective, and is recognised by European institutions. EFRAG is accountable to the public at large and to European institutions through its due process and governance. **Sharon Bowles**, Chair of the Economic and Monetary Affairs Committee of the **European Parliament** commented that organisations serving public interest like EFRAG are essential to the European Parliament, the importance of Europe having a credible voice in the European accounting debate cannot be underestimated now and in the future.

To help European views emerge from the financial reporting debate, EFRAG encourages Europeans to fully participate in the technical assessment of IASB's proposals or of the existing IFRS financial reporting practice. Moving to more interactive communication with constituents on specific technical matters further enhances this process. This includes outreach events and field testing in close cooperation with European National Standard Setters. EFRAG aims at developing its relationship with the academic community. In the coming decade EFRAG will focus more on its proactive work. The discussion papers, prepared in partnership with National Standard-Setters, aim at stimulating the debate in Europe and influencing the IASB agenda.

"…with deep respect for the EFRAG's contribution to the setting process of IFRSs as high quality global financial reporting standards …, as well as its contribution to the world via constructive comments and proactive researches. We would like to enhance the coordination between EFRAG and ASBJ and the AOSSG, to further contribute to the development and promotion of IFRSs."

Ikuo Nishikawa
Chairman, Accounting Standards Board of Japan

"On behalf of the Ministry of Finance and China Accounting Standards Committee, I would like to congratulate the EFRAG 10th anniversary. After one decade's effort, I think no one will doubt that the EFRAG has achieved a great success not only in harmonising the accounting policies and views among the EU members, but also in actively participating the IFRS setting. Therefore, EFRAG has made a significant contribution to a single set of global high quality accounting standards setting. Under your leadership, I believe the EFRAG will embrace another ten years' glorious future. Congratulation again!"

Yang Min
Secretary-General, China Accounting Standards Committee

The European Commission has played, and continues to play, a crucial role throughout the life of EFRAG, reinforced by the decision to contribute to the funding of EFRAG without impeding its independence. The collective objective is to position IFRS as the global accounting language. The G20 called for convergence in accounting standards. **Nadia Calviño**, Deputy Director-General, DG Internal Market of the European Commission, emphasised that “it is now high time for other major jurisdictions to make the move by adoption of IFRS rather than convergence. This is not just a technical decision, it has to do with vision, political will and leadership. We want the IASB to focus on high quality standards for those jurisdictions applying IFRS. Jurisdictions which have not yet completed the adoption of IFRS should not have the same weight in the governance structure and technical bodies of the IASB as jurisdictions which have implemented IFRS. The European Commission is convinced that EFRAG, together with National Standard-Setters, will continue to contribute to establishing the best accounting standards for companies in Europe and throughout the rest of the world. What really matters is having a consistent approach: we have to speak with one voice, if not our message will not be heard… The lessons we are now learning from the financial crisis is that global solutions are in the long-run inevitable, be it in banking, derivatives or financial reporting. In the global arena, the European voice is only one of many. Therefore we need to make sure we are heard as one voice”.

The acknowledgement of EFRAG as major player on the international scene is also demonstrated by the best wishes expressed by Leslie Seidman (FASB), Ikuo Nishikawa (ASBJ), Yang Min (Chinese Standard Setter), ‘Tricia O’ Malley (Global National Standard Setters), Kevin Stevenson (AASB) and Paul Cherry (IFRS Advisory Council).

“On behalf of the U.S. Financial Accounting Standards Board, congratulations on the ten-year anniversary of EFRAG! We look forward to working together on the Disclosure Framework project and other initiatives in the coming years.”

Leslie Seidman
Chairman, FASB

“In ten years EFRAG has established itself as a leading regional forum on IFRS issues. Other regions elsewhere in the world are now following Europe’s lead. The challenge in the next decade will be to harness our collective resources to promote truly global standards of financial reporting applied on a consistent basis.”

Paul Cherry
Chairman, IFRS Advisory Council

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EFRAG OBJECTIVES

- ENSURING FULL PARTICIPATION OF EUROPEAN STAKEHOLDERS IN THE DUE PROCESS OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) AND EXPRESSING THE EUROPEAN VIEW IN ADVICE PROVIDED TO THE IASB;
- ENGAGING EUROPEAN STAKEHOLDERS IN THE ANALYSIS AND DEBATE OF EMERGING FINANCIAL REPORTING ISSUES BY COORDINATING AND CARRYING OUT PROACTIVE ACCOUNTING ACTIVITIES;
- PROVIDING ENDORSEMENT ADVICE TO THE EUROPEAN COMMISSION ON THE ACCEPTABILITY OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN EUROPE;
- ADVISING THE EUROPEAN COMMISSION AND ORGANISING FOR CHANGES TO THE ACCOUNTING DIRECTIVES AND RELATED TOPICS.

EFRAG
European Financial Reporting Advisory Group

Message and Report from the Chairman of the Supervisory Board Pedro Solbes

In 2011 EFRAG celebrated its 10th Anniversary. This was the opportunity to review ten years of Europe writing an important part of the history of global financial reporting standards and EFRAG setting itself as one of the major players in the debate on financial reporting worldwide.

With the IASB enjoying a new leadership, EFRAG and IASB are ready to face another ten years of working in the public interest supporting capital markets as major contributors to sustainable economic growth.

As anticipated, 2011 proved to be a year of transition. The first challenge was for EFRAG to exercise maximum influence on the IASB's progress on the completion of its convergence agenda, covering Revenue Recognition, Leases, Financial Instruments and Insurance Contracts, not only on the content, but also on the process. As a more sensible pace was finally adopted, EFRAG was able to balance its activities, continuing monitoring IASB re-deliberations, making good progress in the proactive projects on its own agenda, regaining momentum in the endorsement advice process for new IFRS issued by the IASB in response to the financial crisis and other improvements to existing standards, and finally getting ready to positively contribute to a second decade of IFRS development.

HAVE IFRS BECOME GLOBAL?

In 2011, the US Securities and Exchange Commission's (SEC) decision was awaited and expected to turn IFRS into the one set of global high quality financial reporting standards, as so often referred to. Japan would make IFRS mandatory subsequently in 2012 and IFRS would indeed have become global.

From that perspective, 2011 seems to have been a step backwards. The SEC indicated that a few more months were needed. SEC staff was recently actively working on a report, but the SEC has not yet put the decision to its agenda and the incoming elections in the US may suggest supplementary delays. Moreover, a positive decision would be the adoption of a framework to incorporate IFRS into US GAAP and such a process could take years, be accelerated or slowed down, dependent on who are the SEC Chief Accountant and the FASB Chairman.

Pedro Solbes
Chairman of the EFRAG Supervisory Board

In this context, Japan also seems to be holding its decisionback. The worst sign is that no designation decision was made in 2011, leaving IFRS - as designated in Japan - identical to IFRS published until late 2010.

Finally Chinese GAAP are IFRS-consistent but not IFRS, and India has made the decision to adapt IFRS, rather than adopt them.

These developments should not bring pessimism among supporters of a single set of high-quality financial reporting standards. This is the first set back in ten years since the European Union decided to adopt IFRS and nobody would have dared bet that the adoption of IFRS would be so far advanced in 2012.

Voices have started nevertheless to be heard in Europe asking why we should continue endorsing IFRS as published by the IASB when other significant economic areas consider that convergence – and full sovereignty retention – is good enough. EFRAG strongly believes that indeed we should.

Applying unadjusted IFRS remains a competitive advantage on capital markets.

To maintain or access the benefits that a set of global financial reporting standards may bring, one should accept that among possible accounting solutions the one that is most acceptable to all jurisdictions is a better option than one's own preference. There is indeed nothing in accounting like "the right solution", many different requirements can meet the true and fair view principle. EFRAG is determined to continue its work so that the IFRS accounting model is a cost-efficient financial reporting model, best suited to serve transparency, integrity of financial statements for the benefits of investors and to reflect long term sustainable value creation.

LEADING THE DEVELOPMENT OF IFRS INTO THE NEXT DECADE

The IFRS Foundation Trustees have continued throughout 2011 to define the building blocks of the IFRS second decade strategy. EFRAG has actively participated in this debate, with EFRAG's most significant recommendations having been reflected in the report published by the IFRS Foundation in February 2012.

The development of IFRS in the coming years should be underpinned by a few principles that EFRAG has been promoting for many years.

First of all the agreement reached between the Monitoring Board and the IFRS Foundation achieves an appropriate balance between independence of the standard setter and public accountability, as EFRAG had been calling for. With so many jurisdictions having adopted IFRS, following the European Union's lead, the development of IFRS in the second decade should be primarily driven by the needs of those jurisdictions which have already adopted, or have made a clear statement that they are in the course of adopting, IFRS as published by the IASB.

Convergence may remain a valuable transition step to IFRS, however, can no longer be an end in itself. This satisfies EFRAG's recommendation.

A careful, fully independent and well*informed due process oversight by the IFRS Foundation should ensure that the IASB due process plays the major role it must play in the acceptability of IFRS to stakeholders. More particularly, field-tests and other impact assessments for which EFRAG has been advocating so strongly will need to be developed, and the joint EFRAG- UK ASB paper on considering the effects of accounting standards will be used as a starting point. EFRAG's recommendations on strengthening the IASB agenda-setting process will also be followed.

Closer relationships and partnerships should be sought with regional accounting standard groups such as EFRAG, in every phase of the standard-setting process, from research phase to post-implementation review.

Again the direction recommended by EFRAG is followed, and EFRAG and its partner National Standard Setters will contribute actively to bring effective relationships in practice.

HELPING SHAPE THE IASB POST-CONVERGENCE AGENDA

The IFRS Foundation strategy review set firmly the directions for the work of the IASB going forward. 2011 was also the first opportunity the IASB took for running a public consultation prior to deciding what projects to set in their active agenda. There again, the improvement of the IASB due process reflects one of the longstanding expectations of EFRAG.

The IASB received very consistent feedback from constituents from all areas.

The EFRAG draft comment letter, published shortly after the request for views was issued, may have played an influential role in this area.

There are probably also some valuable trends to identify in other responses the IASB has received.

All commentators have emphasised the need to bring the four active projects on the IASB agenda - Revenue Recognition, Leases, Financial Instruments and Insurance contracts - to a close before embarking on new projects. In Europe, particular interest is placed in the finalisation of the Financial Instruments project, and it is even more the case with the Insurance Contract project.

Constituents indicated that the number of active projects on the IASB's active agenda should be reduced and the pace of the standard- setting process should be slowed down, showing that a drastic change from past practice is desired.

The priority should be given to the conceptual framework. Although the conceptual framework is meant as a living document, jurisdictions which have delegated the standard-setting responsibility to the IASB wish to debate the overall specifications of the accounting model that should drive future standard setting.

And constituents call for concrete achievements and progress in the project, leading - as suggested by EFRAG -, to the identification of issues having priority. The first priorities should be to develop a disclosure framework and to provide some conceptual ground for the use of comprehensive income and recycling.

Liliana Zugo and Jeroen Hooijer - European Commission
Jorge Gil Lozano and John Kellas - EFRAG Supervisory Board Members

The whole standard-setting process should be evidence driven, so that the IASB's efforts aim at fixing what is acknowledged as needing improvement. Each standard-setting decision should be justified having regard to the objectives and scope set at the inception of the project and reflecting the results of post-implementation reviews or other surveys.

Finally, there is general agreement that the majority of IASB's resources should be devoted to the maintenance of the existing standards, ensuring that they work well in practice and that they are leading to consistent accounting across jurisdictions and capital markets. Divergence in the application of IFRS diminishes the benefits to be obtained from a single set of financial reporting standards. The IASB is therefore expected to enhance its support to IFRS in practice, including the enhancement of the role of the IFRS Interpretation Committee. EFRAG and National Standard Setters have an important role to play in this effort, together with ESMA and national security regulators.

The IASB agenda consultation is also highlighting EFRAG's proactive efforts in the past two years. In 2011, EFRAG has indeed issued for comments a first discussion paper dealing with Business Combinations Under Common Control and has made significant progress on its disclosure framework project leading to a consultation document in the course of 2012.

EFRAG is pleased to see that its efforts in the early stage of the standard-setting process are on their way to being most useful to the IASB.

The IASB is indeed likely to undertake active projects in these two areas.

Peter Chambers
EFRAG Supervisory Board Member

LEADING THE WAY IN SHAPING THE STANDARD-SETTING PROCESS GOING FORWARD

In recent years the IASB has considerably enhanced its due process by reaching out in various ways with stakeholders. Statistics showing the number of meetings held are impressive, and show that the IASB has responded positively to the G20 expectation that closer liaison with constituents would be established. The IASB due process is therefore no longer limited to receiving and analysing comment letters, although comment letters continue to represent the major step in this due process.

Such a development in the IASB due process has been very well received, and seems to be extremely fruitful. Re-deliberations by the IASB have indeed shown to be more thorough, and arguments and examples developed by constituents in comment letters better understood by the IASB than they were before.

The evolution is nevertheless not without flaw. An important part of the IASB's due process escapes from the transparency standards that characterise – and should continue to characterise – the IASB processes. Furthermore the IASB's efforts overlap with regional and national standard setter bodies own due processes, leading to overall inefficiency and over-solicitation of constituents. Finally, the IASB and regional and local groups may draw different lessons from various contacts held here and there, generating more confusion than proper mutual understanding.

EFRAG has therefore very early taken the initiative to organise, together with National Standard Setters in Europe, outreach events in which the IASB is invited to participate. Outreach events organised in the spring of 2011 on Revenue and Leases have proven useful, as have events organised to seek input on the IASB's agenda consultation. EFRAG believes that in doing so it alleviates the difficulties outlined above. Feedback statements are published by EFRAG, after seeking review and approval by the IASB and standard setters. EFRAG has followed the same path of action in 2011 in developing field-tests initiatives, giving a supplementary dimension to the outreach to constituents. Finally, EFRAG believes that similar processes need to be put in place to support post-implementation reviews.

Practical experience has convinced EFRAG that the IASB can no longer run its due process in isolation, but rather should aim at integrating its due process with that of regional groups and national standard setters.

As explained above, great benefits in transparency and efficiency, and ultimately in acceptability, are to be expected from such integration. Evidence should be collected once and benefit every group involved. This commendable goal will not be achieved overnight as it requires that all participants share minimum standards in independence and transparency. It also requires that English is used in evidence gathering efforts, at the level of elementary documentary evidence, and as we know the use of English proves to be a real hurdle in sharing the same set of financial reporting standards. EFRAG believes it has started putting this evolution in motion in Europe and is ready to offer the IASB to use Europe as a test case, without waiting until all others are ready to do so.

After two full years of operations following the latest reform of EFRAG, time has come to undertake a limited governance review, in order to validate whether current settings provide appropriate ground for a positive cooperation with national standard setters and make EFRAG operate according to the independence and transparency standards that any public interest should meet. End of 2011, EFRAG has organised itself so as to ensure that improvement is brought further to the extent feasible.

It is too early to say whether, and if so how, EFRAG may evolve in its structure and proceedings. A public consultation will help shape the decisions to be made in EFRAG.

EFRAG Supervisory Board

SETTING EFRAG READY TO FACE NEW CHALLENGES

With its three-tier funding structure including the financial support of the European Commission, EFRAG is well set to face new challenges.

EFRAG is particularly grateful to those who have very early shown the way in setting National Funding Mechanisms in their home country.

EFRAG is also very grateful for the public funding received from the European Commission that has opened new avenues for a more effective influence and an enhanced due process. In 2011, the restructuring of the German Standard Setter has included the decision to bring funding to EFRAG as of 2012 onwards. Other contacts have developed that hopefully will lead to other national funding mechanisms being decided in 2012. Broadening EFRAG's funding base proves a very slow process and this is in a way a bit disappointing because all European stakeholders, whether they contribute to a National Funding Mechanism of EFRAG or not, acknowledge that EFRAG's new initiatives are positive. Indeed the broader the funding base of EFRAG, the more influential EFRAG can become, the closer EFRAG can be to European constituents and the greater legitimacy EFRAG maintains as the European Voice in financial reporting.

It is clear that EFRAG's overall effectiveness and legitimacy are best achieved in a close cooperation with National Standard Setters.

It is in the best interests of Europe that this close cooperation is active and positive, and the directions we recommend for the IASB standard-setting process require stronger cooperation than is already achieved at present.

Patrice Marteau
EFRAG Supervisory Board Member

Report of the EFRAG Chairman
Françoise Flores

2011 was meant to be a year of transition between the first ten years of IFRS standard setting by the IASB and the next decade, opening the post convergence era. EFRAG has developed this year new ways of helping the IASB ensure high quality financial reporting for investors and other capital providers, as well as acceptability of its standards by those who have to implement, audit and enforce them. Many of EFRAG's efforts have proven fruitful, many of its recommendations have been followed.

Françoise Flores
EFRAG Chairman

EXERCISING INFLUENCE POST COMMENT-LETTER STAGE

2011 opened with the IASB remaining deaf to numerous calls for slowing down its pace of development of the four major projects remaining on its agenda: Revenue Recognition, Leases, Financial Instruments and Insurance Contracts, and for considering improvements to the first phases of IFRS 9 Financial Instruments. Major concerns had arisen from the exposure of the IASB various proposals, and stakeholders worldwide had to be content that the final standards would support robust and meaningful financial reporting. In Europe, as in other parts of the world, the IASB proposals had created unrest and anxiety, more particularly in the areas of Revenue Recognition and Leases, and the pace at which the IASB undertook its re-deliberations was not easing concerns,. Even for a body like EFRAG it was difficult to follow and understand the content and rationale of decisions made. EFRAG took the initiative to hold with the IASB several public meetings in the first half of 2011 so as to provide regular input to the IASB deliberations and exercise influence after the release of its comment letters. EFRAG also undertook a series of outreach events on Revenue Recognition and Leases with a double purpose in mind, first to inform European constituents of the content of the IASB re-deliberations, second to identify whether those decisions were being welcome to resolve concerns. EFRAG organised these events with National Standard Setters in Europe in the spring, in view of providing the IASB with feedback from European stakeholders. The response came adamantly clear, re-exposure was needed and major concerns remained, more particularly in the proposals on accounting for Leases.

In parallel, EFRAG discussed with the IFRS Foundation Trustees and other interested parties, including the US Financial Accounting Foundation, allowing more time for the completion of projects that are crucial for the quality of IFRS financial reporting in the coming years. Finally, the June 2011 deadline was abandoned following a meeting of the Monitoring Board and the IFRS Foundation Trustees early April. A more reasonable pace was then adopted and decisions made to re-expose in the Revenue Recognition and Leases projects.

CARRYING FIELD-TESTS ON IASB'S DRAFT FINAL REQUIREMENTS

EFRAG strongly believes that the quality of financial reporting is not driven only by the soundness of accounting requirements, but also – and to a large extent – by the quality of their implementation.

For this reason EFRAG has been promoting that the IASB would issue draft final requirements for a public fatal flaw review before the final standards would be published. In EFRAG's view such a step is necessary to run an ultimate check that the standards are not open to undue interpretation or uncertainty as to how the requirements are meant to apply, that the practical implementation of the standards does not raise any major difficulty or costs and that the timing is operational.

EFRAG believes that carrying ultimate field-tests on the basis of a review draft will strengthen the IFRS standard-setting process and it has therefore taken initiatives in this direction.

The IASB seems to respond positively to EFRAG's recommendation. For example, it has announced that the final requirements for a general hedge accounting model would be published as a Review Draft. Conclusions of the re-deliberations in the Insurance Contracts project are expected to lead to either the publication of a Review Draft or the exposure of revised proposals. Lately the IASB has announced the revision of its Due Process Handbook and it is now expected that Review Drafts are going to be part of the usual due process.

At the time the Revenue Recognition proposals were announced for re-exposure, the IASB had not yet given any positive sign that Review Drafts might become routine procedure. Also, the IASB made it clear that from their perspective the Revenue Recognition second exposure draft was more a quality control check than a full consultation, as the various proposed requirements had already been fully debated in the first phase of the consultation. Therefore EFRAG decided to launch field-tests, calling more particularly for participants in the construction, long-term contract, software, pharmaceutical and telecommunication industries, as the most significant concerns raised by the IASB's proposals had arisen in those industries. These field-tests started when the second exposure draft was issued in November 2011 and were completed late March 2012. The relevance of the outcome of the field tests was assessed by EFRAG's User Panel, to ensure that recommendations made to the IASB would be best serving users' needs. In setting the date for its Round Table on Revenue Recognition in London end of April 2012, the IASB has ensured that EFRAG would have completed its study before the IASB would complete its round of consultation. EFRAG is grateful for having received a positive pragmatic response to the request it put to the IASB in December 2011.

Similarly EFRAG is standing ready to launch a field-test on the general hedge accounting requirements on the basis of the Review Draft which is expected to be issued soon. All these efforts are carried out in coordination with the IASB and close cooperation with European National Standard Setters.

Some concerns have been voiced lately that EFRAG field-tests might be "biased" as they would give opponents to new or amended IFRS another possibility for voicing concerns. EFRAG describes and organises its field-tests as "fact-finding" exercises. It does not call for opinions or assessments, but for facts. Under an agreement of confidentiality, participants bring to EFRAG evidence supporting the conclusions that EFRAG reflects in its feedback statements. In emphasising the focus on fact finding, EFRAG believes it ensures that its undertakings are not biased or understood as a supplementary round of consultation. That aspect is also important if the IASB is to be confident that the Review Draft step in its due process is not misused.

Others may think that the number of participants is too limited to have field-tests which are duly representative. EFRAG does not view field-tests as a means to provide an assessment of the average implementation difficulty that companies are likely to experience. They are meant to identify the difficulties that may arise where they arise and help the IASB solve the difficulties before publication, with the objective that the final standard can be implemented reliably by all companies, no possible minority overlooked. Relevance and comparability of financial reporting for the benefit of investors and other capital providers are at that cost.

THE G20 AND THE IASB AND FASB CONVERGENCE PLAN

Originally the completion of the four main projects with June 2011 as a deadline was stated to be in response to the G20 request. The G20 indeed called for the IASB and FASB to develop convergent standards. These recommendations were from the outset meant to help alleviate the harsh consequences of the financial crisis, and hinted first and foremost at the financial reporting requirements for financial instruments and consolidation. While harmonised revenue recognition and lease accounting requirements are certainly most wanted, they are not in themselves providing any response to the difficulties encountered during the financial crisis.

For over eighteen months - and hence throughout 2011 - EFRAG has been recommending that the two Boards would make their best efforts to converge accounting for financial instruments and has been making recommendations for principle-based and high quality financial reporting in this area. Those recommendations have culminated early 2011 with some concrete proposals on how to bifurcate hybrid financial assets, in a principle-based approach that is consistent with IFRS 9.

The failure to converge on offsetting requirements came as a disappointment, as there was general agreement that both gross and net amounts were useful information and that a converged presentation in the primary financial statements was much wanted. It looked as an easy win and nevertheless failed. The IASB and FASB have now spent long months making their best efforts to achieve one converged impairment model for loans and debt instruments. EFRAG has held the view that whilst those efforts are laudable the outcome would be all the more valuable if classification and measurement requirements were the same.

EFRAG has therefore been pleased first when the IASB decided to postpone the mandatory effective date of IFRS 9 and more particularly when both Boards convergence efforts resumed a few months ago, with from an IFRS perspective, the IASB embarking on targeted improvements of IFRS 9. EFRAG has welcomed this decision and is supportive of the efforts that the IASB and FASB are undertaking. However, it has already made clear that the conclusions reached should be consistent with the principle-based approach of IFRS 9. Long-term and short-term strategies should be reported differently, and instruments – or sets of cash-flows - serving one or the other strategy reflected consistently, whether they are equity or debt securities. Earlier recommendations made by EFRAG – and reported as part of EFRAG 2010 annual review – are consistent with this aim. It is important, in the view of EFRAG, that investors and capital providers be provided with financial reporting duly reflecting different business models and helping understand the quality of earnings.

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.

(EFRAG Annual Review 2010)

HEDGE ACCOUNTING AND IFRS 9 IN THE EU

In 2010 EFRAG had opposed the IASB decision to develop a general hedge accounting model, leaving macro-hedge accounting requirements untouched. One objective of the IAS 39 revision was, from a European perspective, to eliminate the carve-out on macro-hedge requirements, this carve-out being the only difference between IFRS as adopted in the EU and IFRS as published by the IASB. The other reason for EFRAG's opposition was the interrelations between measurement of financial instruments and hedge accounting requirements, making difficult to agree or implement a first set of requirements while ignoring the second one.

The IASB has maintained its decision and has finalised its decision process for the general hedge accounting model. As indicated above, EFRAG is getting ready to undertake a field-test on those requirements. In parallel, the IASB has worked on macro-hedging, however without making significant progress . The prospect is now to issue a Discussion Paper as the basis for a first consultation phase. The whole effort could require several years.

In the meantime, industrial and commercial companies have already strongly expressed their support of the general hedge accounting model the IASB has developed and that is expected to bring significant improvements in practice, making the implementation of IFRS 9 appealing to them. The improvements the IASB is considering in IFRS 9 classification and measurement to provide insurance companies with a satisfactory reflection of their asset-liability management and the need to implement the Insurance Contract standard if the re-deliberations of the IASB prove satisfactory may call for the need to implement IFRS 9 in that sector before it is appropriate for banks to do so.

The developing tension between different needs and constraints in the accounting for financial instruments across different sectors will have to be considered in 2012.

SUCCESS OF EFRAG'S PROACTIVE ACTIVITIES

In 2011 EFRAG proactive publications resumed with the publication of three joint discussion papers: "Considering the Effects of Accounting Standards" and "Accounting for Corporate Income Tax" with the UK ASB and "Business Combinations Under Common Control" with the OIC . As indicated in 2010, these projects are run by European working teams, bringing the valuable diversity of approach and views in the joint efforts with National Standard Setters.

> 2011 has also been an opportunity to validate EFRAG's strategy in proactive activities and confirm that they provide effective influence on the debate.

The Discussion Paper on "Considering the Effects of Accounting Standards" triggered worldwide attention (almost half of the responses came from outside Europe) and EFRAG and the UK ASB are planning to issue a feedback statement and a joint position paper in April 2012. In the meanwhile, the IFRS Foundation has recommended the IASB to develop a methodology for field-tests, impact assessments and other effect studies, considering the European paper as a starting point and with the help of an international working group.

EFRAG's project on the "Framework for the Notes to Financial Statements" led jointly with the UK ASB and the French standard setter ANC has attracted interest from the FASB.

At FASB's request, we agreed to join forces, after having welcome FASB's working team to participate in our meetings informally.

The cooperation is a soft agreement with no particular constraint attached to reaching agreement on the format, content and timing of the discussion paper.

REGAINING MOMENTUM IN ENDORSEMENT ADVICE ACTIVITIES

Over the past two years the IASB published only a few amendments to existing IFRS and consequently EFRAG' endorsement advice activity remained low. 2011 was expected to bring a heavy burden in that area and it finally did with the publication by the IASB of its new standards on Consolidation and Accounting for Joint Arrangements and related disclosures, on the one hand, and of its Fair Value Measurement guidance, on the other. Other publications have included short-term fixes but nothing – aside from improvements to Pension Accounting – embodying critical changes. By early 2012, EFRAG had regained momentum in issuing its endorsement advices, as requested by the European Commission.

The standards on Consolidation and Joint Arrangements were published by the IASB in May with the promise to issue effect studies shortly thereafter. EFRAG assessed that effect studies were necessary to its evaluation for endorsement of the standards. It therefore decided to wait for the IASB effect studies to be issued before it would start its work. While the publication kept being delayed, EFRAG organised its own field-tests in the course of the summer. Those field-tests were concluded in December 2011, leading to EFRAG issuing its draft and final endorsement advices in the first quarter 2012.

Niklas Grip
EFRAG TEG Member

REQUEST FOR THE DEFERRAL OF THE EFFECTIVE DATE OF STANDARDS INCLUDED IN THE CONSOLIDATION PACKAGE

The standard on Consolidation (IFRS 10) is not meant to change accounting requirements fundamentally; rather it is meant to eliminate divergence in practice and therefore increase the understandability and comparability of financial reporting and estimates. In defining a single consolidation model for voting interest entities and structured entities, it is designed to eliminate the inconsistencies between the control model in the existing consolidation standard (IAS 27) and the risks and rewards approach defined in its interpretation (SIC 12) aimed for structured entities. IFRS 11 eliminates the option for proportionate consolidation and ensures that the distinction between joint ventures and joint operations can be assessed independently from the legal form of the arrangement. And IFRS 12 defines the related disclosure requirements, which are rather extensive but provide a positive response to the concerns that the financial crisis has enlightened. On the basis of such descriptions, one could expect that the assessment of those standards would be straightforward. However these standards are really meant to be principles-based, with guidance being provided to help the issuer to best reason a particular set of circumstances and make the financial reporting decision in accordance with the principle in the standard.

Time is required before the implications and intricacies of principle-based standards can be fully grasped and appropriated.

Field-tests conducted by EFRAG have revealed that, although welcoming the additional guidance, a number of participants thought that the effective date set of 1 January 2013 did not allow sufficient time to implement the standard as it should be. As a result EFRAG put the request to the IASB to delay the effective date of the standards. In January, the IASB deliberated whether to delay the effective date and concluded on a unanimous basis that they should not, advocating that these standards were the IASB's response to the requests put by the G20. EFRAG was therefore left with no other choice than to recommend in its draft endorsement advice that the effective date of the Regulation adopting the "consolidation package" would be set at 1 January 2014. Comments received through the due process confirmed that the recommendation was sound, although a certain number of stakeholders considered that IFRS as adopted in the EU should at all times be strictly identical to IFRS as published by the IASB. A recent study published by Deloitte among 56 major banks indicates that only 43% had started implementing IFRS 10 and 12 at the end of 2011. The biggest challenges reside in defining whether an entity should be consolidated and the access and availability of data on unconsolidated structured entities. The Deloitte study confirms what EFRAG learnt from its field-tests.

IMPLEMENTING PRINCIPLE-BASED STANDARDS

The publication of IFRS 10, 11 and 13 brings to the IFRS literature standards which are, as European stakeholders have said they wish, principles-based. Such standards are not easy to implement because there is no ready answer. The principles are set, some guidance is provided to analyse sets of facts and circumstances, and the issuer is left with the burden of the analysis, as a necessary step before determining the proper accounting. Implementing principles-based standards is not an easy job. Issuers must refrain from recreating within their entities the bright lines that have been eliminated from the standard or from taking illustrative examples as possible rules.

In addition, practitioners indicate that the standards are difficult to read and understand, that the structure does not help, and that the basis for conclusions tends to be a critical piece of the literature without which the real intent of the standard setter could be missed.

In the coming years, and hopefully in part before finalising the four active projects, the IASB will have to draw lessons from the experience with IFRS 10, 11 and 13.

Easing the implementation of principle-based standards may require defining better the content of each section (standard, application guidance, basis for conclusions) or accompanying standards with appropriate educational material or rethinking mandatory dates to allow for proper implementation.

IMPROVING THE EFFICIENCY IN OUR WORK AND THE EFFECTIVENESS OF OUR DUE PROCESS

In September 2011, EFRAG undertook to draw lessons from a year of experience in developing pro-active projects in full partnership with National Standard Setters in Europe. A workshop gathering all those who had participated in one or the other projects was organised, and a series of interviews added to this effort. This effort helped identify a series of possible improvements that were discussed and agreed in two meetings of the EFRAG PRC, in September 2011 and early January 2012. Implementation should take place in 2012.

EFRAG also organised meetings with National Standard Setters involved in the Reference Group and the Consultative Forum of Standard Setters (CFSS) but not in the EFRAG Planning and Resource Committee, to evaluate whether the CFSS meetings were organised and structured to their liking and whether the organisation of the late initiatives of outreach events and field-tests was satisfactory. These meetings were the opportunity to identify room for improvement in EFRAG's due process.

> National Standard Setters and other constituents will be invited to provide EFRAG with early warnings of significant issues where their views would diverge from EFRAG's preliminary views as reflected in EFRAG draft comment letters.
>
> EFRAG will publish feedback statements shortly after it has issued its final comment letters, to reflect how comments received have been considered and taken into account.

These early warnings will allow to revisit the issues with EFRAG TEG or alert EFRAG TEG to specific circumstances arising in a jurisdiction that need to be fully understood and taken into account, in advance of EFRAG receiving comment letters and finalising its own comment letter to the IASB.

Finally, a monthly Chairmen's meeting has been set up, starting early 2012, to improve coordination with the National Standard Setters of the UK, Germany, Italy and France.

In 2012, the governance review undertaken will be another opportunity to identify further improvements; and for EFRAG to continue to embody the strong, credible, influential European voice in the IFRS debate.

Carsten Zielke
EFRAG TEG Member

Exercising Thought leadership

EFRAG's proactive work in partnership with National Standard Setters

EFRAG exercises thought leadership by undertaking proactive work which contributes to, and has an influence on, emerging thinking on significant financial reporting issues. EFRAG's proactive work in partnership with the European National Standard Setters aims at engaging European stakeholders in analysing and discussing areas of financial reporting identified as in need for improvement in a practical manner. It provides Europe with the opportunity to contribute to the development of accounting thought on selected topics. The main highlights below evidence that 2011 has been a fruitful and productive year!

- Publication of the Discussion Paper "Considering the Effects of Accounting Standards"
- Publication of the Discussion Paper "Accounting for Business Combinations Under Common Control"
- Publication of the Discussion Paper "Improving the Financial Reporting of Income Tax"
- FASB joined forces with EFRAG, the French ANC and the UK ASB on the "Disclosure Framework" project.
- Launch of two new projects "Understanding how Capital Providers use Financial Statements" and "Separate Financial Statements in IFRS"
- EFRAG expresses widely shared views on the IASB Agenda Consultation based on public consultation of its constituents and 8 outreach events throughout Europe.

UNDERSTANDING THE EFFECTS OF ACCOUNTING STANDARDS

In January 2011, EFRAG together with the UK Accounting Standard Board (ASB) issued a Discussion Paper "Considering the Effects of Accounting Standards" for public consultation. The Discussion Paper suggested that the further integration of effects analysis in the standard-setting due process would be an important step in strengthening that process.

In May 2011, EFRAG, the UK ASB, and the European Commission organised a European Round-table, held in Brussels, on Considering the Effects of Accounting Standards. The Round-table provided an opportunity for EFRAG, the UK ASB, the EC, and the IASB to present their views on the process of considering the effects of accounting standards and to get feedback from constituents on how they think the process should work. The Round-table gathered participants from the National Standard Setters, professional organisations and the private sector. Other meetings were held with European constituents in London and Frankfurt.

The IASB agenda consultation results show a strong call for evidence-based agenda setting. This echoes the comments made by EFRAG for fully developed agenda proposals supported by evidence that further development of IFRS is needed (improvement of an existing standard is needed, or a gap in financial reporting standards needs to be filled) and that benefits justify the development and implementation efforts.

EFRAG Disclosure Framework Advisory Panel

The comment period closed on 31 August 2011. EFRAG received over 30 comment letters, among which half weresent by European constituents, and another half were received from respondents on other continents including Australia, Canada, Japan, Singapore, USA and Brazil, or from international organisations demonstrating a wide interest in the topic. The Discussion Paper received a lot of attention from accounting bodies and institutes. The National Standard Setters also found the issue very important. Several comment letters were received from business associations, companies, academics, and individuals.

The respondents generally agreed that the consideration of effects of accounting standards should be further embedded into the standard-setting due process. They believed that it would make the process more efficient and effective, evidence-based, and that it would improve the communication with stakeholders by clearly informing them about the objective of a project and the expected effects. As such, they welcomed the Discussion Paper as valuable input to an important debate.

Very importantly, the Discussion Paper also attracted interest from the IFRS Foundation Due Process Oversight Committee. EFRAG received an invitation from the Committee to engage with the IASB in order to develop the effect study process further.

A feedback statement, together with a position paper reflecting EFRAG and UK ASB redeliberations and comments received, are expected to be issued in the first half of 2012.

BUSINESS COMBINATIONS UNDER COMMON CONTROL

The *Business Combinations Under Common Control (BCUCC)* project is a partnership between EFRAG, the Italian Organismo Italiano di Contabilità (OIC), and the French Autorité des Normes Comptables (ANC). The objective of the project is to develop an approach for 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 scope of the project includes dealing with BCUCC in both consolidated and separate financial statements of the entity to which a business is transferred.

The accounting literature is silent on how these transactions should be measured. In fact, currently, such transactions are 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. The first feedback on the outcomes of the IASB agenda consultation identifies BCUCC as one of the possible priorities. As a result, the outcome of this project is expected to be very useful to the IASB if and when they restart their project.

In the course of the project, EFRAG decided to discuss separately the issue of BCUCC in consolidated financial statements on one hand, in separate financial statements on the other. Discussing BCUCC in separate financial statements is expected to benefit from the input received on a first discussion paper discussing consolidated financial statements only, as well as from the work developed in the project on separate financial statements that EFRAG launched in late 2011.

Differences between business combinations between independent parties and business combinations under common control (including the perceived diversity) are analysed in order to determine whether, and to what extent, an analogy between the two types of transactions can be drawn, and therefore whether accounting requirements for business combinations between independent parties form a valid option for business combinations under common control or whether because of the unique features of BCUCC, other approaches should be developed. The discussion is supported by an analysis of users' needs to determine whether users can be considered a homogeneous class of users or whether different circumstances trigger different needs.

The Discussion Paper was issued for comment in October 2011. The comment period closes on 30 April 2012. Outreach activities have been organised to take place in 2012 to promote the Discussion Paper, to stimulate debate in Europe and to encourage constituents to comment.

EFRAG TEG meeting

Mario Abela
EFRAG Research Director

INCOME TAX

The project on *Improving the Financial Reporting of Income Tax* is being carried out jointly by the UK ASB, EFRAG and the German Accounting Standards Board (ASCG) and resulted in Discussion Paper of EFRAG and the UK ASB issued in December 2011.

Tax is an important expense for most companies, and transparent and complete financial reporting is complex because the tax effects of transactions do not always fall in the same period as they are reported in the financial statements. Requirements for the financial reporting of income tax are currently set out in IAS 12 'Income Taxes'. Some consider that the information that is provided in compliance with that standard is not as useful as it might be, and that the standard is cumbersome and difficult to understand and apply in practice. The Discussion Paper discusses ways in which the usefulness of information prepared in accordance with IAS 12 could be enhanced. In particular it discusses possible changes to the reconciliation of tax expense to a standard rate; revisions to the requirements in respect of uncertain tax positions; and whether deferred tax should be discounted.

The Discussion Paper also discusses alternative approaches that could form the basis for a new accounting standard that would replace IAS 12. These are the flow-through approach (under which only the tax payable on taxable income for the period is reported as an expense); the partial allocation approach (under which only those tax effects likely to affect the tax payable for future periods is deferred); the valuation adjustment approach (under which tax effects are dealt with as part of the carrying amount of related assets and liabilities); and the accruals approach (under which the tax effect of all transactions are recognised and allocated to the period to which they relate).

The comment period closes on 29 June 2012. Outreach activities have been scheduled in 2012 to promote the Discussion Paper, to stimulate debate in Europe and to encourage constituents to comment. Next steps in the project will be defined by the partners in the project based on responses to the consultation.

THE IMPLICATIONS OF THE BUSINESS MODEL FOR FINANCIAL REPORTING

The *Role of the Business Model in Financial Reporting* project is a partnership between EFRAG, the UK ASB and the French ANC.

The term 'business model' has recently attracted increased attention in the context of financial reporting. Commentators have, with increased frequency, criticised discussion papers and exposure drafts on the grounds that the proposals do not allow financial reporting to appropriately reflect their business models. The project explores the relationship between an entity's business model and financial reporting. The aim of the project is to provide the IASB with a European input for future consideration, development and use of the business model concept in financial reporting. This is meant as a contribution to the revision of the IFRS conceptual framework, more particularly in the discussion of measurement

A discussion paper is expected to be published late 2012 or beginning 2013.

A FRAMEWORK FOR THE NOTES TO THE FINANCIAL STATEMENTS

The *Disclosure Framework* project is a partnership between EFRAG, the UK ASB and the French ANC. The aim of the project is to improve the relevance of the notes to the financial statements, i.e. to ensure that users are provided with all, and only, the information they need to understand the financial position and performance of a company. The project is anticipated, at this stage, to have three phases.

EFRAG Disclosure Framework Advisory Panel

EFRAG's evolving relationship with the FASB in the EFRAG proactive project in partnership with the ASB and ANC on a Framework for Notes to the Financial Statements is a clear recognition of EFRAG' s standing in the global standard setting community. It also represents another means of influencing the development of global financial reporting.

The first is to develop a framework to assist standard-setters in the development of disclosure requirements, including suggestions on how that information should be communicated. Another important aspect of the project is to assist preparers and others in assessing how to apply those disclosure requirements in the context of their financial statements.

The second phase is to look at the possible impact of applying the set of principles to the existing disclosure requirements under IFRS. It will draw on work already undertaken by others such as that of ICAS/NZICA and proposals developed by the ANC. The final phase of the project is expected to reconsider the model 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 August 2011, the Financial Accounting Standards Board (FASB) decided to officially join forces with EFRAG. Best efforts will be made to ensure that the debate is launched on each side of the Atlantic at about the same time. However, two distinct Discussion papers will be issued for comments and the extent of the common content is not known at present. The objective is to issue the Discussion paper presenting the components of the Framework before the summer 2012.

PROACTIVE PROJECTS ON SEPARATE FINANCIAL STATEMENTS AND CAPITAL PROVIDERS' USE OF FINANCIAL STATEMENTS

In June 2011 EFRAG PRC launched two new pro-active projects: a project on separate financial statements, and a project on understanding how capital providers use financial statements.

Araceli Mora
EFRAG TEG Member

SEPARATE FINANCIAL STATEMENTS

The project on separate financial statements is a partnership between EFRAG, the Italian OIC, the ICAC (Spanish Standard Setter) and the DASB (Dutch Standard Setter). The central question in the project is to (a) understand the purpose of separate financial statements and (b) find out what financial reporting issues are not adequately addressed by those standards where separate financial statements are prepared under IFRS. Preliminary work on the project commenced in November 2011.

UNDERSTANDING USERS' NEEDS IN FINANCIAL REPORTING

The proactive project on understanding how capital providers use financial statements aims to shed light on how various types of European capital providers use financial information for decision making, and how they manipulate and analyse this information. The revised IFRS Conceptual Framework states that the objective of financial reporting is to provide information that is useful to capital providers and other users in making economic decisions. The project is aimed at providing insights into how financial information is used in practice. It is expected to provide useful supplementary guidance about what types of financial information is most useful, and why different users may express at times contradictory needs.

In November 2011, EFRAG agreed that before deciding the approach to the project, a literature review on the subject should be carried out. The literature review is to be performed by an external team of academics, following a call for review launched jointly between EFRAG and the Institute of Chartered Accountants in Scotland (ICAS).

Following the results of the academic literature review, EFRAG will define more precisely the scope of the project that would be fully relevant, the EFRAG PRC will assess what priority to allocate to the project and decide whether to pursue or postpone the project. Indeed at that time the project may be in competition with other issues assessed as being a better use of EFRAG resources.

IASB AGENDA CONSULTATION

EFRAG provided a response to the IASB request for views on the Agenda Consultation 2011. A Draft Comment Letter was issued in August for public consultation and a Final Comment Letter was submitted in December to the IASB as part of EFRAG's due process.

OUTREACH EVENTS

In order to stimulate the debate in Europe around the IASB's agenda consultation and to seek input to be considered when finalising EFRAG's Comment Letter, EFRAG carried out outreach activities in partnership with the National Standard Setters and the European Commission. IASB members or Directors participated in these outreach events. The outreach activities were based on open discussions and completion of a questionnaire, followed by a presentation of the results of the survey. The events took place in Denmark, Germany, Poland, the Netherlands, Norway, Spain and Sweden. A European outreach event was organised in cooperation with the European Commission at the end of November. In November and December 2011, EFRAG issued feedback statements on the findings of each outreach event as well as an overall summary of the feedback received in the 8 events. The results of the survey as completed during most of the outreach events showed that, from a European perspective, the IASB should give high priority to the following projects:

- Conceptual Framework (including the development of a Disclosure Framework),
- Other Comprehensive Income, and
- Business Combinations under Common Control Entities.

The EFRAG User Panel members and the Consultative Forum of Standard Setters were asked to bring their views on the topic in autumn. EFRAG received over 30 comment letters on its Draft Comment Letter, emanating mainly from National Standard Setters, accounting bodies and business organisations. Input received from comment letters was broadly consistent with what EFRAG learned in outreach events.

EFRAG's input to the IASB agenda consultation and the results of the outreach activity can be well recognised in the first feedback on the outcomes of the agenda consultation:

- Completion of the four current core projects as a priority
- Request for a period of calm (stability)
- Completing the revisions of the Conceptual Framework, addressing performance as priority, including the treatment of OCI (see above)

FINAL EFRAG POSITION

Taking into consideration the feedback obtained from the outreach activities, consultation with European National Standard Setters and the EFRAG User Panel and responses to its Draft Comment Letter, EFRAG finalised its comment letter to the IASB in December 2011.

EFRAG recommended the IASB to bring all four main projects (Financial Instruments, Insurance Contracts, Leases, and Revenue Recognition) to a close as a first priority. EFRAG also emphasized the need for a "period of calm" after the finalisation of the main projects to allow issuers - and all involved in the application and enforcement of IFRS-compliant financial statements - to focus on implementation to ensure the consistency and quality of application of existing IFRS. During this period of calm, EFRAG suggested that the IASB should focus on the Conceptual Framework high priority parts (i.e. first and foremost performance reporting; disclosure framework, and also definitions of elements; measurement guidelines); allocate resources to post-implementation reviews and other research activities that help prepare evidence-based agenda proposals, and those projects where an urgent need and/or a solution that is likely to improve financial reporting has already been demonstrated.

EFRAG further advised that the IASB should consult on evidence-based fully developed agenda proposals and limit the number of projects to be included on the IASB's agenda. EFRAG expressed the view that convergence cannot be a primary driver for agenda setting. Bringing more useful and more relevant information through high quality financial reporting standards to all those who rely on IFRS compliant financial reporting should be the overriding objective when agenda decisions and standard-setting developments are made. It turned out that EFRAG's views were widely shared all over the world.

EFRAG is pleased that is has identified early on, and developed thinking in areas which have been identified as priorities for the IASB in the responses to the IASB agenda consultation

- Call for evidenced-based agenda setting developed in the EFRAG and UK ASB paper on "Considering the effects of accounting standards" (research-led approach whereby projects will only be added to the standard-setting phase when the problem is properly defined and identified solutions are feasible, of high quality and implementable) and key recommendation in EFRAG's response to the consultation
- Business Combinations under Common Control (EFRAG issued a Discussion Paper in autumn 2011 in partnership with the OIC).
- Framework for Notes to the Financial Statements (EFRAG proactive project in partnership with the ASB and ANC): FASB decided in second half of 2011 to join forces with EFRAG on the project. The IASB has now made public statements that it is commencing work on this project and is keenly awaiting the output of our project.

LIAISON WITH THE EUROPEAN ACCOUNTING ACADEMIC COMMUNITY

EFRAG has been working closely with the accounting academic community in Europe – principally through the European Accounting Association (EAA) and participation in academic conferences such as the EAA Conference in Rome (April 2011), the Workshop on Liabilities of Oxford University (September 2011) and the International Association for Accounting Education and Research (IAAER) Conference in Venice (November 2011) and as a member of the EAA Financial Reporting Standards Committee. There is also ongoing work with academics across Europe on specific projects. EFRAG also participates in the UK ASB Academic Panel.

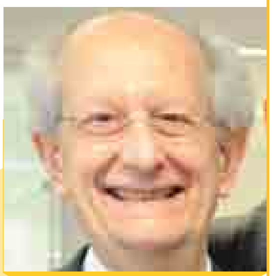
EFRAG also has has regular meetings with leading accounting bodies (particularly in the UK such as the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Certified Chartered Accountants (ACCA) that undertake research in financial reporting, in order to look for opportunities to share resources and collaborate on projects. Discussions with these bodies have been promising and EFRAG will continue to develop ideas for working together. In doing so EFRAG is willing to ensure that pooling of resources in Europe – and hence overall efficiency – is developed to the full extent possible.

EFRAG Planning and Resource Committee

The EFRAG Planning and Resource Committee was quite active in its second full year of operation under the Chairmanship of Peter Sampers. In 2011 the Committee added two new projects on separate financial statements and on capital providers' use of financial statements. And welcomed the issuance of three Discussion Papers on Considering the Effects of Accounting Standards, Business Combinations Under Common Control and Improving the Financial Reporting of Income Tax. The Committee prepared the EFRAG response on the IASB agenda consultation.

Peter Sampers
Chairman of
the EFRAG PRC /
EFRAG SB Member

Hans van Damme
EFRAG SB
Vice Chair



Angelo Casó
OIC Chairman

Jérôme Haas
ANC Chairman

Roger Marshall
UK ASB Chairman

Françoise Flores
EFRAG Chairman

Bringing the European view in the IASB consultation process

- Close monitoring of IASB re-deliberations in the projects on Revenue Recognition, Leases and Insurance contracts. Organisation of outreach activities in the Lease and Revenue Recognition projects to test the results of the IASB re-deliberations. Organisation of field-tests on Revenue Recognition to be carried out during the re-exposure comment period.
- Analysis of, and comment on, the IASB's proposals in the IAS 39 replacement project. Comment letters and outreach on Impairment, Hedge accounting and Off-setting. Proactive recommendations on Classification and Measurement, with the proposal of a principle-based approach to bifurcation of financial instruments, consistent with the IFRS 9 model.

The IASB decided in autumn of 2011 to open IFRS 9 for "limited modifications". The IASB and FASB have agreed to investigate opportunities for convergence in classification and measurement for financial instruments. In its comment letter on IFRS 9 EFRAG expressed concern on the unequal treatment of bifurcation of derivatives and prepared a paper proposing an IFRS 9 consistent principle-based approach to bifurcation of embedded derivatives for both financial assets and financial liabilities.

FINANCIAL INSTRUMENTS

AMENDMENTS TO MANDATORY EFFECTIVE DATE OF IFRS 9 FINANCIAL INSTRUMENTS

In August 2011, the IASB issued the Exposure Draft on *Mandatory Effective Date of IFRS 9*, which proposed to defer the effective date of *IFRS 9 Financial Instruments* from 1 January 2013 to 1 January 2015. EFRAG welcomed the Board's decision to postpone the effective date of IFRS 9, which followed the recommendation made by EFRAG.

However, EFRAG expressed the view that no definite date should be set when so much uncertainty remains as to when significant parts of IFRS 9 and the new standard on insurance contracts are completed. Rather, the IASB should allow entities at least three years to implement IFRS 9 from the later of publication date of the last phase of IFRS 9 or the standard on insurance contracts. While EFRAG agreed, in principle, that entities adopting IFRS 9 on or after 1 January 2012 should be required to restate comparative information, EFRAG recommended that the IASB should reconsider the transitional requirements of IFRS 9 to ensure that the restated comparative information is meaningful. If the IASB were to conclude that it is not possible to revise the transitional requirements such that the comparative information is meaningful, EFRAG recommended that relief from restating comparative information be granted.

In the summer of 2011, the IASB decided to defer the effective date of IFRS 9, meeting EFRAG's recommendations.

The IASB finally decided that entities with a date of initial application before 1 January 2012 should not be required to present the required disclosures. Those with an application date in 2012 would not be required to meet the modified disclosure requirements, but they would be permitted to present the modified disclosures instead of restating their comparative statements. Entities adopting IFRS 9 after 1 January 2013 would be required to present the modified disclosures irrespective of whether they restate their comparatives.

IMPAIRMENT SUPPLEMENTARY DOCUMENT

In January 2011, the IASB issued the *Supplementary Document Financial Instruments*: *Impairment*, with a comment period of 60 days. The proposals in this supplementary document are part of the IASB's project to revise the standards on financial instruments and will be combined with the proposals on amortised cost measurement that were included in the IASB's original exposure draft of November 2009. The comments received by the IASB on its original exposure draft had indicated significant operational difficulties, especially in the context of open portfolios, in applying the expected cash flow model proposed in the November 2009 exposure draft. The supplementary document has been issued jointly with the FASB, in an effort to develop a converged and operable model for the recognition of expected credit losses in the context of open portfolios.

In February 2011, EFRAG issued a draft comment letter on the supplementary document. In order to ensure the appropriate participation of European constituents in the due process, EFRAG carried out outreach activities that sought to gather input regarding conceptual accounting issues as well as practical and implementation challenges arising from the proposals. The outreach activities were based on a questionnaire, followed up by an interview. The IASB staff and/or the FASB staff participated in the majority of the interviews. EFRAG staff surveyed twenty preparers, including sixteen banks, two insurance companies, one corporate and one European industry organisation. The participants in the outreach were from Austria, Belgium, Denmark, France, Germany, Italy, Spain and Sweden. EFRAG issued in May 2011 a feedback statement on the findings of the outreach activity. The key messages to emerge from the outreach activities were (1) the support for a proposed operational solution, based on decoupling (i.e. separate allocation of interest income and credit losses) and on the distinction between a 'good book' and a 'bad book' and (2) the disagreement with a 'higher of' approach and the inclusion of the floor based on the concept of 'foreseeable future'.

In its final comment letter EFRAG expressed support for the efforts to develop a converged and operable approach to impairment of financial assets, based on a separate allocation (decoupling) of interest income and expected credit losses. EFRAG believes that an impairment model should reflect the link between the pricing of the asset and the expected credit losses, and therefore disagrees with the proposals to set a floor at a level to reflect credit losses expected to occur within the foreseeable future. Instead, an entity should be required to accelerate the build-up of the allowance balance if it expects losses to materialise in the near future. Considering the significant changes made by the IASB to the November 2009 impairment model, EFRAG would consider it inappropriate to permit entities a free choice between the proposed model and the original expected cash flow model. Therefore the 'decoupled' approach should be consistently applied to all the financial assets carried at amortised cost.

EFRAG recommended the IASB to conduct field-testing to confirm that the guidance is robust and that the model is operational and overcomes the weaknesses of IAS 39. EFRAG also urged the IASB to consider the proposals in the Supplementary Document in the context of the existing disclosure requirements in IFRS 7.

Subsequently, the IASB decided to abandon the approach that had been proposed in the Supplementary Document. Instead, they decided to develop a three-bucket model that aims to reflect the deterioration in the credit quality of financial assets. In October 2011, members of the IASB's Expert Advisory Panel provided an educational session on the model to EFRAG CFSS and TEG members.

HEDGE ACCOUNTING

In December 2010, the IASB issued an ED on *Hedge Accounting* which is the third phase of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement.* The ED retained the existing architecture of the hedging model in IAS 39 and addresses specific areas that have been deemed problematic since IAS 39 became effective. The ED proposed significant changes to the general hedge accounting model, the objective of which will be to represent in the financial statements the effect of an entity's risk management activities.

In January 2011, EFRAG issued its draft comment letter on the ED. As part of its due process, EFRAG discussed with European constituents in one-to-one meetings or conference calls, how the proposals in the ED would impact the corporate issuers, the energy sector, the banking industry and the banking regulators.

In its final comment letter of March 2011, EFRAG agreed with the proposed objective of hedge accounting, which is consistent with the role of the business model in the classification of financial instruments. EFRAG welcomed the following improvements, which will make hedge accounting more accessible: the removal of the 80 to 125 per cent bright line for assessing and measuring hedge effectiveness, the possibility to designate derivatives, risk components and net positions as hedged items, the possibility to apply hedge accounting to components of non-financial items and the notion of 'rebalancing' hedging relationships.

EFRAG called for the issuance of Review Drafts before finalisation of IFRS in order to give a chance to constituents to assess whether there are any implementation issues and drafting issues that could be addressed before the final standard is issued. In April 2011, the IASB announced, following EFRAG's recommendations, the publication of Review Drafts for public, large-scale, fatal-flaw review where re-exposure is not necessary for the IASB four active projects. In March 2012, the IASB announced that they were undertaking a revision of the IASB Due Process Handbook. The Review Draft stage is expected to be included as a well-defined step in the IASB Due Process.

EFRAG expressed its concerns about a number of issues that could create an inconsistency with risk management practices and which require further consideration, such as the eligibility of instruments at amortised cost as hedging instruments, non-contractually specified inflation risk as a hedged item, credit risk as a risk component, hedging of risks not affecting profit or loss and designation of a benchmark component in hedging a debt instrument with a negative indexation to the benchmark (the sub-LIBOR issue). In addition, considering that the proposals introduce new concepts and definitions that are not well understood by constituents and create considerable uncertainty around the operationa of the new model, EFRAG recommended that the IASB consider clarifying the drafting of the key concepts, making the redrafted proposals publicly available to constituents for comments, and testing the operation of the proposals in practice.

EFRAG reiterated its concerns that the IASB should not finalise a standard on the general hedge accounting model before developing a model for macro hedging, given the importance of macro hedging, and that the IASB should consider the various phases of the IAS 39 replacement as a whole before finalising the resulting standards. The IASB did not change its course of action on this point.

The IASB completed its redeliberations on the general hedge accounting model in September 2011. It decided to follow EFRAG's recommendation to publish a review draft in advance of finalising the hedge accounting requirements. EFRAG believes indeed that the review draft should serve as a basis for a large scale fatal flaw review as well as for performing field-tests.

EFRAG Technical Expert Group

OFFSETTING

In response to the concerns of stakeholders, including those of the Financial Stability Board and the Basel Committee, the IASB and the FASB started to work jointly on a separate exposure draft that will address differences between US GAAP and IFRS on the presentation of financial assets and liabilities. The project addresses 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. The boards issued their joint Exposure Draft in January 2011. In February 2011, EFRAG issued its draft comment letter.

In April 2011, EFRAG issued its final comment letter in response to the ED. The comment letter welcomed the IASB and the FASB efforts to develop joint proposals for converged requirements and to use, as a basis for the converged requirements, the existing guidance for offsetting financial assets and financial liabilities in IAS 32. EFRAG expressed support for the proposals, albeit subject to clarification and a more principles-based approach in dealing with “simultaneous settlement”, cash collateral and margin accounts. In addition, EFRAG urged the IASB to consider the proposals in the ED in the context of the existing disclosure requirements in IFRS 7 and other amendments in progress.

In May 2011, EFRAG participated in London in the IASB-FASB roundtable on offsetting financial assets and liabilities.
In June 2011, the FASB decided on the basis of the results of its due process against aligning US GAAP on IFRS offsetting model. The IASB decided to retain the offsetting requirements in IAS 32, but to address a number of interpretation issues that exist in the current IAS 32 application guidance. The IASB and FASB, however, did agree to pursue convergence of the disclosure requirements regarding offsetting. In December 2011 the IASB published the resulting amendments to IAS 32, which are effective for annual periods beginning on or after 1 January 2014, and the converged disclosure requirement in IFRS 7, which are effective for annual periods beginning on or after 1 January 2013. The final requirements are in line with EFRAG’s recommendations.

EFRAG OUTREACH ON ACCOUNTING FOR FINANCIAL INSTRUMENTS – 28 FEBRUARY 2011

On 28 February 2011, EFRAG and the IASB held a discussion forum on financial instruments in Brussels. The event was attended by more than 60 participants from 15 countries, representing a wide range of European stakeholders in financial reporting. This event provided an opportunity for European constituents to obtain information about, and share their views on, the hedge accounting, impairment and offsetting proposals that are part of the IASB’s IAS 39 replacement project. The event was hosted by Dexia Corporate University. The participants were keen to understand the IASB’s proposals and engaged in an active debate with the IASB representatives about the impact of these proposals.
EFRAG issued a feedback report summarising the views expressed by European constituents during the discussion forum.

Mike Ashley
Vice Chair of EFRAG TEG
Chairman of the Financial Instruments Working Group

Pieter Dekker
EFRAG Technical Director

INVESTMENT ENTITIES

In August 2011, the IASB issued an ED on *Investment Entities*. The ED proposals are part of a separate joint project initiated by the IASB and the FASB to address the concerns expressed during the development of IFRS 10 *Consolidated Financial Statements*. That standard requires investment entities to consolidate the entities they control. The feedback on ED 10 *Consolidated Financial Statements* suggested that consolidation by the investment entity of the underlying assets and liabilities of controlled entities would not provide decision-useful information. Users of financial statements have indicated that fair value provides the most relevant information because they invest to maximise income or capital gains rather than manage the underlying assets and liabilities of the controlled entities.

The ED proposes that entities which meet the investment entity criteria would not need to consolidate investments in investees that they control; rather such investees would need to be measured at fair value through profit loss in accordance with IFRS 9 *Financial Instruments.* The ED also requires disclosures about the nature and type of these investments.

In September 2011, EFRAG issued a draft comment letter on the ED in which it supported the IASB's efforts to address the concerns raised by the private equity and venture capital industry. EFRAG agreed with the proposal for an exemption from the consolidation requirements, because measurement at fair value of entities controlled by an investment entity produces more decision useful information than consolidation. However, EFRAG is not in favour of requiring a parent which is not an investment entity itself to consolidate the controlled entities that it holds through subsidiaries that are investment entities. EFRAG believes indeed that if fair valuing the investments held by the subsidiary is more meaningful in the accounts of the subsidiary, it remains the most meaningful accounting requirement at consolidated level. In addition, whilst EFRAG agrees with the criteria for determining whether an entity is an investment entity, EFRAG believes that the existence of an exit strategy should be placed more prominently. Finally, EFRAG recommended that the IASB should carry out an impact assessment to understand better the practical implications of any amendments to IAS 28.

FINANCIAL STATEMENT PRESENTATION – REPLACEMENT OF IAS 1 AND IAS 7

The IASB is consulting on its future agenda at present, and the future of the *Financial Statement Presentation* project. When this project was postponed the IASB expressed interest in gathering stakeholders' views on the tentative decisions made to date. EFRAG has assisted European constituents to seize the opportunity to influence the future proposals on financial statement presentation should the IASB put the project back on the agenda. From September to December 2010, EFRAG, National Standard Setters and the IASB met 'face-to-face' in a series of outreach events throughout Europe. A very strong view was expressed that prior to proceeding with presentational matters, the IASB should address the fundamental issues related to performance reporting.

Overall, constituents questioned whether new requirements for the presentation of financial statements were really needed, especially considering the costs involved. The majority favoured an "evolution" of current requirements for the presentation of financial statements rather than a "revolution". The European constituents believed that the costs to implement and maintain some of the aspects of the "new look" for financial statements, especially costs associated with the requirements to provide very detailed disaggregated information and to present information about cash flows from operating activities using the direct method, would outweigh the potential benefits of it.

During the European outreach, in addition to meetings organised in cooperation with the European National Standard Setters, constituents were invited to provide their views via an online questionnaire and by responding to a paper published by EFRAG. The feedback provided by constituents in various forms was fairly consistent. The detailed feedback on the views expressed by European constituents during the meetings and in online questionnaire was included in the *Feedback Report on the EFRAG's Outreach on Financial Statement Presentation*, which was published in February 2011 and an update on the comments received was included in the *Letter to the IASB*, sent in July 2011.

REVENUE RECOGNITION

In June 2010, the IASB issued the Exposure Draft, *Revenue from Contracts with Customers*. In the first half of 2011, the IASB considered the comments received in response to the ED, as well as proposed amendments. EFRAG has followed these re-deliberations closely, in order to provide input to the IASB on any remaining concerns. EFRAG has for example studied all the comment letters sent to the IASB by European constituents (in addition to those received as part of EFRAG's due process) in response to the 2010 ED, and assessed whether the re-deliberations would solve the concerns raised in these comment letters. EFRAG has also conducted outreach activities on revenue recognition, which included explaining the IASB's re-deliberations and asking constituents' views on the IASB's tentative decisions.

EFRAG has provided the IASB with a full feedback statement and has formulated recommendations. EFRAG recommended that the IASB should reconsider its guidance for continuous transfer of benefits to customers (circumstances in which the percentage of completion method applies) so that no revenue be recognised in the absence of right to payment. EFRAG also highlighted that the notion of "no alternative use" was subject to multiple interpretations and had received too much prominence. EFRAG recommended that no significant change be introduced in the revenue recognition pattern of various industries; unless a current deficiency was identified. Finally EFRAG made other recommendations in relation to the time value of money (resort to a rebuttable presumption of immateriality rather than provide a short term exemption), credit risk (presentation in the income statement) and disclosures (appropriate selection to optimise the relevance to users and minimise the burden). EFRAG called for a review draft to be exposed for a significant period of time (no less than three working months) so that field-testing activities be organised.

In June 2011, the IASB decided to issue a revised exposure draft on revenue recognition before finalising the standard. The revised exposure draft was issued in November 2011. A draft comment letter was issued in January 2012.

EFRAG FIELD-TESTING ON REVENUE RECOGNITION RE-EXPOSURE

To get a further understanding on the costs, effects, usefulness and clarity of the proposals, EFRAG decided to initiate a field-test of the 2011 ED. The field-test comprised both preparers and users of financial statements. In 2011 EFRAG called for preparers wanting to participate in the test and 45 European companies volunteered. Participants were mainly companies in the telecommunication, software, pharmaceutical, utilities and long-term contractors industries. EFRAG had previously concluded that these industries would be affected most significantly by the proposals. EFRAG agreed with the Italian standard setter (OIC) that they should ask companies in other industries to conduct the field-testing in order to explore how the proposals would affect other industries.

Participants in the field-test received a guide on how to conduct the test and a slide presentation explaining the main principles of the ED and issues participants should be aware of. Participants will present the results of the tests at various workshops that will be held from January 2012 onwards. IASB representatives will attend these workshops and European national standard setters are invited as observers. The results of the workshops will be published in publicly available feedback statements.

Nicolas de Paillerets
EFRAG TEG Member

LEASES

The IASB project started in 2009 and EFRAG commented on both the Discussion Paper (2009) and the Exposure Draft (2010). In 2011, EFRAG monitored the IASB re-deliberations to be in a position to provide further input as necessary to ensure that major European concerns are adequately handled.

During the year, EFRAG organised a series of outreach events in order to first inform European constituents of the results of the redeliberations by the IASB on lessee accounting and seek their views as to whether their major concerns had been solved.

EFRAG in particular focused on the following issues:

- The definition of a lease, to ensure that the boundary between leases and services arrangements is determined appropriately;
- The treatment of options and contingent rents, to ensure that all credits to the balance sheet of lessees meet the definition of a liability (and debits to the balance sheet of lessors meet the definition of an asset).

After having provided feedback to the IASB on the result of those outreach events, EFRAG expressed recommendations to the IASB on how best to pursue the project. EFRAG has called for the IASB to rethink fundamentally the definition of a lease, so that their decision to apply the right of use model to all leases does not result in arrangements of different economic substance being accounted for similarly.

EFRAG has stressed the importance to seek constituents' views on the new redeliberations, and welcomed the decision of the IASB to issue a new Exposure Draft in 2012.

The results of EFRAG's outreach activities addressing main issues discussed in the IASB re-deliberations of the Revenue Recognition and the Leases projects were presented to the IASB in the public joint IASB–EFRAG meeting in June 2011. Subsequently the IASB has decided to re-expose the Lease project, meeting one of EFRAG's most prominent requests, and the Revenue Recognition project.

EUROPEAN OUTREACH ON REVENUE RECOGNITION AND LEASES PROJECTS

In May 2011, EFRAG and the European National Standard Setters jointly organised meetings throughout Europe in order to inform European constituents of, and obtain their feedback on, the direction taken by the IASB in its re-deliberations on the Revenue Recognition and Leases projects. The events focused only on those issues that had caused major concerns at the exposure draft stage and had been subsequently re-deliberated. The events were held in 8 countries, including Denmark, Finland, France, Germany, Italy, the Netherlands, Spain and the United Kingdom, and were attended by a large number of constituents. The events provided European constituents with an opportunity to influence the final outcome of the projects, so as to eliminate whatever major concern remains after the re-deliberations are coming to completion.

EFRAG met with the IASB in June 2011 to discuss the feedback received during the outreach in Europe. An executive summary of the feedback provided by European constituents during the outreach and detailed feedback statements on each event are available on EFRAG's website, as well as on the websites of the participating National Standard Setters.

Anna Sirocka
EFRAG TEG Member

INSURANCE CONTRACTS

In 2011, EFRAG staff monitored the IASB redeliberations on the insurance contracts project:

- The cash flows to be included in the building block approach, the contract boundary, the objective of the fulfillment cash flows approach and which cash flows and acquisition costs should be considered.
- The objective of discounting and the guidance applicable for selecting the discount rate (the "top-down" and "bottom-up" approaches).
- The definition of the risk adjustment, the determination of the residual margin and whether to unlock that margin.
- The accounting mismatch and the volatility issue which arises from the measurement model.
- The eligibility criteria for the premium allocation approach.
- Other specific aspects regarding unbundling of components, participating contracts, reinsurance, presentation and the scope and definition of insurance contracts.

EFRAG TEG and the EFRAG Insurance Accounting Working Group discussed these developments during their meetings and focused their discussions on the guidance for selecting the discount rate, participating contracts, risk adjustment, various models for the presentation of the statement of comprehensive income, unlocking the residual margin and targeted improvements in IFRS 9 to address some of the insurers' concerns regarding the accounting mismatch and volatility issues.

Hans Schoen
EFRAG TEG Member
Chairman of the Insurance Accounting Working Group

IASB REQUEST FOR VIEWS ON EFFECTIVE DATES AND TRANSITION METHODS

In October 2010, the IASB issued the *Request for Views on Effective Dates and Transition Methods.* The objective of this Request for Views was to solicit constituents' views on the proposed transition methods and effective dates of the projects that the IASB is currently working on. In January 2011, EFRAG finalised its Final Comment Letter in which EFRAG considered that it would be necessary to distinguish between two groups of standards:

- Group 1, which includes the standards resulting from the projects on *Revenue from Contracts with Customers, Leases, Insurance Contracts, Financial Instruments (IFRS 9) and Fair Value Measurement,* which should have a single effective date of 1 January 2015 at the earliest.
- Group 2, which includes the standards resulting from the projects on *Post-employment benefits: Defined benefit plans, Presentation of items of Other Comprehensive Income, Consolidation and Joint Arrangements,* for which early adoption should be permitted and for which the effective dates could be considered on a case-by-case basis.

Projects are included in one of these groups depending on:

- whether or not the new standard will have a pervasive effect on the financial statements;
- the interrelation of the scopes of the different projects;
- the effects on the comparability of financial statements; and
- the necessity and complexity of the activities needed for endorsement and to adapt the legal or tax framework in the different jurisdictions.

Finally, EFRAG believed that different effective dates and permitting earlier adoption for first-time adopters should be considered on a purely pragmatic basis.

IFRS INTERPRETATIONS COMMITTEE'S TENTATIVE AGENDA DECISION ON IAS 12 INCOME TAX – REBUTTABLE PRESUMPTION TO DETERMINE THE MANNER OF RECOVERY

In September 2011, the Interpretations Committee received a request to clarify whether the presumption, introduced in the IASB's Amendments made to IAS 12 *Deferred Taxes in* December 2010, could be rebutted in cases other than the case described in the Amendments. The request addressed the issue EFRAG had spotted as causing uncertainty in the course of preparing its draft endorsement advice.

The Interpretations Committee decided not to add this item to its agenda and noted that in its view IAS 12 (2010) was clear and that diversity in practice on the rebuttal of the presumption should not emerge. However, it also observed that, if the presumption was rebutted, the resulting deferred tax should reflect recovery of the carrying amount entirely through use, rather than be based on any dual purpose analysis.

EFRAG discussed the rejection notice issued by the Interpretations Committee and noted that the wording was in effect an interpretation of the Amendment to IAS 12. For this reason, EFRAG decided to write to the Committee and request that the rejection wording be revised when issued in its final form in the IFRIC Update so that it would not explicitly provide authoritative guidance. EFRAG published its Draft Comment letter in September 2011 and issued a Final Comment Letter to the Committee in October 2011. The IFRS IC followed EFRAG's recommendations.

PROPOSALS FOR AMENDMENTS UNDER THE ANNUAL IMPROVEMENTS PROJECT 2011

In June 2011, the IASB published the Exposure Draft *Improvements to IFRS* with amendments proposed to IFRS 1 *First-time Adoption of IFRS*, *IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.* EFRAG issued its Draft Comment Letter on the Exposure Draft in July 2011 where it agreed with all proposals in the Exposure Draft.

After having received comments from constituents, EFRAG issued its Final Comment Letter to the IASB in October 2011. EFRAG agreed with most proposals in the Exposure Draft, except for the amendment to IAS 1 to reflect the Conceptual Framework for Financial Reporting 2010, and the amendment relating to accounting for taxes on distributions to owners. Regarding the latter issue, EFRAG believed that the IASB should also address the internal inconsistency in IAS 12 *Income Tax* rather than just amend IAS 32 *Financial Instruments: Presentation.* EFRAG indicated also concerns about the increasing complexity of IFRS 1 and recommended the Board to consider the longer term development of IFRS 1.


Andre Toselli
EFRAG TEG Member


Friedrich Siener
EFRAG TEG Member

Liaising directly with European Stakeholders

Françoise Flores - EFRAG Chairman
Jeroen Hooijer - Head of Accounting and Financial Reporting Unit - EC DG MARKT
Philippe Danjou - IASB Board Member

EFRAG OUTREACH ACTIVITIES IN PARTNERSHIP WITH NATIONAL STANDARD SETTERS: SOLICITING THE VIEWS OF CONSTITUENTS

In 2011 EFRAG enhanced its outreach activities in partnership with the European National Standard Setters aiming at stimulating debate in Europe and collecting European views. The outreach activities include outreach events during the comment period or the period of IASB deliberations as well as the field-testing of proposals included in an ED or a Review Draft.

EFRAG engaged with National Standard Setters during 2011 in outreach events on the main issues deliberated by the IASB in relation to the EDs on Revenue Recognition and Leasing; and on the IASB agenda consultation and the EFRAG Draft Comment Letter on this consultation. In addition there were field-testing activities on Impairment and the Consolidation Package. Field-tests on revenue recognition were prepared in 2011 with the related workshops taking place in 2012. The field-testing of the General Hedging based on the Review Draft is also scheduled for 2012.

The outreach events are organised in partnership with the National Standard Setters that are interested to host an event in their country. The format of the event is flexible and adapted to best fitting the national circumstances aiming at gathering as large an audience as possible and obtaining a maximum input from national constituents. The field-testing activities can be based on a questionnaire followed by interviews or on another format that best fits the proposals to be tested. The IASB is participating in the initiatives.

In this way, the National Standard Setters, EFRAG and the IASB are all benefiting from the same outreach event and the stakeholders involved are only solicited once for their views instead of being faced with multiple requests.

Feedback statements are published (together with the National Standard Setters involved) as well as an overall summary feedback statement in order to share the views expressed in the activities with other stakeholders and to achieve a maximum transparency.

EFRAG's outreach activities in partnership with the National Standard Setters should be seen as a step in moving towards integrated due processes between IASB, EFRAG and National Standard Setters in Europe, so as to increase transparency, greater reliance of European stakeholders in the IASB due process and overall efficiency. EFRAG welcomed the integrated supply chain concept that the IASB wishes to embrace as part of its due process to work closely with regional and national accounting standard bodies, regulators and the accounting profession.

Providing endorsement advice to the European Commission

After the IASB has published a standard or an amendment to a standard, or the IFRS Interpretations Committee has published 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 2011 EFRAG has started working on, or finalised, its endorsement advice to the European Commission on the following:

- Endorsement advice of IFRS 7 – Transfers of financial assets (March 2011)
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (October 2011)
- IAS 19 amendments (October 2011)
- IFRS 13 Fair Value Measurement (January 2012)
- IFRS 1 Amendments - removal of fixed date and hyperinflation (January 2012)
- IAS 12 Recovery of underlying Assets (January 2012)
- Consolidation and Joint Arrangements (April 2012)

As part of the due process EFRAG issues an invitation to comment on its draft endorsement advice and draft effect study report. EFRAG issues its final endorsement advice and effect study report to the European Commission, after having considered the comments received from its constituents. 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.

ENDORSEMENT ADVICE OF IFRS 7 – TRANSFERS OF FINANCIAL ASSETS

EFRAG issued a positive endorsement advice on IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets.* That standard requires additional disclosures about instances where an entity (1) transferred a financial asset, but failed the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement,* or (2) derecognised a financial asset in accordance with IAS 39 but maintains a continued involvement in the asset.

AMENDMENTS TO IAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

EFRAG issued positive endorsement advice in relation to the Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (the Amendments), which were published by the IASB in June 2011. The changes finally brought to IAS 1 are those that EFRAG had supported during the consultation phase. The Amendments require separate presentation of items of other comprehensive income that are reclassified subsequently to profit or loss (recyclable) and those that are not reclassified to profit or loss (non-recyclable). If items of other comprehensive income are presented before tax, then income tax is allocated to each respective group. The Amendments do not change the existing option to present an entity's performance in two statements; and do not address the content of performance statements (i.e. what is recognised in profit or loss and what is recognised in other comprehensive income) or recycling issues (i.e. what can be reclassified (recycled) subsequently to profit or loss and what cannot).

IAS 19 AMENDMENTS

In June 2011, the IASB issued *Amendments to IAS 19 Employee Benefits,* which includes the elimination of the corridor approach (and effects of this deletion in other parts of IAS 19); the disaggregation of the pension cost in different components (service costs, finance costs and re-measurements); presentation of the above components in the financial statements; allocation criteria for multi-employer plans; aspects related to disclosures; and clarification on some components that should be included in the defined benefit formula. EFRAG supports the Amendments and submitted a positive endorsement advice to the European Commission in October 2011.

Gabi Ebbers
EFRAG TEG Member

IFRS 13 FAIR VALUE MEASUREMENT

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement.* IFRS 13 sets out a single framework for measuring fair value and provides comprehensive guidance on *how* to measure the fair value of both financial and non-financial assets and liabilities. IFRS 13 applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements, thus it does not set out requirements on when to apply fair value measurement. EFRAG issued a positive endorsement advice in January 2012 (after consultation on a draft endorsement advice published in November 2011).

IFRS 1 AMENDMENTS - REMOVAL OF FIXED DATE AND HYPERINFLATION

In December 2010, the IASB published *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1),* consisting of two amendments to IFRS 1. Firstly, it removes the reference to fixed dates in IFRS 1 and now refers to the 'date of transition to IFRS'. Secondly, it introduces a 'fair value as deemed cost' exemption that provides relief to entities that were subject to severe hyperinflation.

During the first half of 2011, EFRAG began the process of preparing the endorsement advices thereon, however, the process was put on hold as the amendments contain consequential amendments to IFRS 9, which is not endorsed in the EU. European Commission staff and its legal services agreed in November 2011 that the consequential amendments to IFRS 9 would not be considered as part of an endorsement decision on these amendments, but would rather be considered together with the underlying requirements of IFRS 9. In December 2011, EFRAG published a draft endorsement advice on these amendments for public consultation, follow by a positive final endorsement advice in January 2012.

Andy Simmonds
EFRAG TEG Member

IAS 12 RECOVERY OF UNDERLYING ASSETS

In December 2010, the IASB issued the Amendments to IAS 12 Deferred Tax *Recovery of Underlying Assets,* which introduces an exception in the form of a rebuttable presumption to the measurement principle in IAS 12. The Amendments require an entity to measure deferred tax on investment property carried at fair value, based on the tax consequences of selling that asset, unless an entity rebuts this presumption.

EFRAG identified a concern that the Amendments could be interpreted in different ways. Specifically, EFRAG noted that it was not clear in which circumstances the presumption could be rebutted. While EFRAG's work was in progress, the IFRS Interpretation Committee was requested to provide clarification in the area EFRAG had identified as causing problems. Subsequently, EFRAG satisfied itself that the Amendments met the criteria for endorsement in the European Union and in November 2011 EFRAG issued for public comment a positive draft endorsement advice. The positive final endorsement advice was published in January 2012.

CONSOLIDATION AND JOINT ARRANGEMENTS

In May 2011, the IASB published IFRS 10 *Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities* and the consequential amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures.*

IFRS 10 is intended to further clarify and rationalise the existing control principle in the consolidation standard. It develops a consolidation model based on the 'ability to control' which applies to all entities including structured entities. IFRS 10 introduces new concepts, such as "relevant activities" that significantly affect the investee's returns and provides new guidance on how to determine control when voting rights are not important to determine power over an investee.

IFRS 11 addresses the classification and accounting for joint arrangements and eliminates the accounting option for jointly controlled entities (referred to in IFRS 11 as "separate vehicles"). Under IFRS 11, joint operators are required to recognise their direct interest in assets and liabilities and corresponding revenue and

expenses that arises from their participation in a joint operation, whereas joint venturers account for their indirect interests in the venture using the equity method.

IFRS 12 incorporates, into a single standard, the disclosure requirements for subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities.

EFRAG started to discuss the new requirements in June 2011 and requested feedback from different groups of constituents, including preparers, auditors and users in the financial services industry and insurance industry to obtain a more comprehensive understanding of costs and benefits of implementing the new requirements. As the IASB was expected to issue effect studies, EFRAG decided against starting its endorsement process without waiting for the IASB effect studies, so as to avoid the unnecessary duplication of efforts. Effect studies were finally published a full four months after the publication of the standards.

To gather feedback from the insurance industry, financial services industry and users, EFRAG discussed IFRS 10, IFRS 11 and IFRS 12 with respectively the EFRAG Insurance Accounting Working Group, the EFRAG Financial Instruments Working Group and the EFRAG User Panel, in the second half of 2011 to gather their input on the new requirements. To gather feedback from auditors, EFRAG held a workshop with audit firms in July 2011.

In September 2011, EFRAG discussed the IASB's effect analysis and, although it thought that some of the evidence was useful, it decided that it provided insufficient detail for the purposes of developing an endorsement advice. Therefore, from September to November 2011, EFRAG staff, in partnership with the staff from some European National Standard Setters, conducted field-tests of the new requirements with companies from different industries.

EFRAG noted that the outcome of the field-test had confirmed that developing a common understanding of how the principles should be applied, would require more effort and time than preparers had originally expected, particularly for IFRS 10, IFRS 11 and IFRS 12. A primary concern noted was the degree of judgment and assumptions required to apply IFRS 10 and IFRS 11, which to some extent, was likely to be addressed by the information required to be disclosed in IFRS 12 with regard to assumptions and judgment made when assessing control, joint control and classification decisions. Challenges of collecting the required information was mentioned as a key factor in the implementation process. Also, EFRAG was made aware of the uncertainty created by the IASB's Exposure Draft Investment Entities and the Exposure Draft to come proposing amendments to the transition provisions of IFRS 10.

Given the concerns shared by constituents, EFRAG sent a letter to the IASB in December 2011, requesting them to defer the mandatory application date of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 to the later of (a) 1 January 2014 or (b) 12 months after the amendments to IFRS 10 and the standard on investment entities have both been published. The request was duly considered by the IASB, however rejected. EFRAG issued its draft positive endorsement advice on the consolidation package for public consultation in February followed by its positive final endorsement advice including the deferral of the mandatory effective date for one year but allowing for voluntary earlier application (with some dissenting views expressed) in April 2012.

ACCOMPANYING THE ENDORSEMENT PROCESS

EFRAG participated in the Accounting Regulatory Committee (ARC) and Standards Advice Review Group (SARG) meetings organised by the European Commission throughout the year. The European Commission disbanded the SARG in July 2011.

Keeping proactive in SME accounting matters

SME IMPLEMENTATION GUIDANCE

EFRAG is observer in the SME Implementation Group (SMEIG) - established by the IFRS Foundation in 2009. The SMEIG 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.

The SMEIG did not consider the need to amend the IFRS for SMEs in 2011. However, the SMEIG issued more than ten draft implementation questions and answers (Q&As) for comment. EFRAG decided that it would comment formally on these draft Q&As following a due process. However, due to the comment period given by the IASB on these draft Q&As, EFRAG was in some cases only able to provide constituents with a comment period of 30 days to respond to EFRAG's draft comment letters.

In addition to commenting on the technical content of the draft Q&As, EFRAG expressed concern about the level of detail, the narrow scope of the issues and the number of Q&As the SMEIG was issuing. EFRAG thought that creation of extensive additional literature would be inappropriate in relation to a standard intended for SMEs.

EFRAG expressed concerns about the level of detail, the narrow scope of the issues and the number of Q&As the SMEIG is addressing. The IASB has considered its approach and in its February 2012 Update the SMEIG announced that it does not expect to issue many, if any, additional draft Q&As before the start of the comprehensive review of IFRS for SMEs.

EFRAG SME WORKING GROUP

In 2011, EFRAG extended its SME Working Group with the European members of the SMEIG who were not yet members of EFRAG's SME Working Group and an observer from the Worldbank. The work of EFRAG's SME Working Group was focused in 2011 on providing comments in response to the Q&As issued in relation to the IFRS for SMEs.

Understanding the Needs of Users

GETTING INPUT FROM USERS IN EXPRESSING EUROPEAN VIEWS

Users, including investors, play a fundamental role in the development of high quality IFRS. It is therefore essential for EFRAG to have a thorough understanding of the investors' needs in developing its views. EFRAG operates an active User Panel that provides input into the EFRAG Technical Expert Group on the most important and topical issues on a quarterly basis. Investors are also represented in the EFRAG Technical Expert Group, the various working groups and advisory panels and the EFRAG Supervisory Board. EFRAG is continuously seeking ways to enhance its relationship with users in order to increase users' influence on EFRAG TEG positions and international standard setting.

EFRAG's User Panel was established five years ago. In 2011, EFRAG's User Panel focussed on various aspects of accounting for Financial Instruments as well as accounting for Leases and Revenue Recognition. The views of EFRAG's User Panel were also sought on some of EFRAG's proactive projects in partnership with the European National Standard Setters.

The replacement of IAS 39 Instruments: Recognition and Measurement continued to be a high priority on the IASB agenda. The project on impairment of financial assets measured at amortised cost is the second phase of the "replacement" project. Panel members supported the IASB's proposed decoupled effective interest rate approach but expressed concern about whether, in practice, it was always possible to distinguish between "good" and "bad" book, and whether applying the combined impairment approach would result in the "floor" being applied in most of the cases, in which case it might not always result in useful information. Panel members did not support the proposal to delete the disclosure requirement about "vintages" since, in their view, such information is necessary to make forecasts in crisis times, even though they recognised the difficulty of obtaining such information. In relation to accounting for hybrid financial instruments, different views were expressed about whether the different components of the hybrid instrument should be recognised separately. On the IASB's proposals on hedge accounting, the Panel did not raise any major concerns relating to the new disclosure requirements.

The IASB's project on Offsetting Financial Assets and Financial Liabilities raised a question on whether users preferred having information about financial assets and financial liabilities presented on a gross or net basis in the statement of financial position. Overall, there was stronger support for a gross presentation, and having separate disclosure about the amount of portfolio-level credit (or debit) risk adjustments when deriving the fair values of financial assets (or liabilities), before their eventual offsetting on the face of the statement of financial position.

Regarding the IASB's project on leases, Panel members supported the two different categories of leases, but expressed different views on the more recent thinking of the IASB about splitting the rental (especially for short-term leases) and the annuity depreciation. Furthermore, some Panel members preferred to leave lease options unrecognised and include information in the notes because the balance sheet should only reflect the risk an entity is exposed to. Others believed that in certain circumstances an entity would be certain to use its option, in which case it would make sense to recognise the liability arising from the likelihood of exercising the option.

Thomas Justinussen
EFRAG User Panel Member

The other major IASB project discussed during the course of 2011 was revenue recognition and the direction the IASB was following in developing its exposure draft. Overall, Panel members liked the outcome of IASB's tentative decisions on the onerous test and the sets of criteria for applying percentage of completion accounting.

In May 2011, the IASB issued a "suite" of standards on consolidation, joint arrangements and related disclosures. EFRAG had initial discussions about the new requirements with the Panel, and noted that users were not convinced that the standards on consolidation and joint arrangements provided useful information in all cases, given the need to apply significant judgement and assumptions to determine control and assess classification of joint arrangements. However, the disclosure on judgement and assumptions made on determining the type of interest an entity had in another entity would be useful, but there was a concern about whether the information would be presented in a coherent and understandable way.

EFRAG also discussed various aspects of EFRAG's proactive projects. Separate Financial Statements and the Business Model were two of the more recent proactive projects started during 2011. Panel members were asked for input on the purpose and direction of the projects, with more comprehensive debates expected when the material was further developed. On the Disclosure Framework project, Panel members strongly supported the project and agreed that disclosure notes are becoming increasing complex and voluminous, and a common framework was needed which would set out clear disclosure objectives. They supported the close co-operation of EFRAG and FASB on the project. Overall, User Panel Members supported the ongoing effort of EFRAG together with European National Standard Setters to stimulate the debate in financial reporting.

Commenting on IFRS Foundation Pronouncements

Following consultations with constituents the EFRAG Supervisory Board developed EFRAG comment letters on three IFRS Foundation reviews/requests for views:

Review of the Operational efficiency and effectiveness of the IFRS Interpretations Committee Strategy reviews:

- Status of Trustees' Strategy Review (Strategy Review I)
- Report of the Trustees' Strategy Review: IFRS as the Global Standard: Setting a Strategy for the Foundation's Second Decade (Strategy Review II)

Saskia Slomp
Director

IFRS FOUNDATION: REVIEW OF THE IFRS INTERPRETATIONS COMMITTEE

In the second half of 2010, the IFRS Foundation Trustees requested views of interested stakeholders on the operational efficiency and effectiveness of the IFRS Interpretations Committee. The EFRAG Supervisory Board reviewed the comments received from constituents as part of its due process on its draft comment letter and submitted a comment letter to the IFRS Foundation Trustees. The comment letter expressed three concerns relating to the current operation of the Interpretations Committee.

EFRAG´s main concern relates to the application of the Committee´s agenda criteria and the assessment of some requests, particularly for complex issues. It is not always clear when an issue ought to be resolved through an amendment to an IFRS or an Interpretation.

EFRAG is also concerned with the wording for some rejection notices used by the Committee in its publication of the 'IFRIC Update' explaining tentative agenda decisions.

A further concern highlighted by some respondents, and expressed in EFRAG's final comment letter issued in February 2011, was the lack of a clear distinction between an Interpretation and an Amendment to an IFRS through the IASB Annual Improvements Process.

EFRAG issued a separate letter with recommendations addressing shorter term concerns, especially with respect to the IASB's then current work programme prior to the June 2011 convergence target deadline and the cooperation between the IASB and FASB on the financial instruments project. EFRAG welcomed the extension of the June deadline to the end of 2011 for the convergence projects, as announced by the IASB and FASB.

> IASB and FASB stated in spring 2011 that the June 2011 date was a target, not a deadline. A target date should not take priority over thorough and robust due process. The decisions by the IASB and FASB to extend the timetable for some additional months satisfy recommendations that EFRAG has been expressing in various ways and forms since the end of 2010, and gives European stakeholders the comfort that their concerns will be properly addressed.

IFRS FOUNDATION TRUSTEES' STRATEGY REVIEWS

STRATEGY REVIEW I

Following careful analysis of the comments received from constituents on EFRAG's draft comment letter on the IFRS Foundation public consultation paper of November 2010, EFRAG submitted its final comment letter to the IFRS Foundation in March 2011.

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. In its letter EFRAG provides a series of recommendations addressing the:

- interrelationship between standard-setting and public policy objectives
- independence of the standard-setting process including observations on agenda setting
- need to define who the users legitimately are
- convergence of external and internal financial reporting
- pace of, and conditions for changes to standards
- balance between complexity and understandability
- need for an evidence-based standard-setting process, and
- need to remove the emphasis put so far on convergence.

STRATEGY REVIEW II

At the end of April 2011, the IFRS Foundation issued IFRS as the Global Standard: Setting a Strategy for the Foundation's Second Decade as a next stage in the strategy review process. This report provides the preliminary conclusions of the Trustees' Strategy Review and sets out proposed recommendations following the earlier public consultation of November 2010. In May 2011 EFRAG issued its draft comment letter on the Trustees' proposed recommendations for public consultation. A final comment letter was submitted to the IFRS Foundation in August 2011.

EFRAG is in general supportive of most of the proposed recommendations, and in particular welcomes the emphasis on high-quality global standards, transparency and the focus on adoption of IFRS rather than on convergence. However EFRAG proposes recommendations focusing on the longer-term perspective:

- defining the boundaries of financial statements
- increasing Trustees' communication duties
- setting the agenda after public consultation on the objectives of, and need for, possible projects
- keeping XBRL separate from the standard-setting process, and
- handling research activities.

EFRAG also participated in the London Roundtable on the Strategy Review organised by the IFRS Foundation in June 2011.

Publications and Activities in 2011

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
IFRS / IAS				
IFRS 9 Financial Instruments: Classification and Measurement ED issued on 14-07-2009 with comment deadline of 14-09-2009. IFRS 9 published on 12-11-2009	28-07-2009	21-09-2009	02-11-2009	Postponed
IFRS 9 Financial Instruments: Fair value option for financial liabilities Issued on 11-05-2010 with comment deadline of 16-07-2010, IFRS 9 published on 12-11-2009	09-06-2010	16-07-2010		Postponed
IFRS 9 Financial Instruments Amortised Cost and Impairment Issued on 05-11-2009 with comment deadline of 30-06-2010, IFRS 9 published on 12-11-2009	22-02-2010	29-06-2010		Postponed
IFRS 9 Financial Instruments Hedge accounting ED issued on 09-12-2010 with comment deadline of 09-03-2011 IFRS 9 published on 12-11-2009	18-01-2011 And supple-ment to DCL 23-02-2011	11-03-2011		Postponed
Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) ED issued on 04-08-2011 with comment deadline of 21-10-2011; Amendments issued 16-12-2011	09-09-2011	28-10-2011		Postponed
Replacement of IAS 39 Financial Instruments: IASB's Supplementary Document Financial Instruments Impairment Document issued on 31-01-2011 with comment deadline of 01-04-2011	28-02-2011	08-04-2011	N/A	N/A
IFRS 10 Consolidated Financial Statements Issued on 12-05-2011. Replaces the consolidation requirements in SIC-12 and IAS 27	02-03-2009	08-04-2009	09-02-2012	30-03-2012
IFRS 11 Joint Arrangements Issued on 12-05-2011. Supersedes IAS 31 and SIC-13	07-12-2007	06-02-2008	09-02-2012	30-03-2012
IFRS 12 Disclosure of Interests in Other Entities Issued on 12-05-2011	In EFRAG's DCL on consolidation requirements	In EFRAG's FCL on consolidation requirements	09-02-2012	30-03-2012
IFRS 13 Fair Value Measurement Issued on 12-05-2011	30-07-2009 09-07-2010	16-10-2009 16-09-2010	18-11-2011	20-01-2012
IAS 27 Separate Financial Statements Issued on 12-05-2011	In EFRAG's DCL on consolidation requirements	In EFRAG's FCL on consolidation requirements	09-02-2012	30-03-2012
IAS 28 Investments in Associates and Joint Ventures Issued on 12-05-2011	In EFRAG's DCL on consolidation requirements	In EFRAG's FCL on consolidation requirements	09-02-2012	30-03-2012
Amendments to IFRS 1 Severe hyperinflation ED issued on 30-09-2010 with comment deadline of 30-11-2010; Amendments issued 20-12-2010	22-10-2010	03-12-2010	08-12-2011*	19-01-2012*
Amendments to IFRS 1 Removal of fixed dates for first-time adopters ED issued on 26-08-2010 with comment deadline of 27-10-2010; Amendments issued 20-12-2010	22-09-2010	29-10-2010	* DEA for both amendments to IFRS 1	* FEA for both amendments to IFRS 1
Amendments to IFRS 7 Disclosures - Transfers of Financial Assets ED issued on 31-03-2009 with comment deadline of 31-07-2009; Amendments issued 07-10-2010	15-06-2009	31-07-2009	09-12-2010	16-03-2011
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities ED issued on 28-01-2011 with comment deadline of 28-04-2011; Amendments issued 16-12-2011	16-02-2011*	29-04-2011*	26-01-2012*	06-04-2012*
Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities ED issued on 28-01-2011 with comment deadline of 28-04-2011; Amendments issued 16-12-2011	* DCL for both amendments to IFRS 7 and IAS 32	* FCL for both amendments to IFRS 7 and IAS 32	* DEA for both amendments to IFRS 7 and IAS 32	* FEA for both amendments to IFRS 7 and IAS 32
Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income ED issued on 27-05-2010 with comment deadline of 30-09-2010; Amendments issued 16-06-2011	02-06-2010	23-09-2010	28-07-2011	21-10-2011
Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets ED issued on 10-09-2010 with comment deadline 09-11-2010, Amendments issued 20-12-2010	07-10-2010	09-11-2010	18-11-2011	19-01-2012

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
IFRS / IAS				
Amendments to IAS 19 Defined Benefit Plans ED issued on 29-04-2010 with comment deadline of 06-09-2010, Amendments issued 16-06-2011	21-05-2010	15-09-2010	28-07-2011	21-10-2011
Amendments under its annual improvements project ED issued on 22-06-2011 with comment deadline of 21-10-2011	20-07-2011	27-10-2011		
Government Loans (Proposed Amendments to IFRS 1) ED issued on 19-10-2011 with comment deadline of 05-01-2012, Amendments issued 13-03-2012	18-11-2011	18-01-2012	06-04-2012	
Investment Entities ED issued on 25-08-2011 with comment deadline of 05-01-2012	29-09-2011	18-01-2012		
Insurance Contracts ED issued on 30-07-2010 with comment deadline of 30-11-2010	17-09-2010	14-12-2010		
Leases ED issued on 17-08-2010 with comment deadline of 15-12-2010	24-09-2010	16-12-2010		
Measurement of Liabilities in IAS 37 ED issued on 05-01-2010 with comment deadline of 12-04-2010 extended to 19-05-2010	22-02-2010	20-05-2010		
Revenue from Contracts with Customers ED issued on 24-06-2010 with comment deadline of 22-10-2010	27-07-2010	22-10-2010		
Revenue from Contracts with Customers – revised proposals Revised ED issued on 14-11-2011 with comment deadline of 13-03-2012	20-01-2012			
Transition Guidance (Proposed amendments to IFRS 10) ED issued on 20-12-2011 with comment deadline of 21-03-2012	19-01-2012	26-03-2012		
Count 2011	8	5	5	3
IFRS Interpretations Committee				
IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine Issued on 19 October 2011	22-09-2010	03-12-2010	09-11-2011	20-01-2012
Tentative agenda decision on IAS 12 Income Tax — rebuttable presumption to determine the manner of recovery Published in the September 2011 IFRIC Update with comments to be received within 30 days	27-09-2011	14-10-2011	Not subject to endorsement	
Count 2011	1	1	1	0
IASB SMEIG Q&A				
First batch of draft Q&As related to the IFRS for SMEs IASB published on 24-02-2011 one draft Q&A for public comment: Use of the IFRS for SMEs in parent's separate financial statements. Final Q&A issued on 23-6-2011: Use of IFRS for SMEs in a parent's separate financial statements (2011/1)	24-02-2011	04-04-2011	Not subject to endorsement	
Second batch of draft Q&As related to the IFRS for SMEs IASB published on 14-04-2011 three draft Q&A for public comment: (i) Captive insurance subsidiaries; (ii) Interpretation of "traded in a public market"; (iii) Investment funds with only a few participants. Final Q&As issued on 7-12-2011: (i) Entities that typically have public accountability (2011/2) and (ii) Interpretation of 'traded in a public market' (2011/3)	18-04-2011	15-06-2011	Not subject to endorsement	
Third batch of draft Q&As related to the IFRS for SMEs IASB published on 28 September 2011 five draft Q&As for public comment: (i) Application of the IFRS for SMEs for financial periods ending before the IFRS for SMEs; (ii) Interpretation of 'undue cost or effort' and 'impracticable'; (iii) Jurisdiction requires fallback to full IFRSs; (iv) Departure from a principle in the IFRS for SMEs; (v) Prescription of the format of financial statements by local regulation Final Q&As issued on 10-04-2012: (i) Application of 'undue cost or effort'(2012/1) and (ii) Jurisdiction requires fallback to full IFRSs (2012/2)	04-10-2011	30-11-2011	Not subject to endorsement	
Fourth batch of draft Q&As related to the IFRS for SMEs IASB published on 21 November 2011 two draft Q&As for public comment: (i) Fallback to IFRS 9 Financial Instruments; (ii) Recycling of cumulative exchange differences on disposal of a subsidiary	01-12-2011	31-01-2012	Not subject to endorsement	
Count 2011	4	3	0	0

	Draft Comment Letter	Final Comment Letter	Draft Endorsement Advice	Final Endorsement Advice
Other Letters				
IASB Request for Views on Effective Dates and Transition Methods Request for Views issued 19-10-2010 with comment deadline of 31-01-2011	22-11-2010	31-01-2011		
IFRS Foundation Trustees' Review of the IFRS Interpretations Committee Consultation Document issued on 02-11-2010 with a comment deadline of 31-01-2011	17-12-2010	23-02-2011		
IFRS Foundation Review on Status of the Trustees' Strategy Review Consultation Document issued on 05-11-2010 with comment deadline of 31-12-2010 extended to 24-02-2011	21-12-2010	08-03-2011 supplementary letter 30 June deadline and convergence effort on financial instruments 11-03-2011		
IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade Consultation Document issued on 28-04-2011 with comment deadline of 25-07-2011	31-05-2011	05-08-2011		
EFRAG letter to IASB and FASB on international convergence of accounting standards urging to agree on a joint time table for financial instruments		04-03-2011		
IASB Public Consultation on its future agenda Consultation Document issued on 26-07-2011 with comment deadline of 30-11-2011	11-08-2011	05-12-2011		
Letter requesting IASB to consider comment deadlines on the Exposure Draft Revenue from Contracts with Customers and the Review Draft on General Hedge Accounting	15-12-2011			
Letter requesting IASB to defer the effective date of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28	09-12-2011			
ESMA Considerations of Materiality in Financial Reporting Issued on 09-11-2011 with comment dead-line of 30-03-2012	27-01-2012	27-03-2012		
Count 2011	4	7	0	0
	Publications			
Other publications				
EFRAG Discussion Paper Considering the Effects of Accounting Standards	31-01-2011			
Discussion Paper 'Accounting for Business Combinations under Common Control	21-10-2011			
Discussion Paper 'Improving the Financial Reporting of Income Tax'	22-12-2011			
EFRAG Feedback Report on Outreach on Financial Instruments Presentation	15-02-2011			
EFRAG Feedback Report on EFRAG –IASB Financial Instruments Discussion Forum	14-03-2011			
EFRAG executive summary of the feedback received in the outreach on the Revenue Recognition and Leases projects	13-06-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Paris on 24 May 2011	12-06-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Frankfurt on 09 May 2011	10-06-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Madrid on 25 May 2011	07-06-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Amsterdam on 10 May 2011	01-06-2011			

	Publications			
Other publications				
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Helsinki on 9 May 2011	25-05-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Rome on 5 May 2011	24-05-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in London on 10 May 2011	19-05-2011			
EFRAG reports on input received in European outreach on the Revenue Recognition and Leases projects – meeting in Copenhagen on 3 May 2011	19-05-2011			
EFRAG reports on the final part of its outreach on the financial statement presentation project	26-07-2011			
EFRAG secretariat reports to the European Commission on input received from a selection of companies regarding costs of implementing Country-by-country reporting	03-08-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Frankfurt on 7 October 2011	07-11-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Madrid on 16 November 2011	25-11-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Warsaw on 15 November 2011	28-11-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Oslo on 1 November 2011	29-11-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Stockholm on 9 November 2011	29-11-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Brussels on 25 November 2011	02-12-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Copenhagen on 31 October 2011	04-12-2011			
EFRAG reports on input received in European outreach on the IASB Agenda Consultation 2011 - meeting in Amsterdam on 2 November 2011	07-12-2011			
Consolidated input received in European outreach events on the IASB Agenda Consultation 2011	21-12-2011			
EFRAG reports on the findings of the field-tests on implementing IFRS 10, IFRS 11 and IFRS 12	27-02-2012			
Count 2011	25			

Letters issued in 2011 in total	
Draft Comment Letters	17
Final Comment Letters	16
Draft Endorsement Letters	6
Final Endorsement Letters	3
Other publications	25
Grand total 2011	67

Number of meetings and conference calls in 2011	
EFRAG Technical Expert Group (EFRAG TEG)	17
EFRAG Insurance Accounting Working Group (EFRAG IAWG)	7
EFRAG Financial Instruments Working Group (EFRAG FIWG)	5
EFRAG SME Working Group EFRAG (EFRAG SME WG)	6
EFRAG Disclosure Framework Advisory Panel	15
EFRAG Business Combinations Under Common Control Advisory Panel (BCUCC)	2
EFRAG Income Tax Advisory Panel	9
EFRAG Business Model Advisory Panel	5
EFRAG Planning & Resource Committee (EFRAG PRC)	9
EFRAG User Panel	4
EFRAG Consultative Forum of Standard Setters (EFRAG CFSS)	4
EFRAG Supervisory Board (EFRAG SB) and Committees	21
Total	106

Governance

EFRAG Member Organisations

LAUNCHING EFRAG'S 2012 LIMITED GOVERNANCE REVIEW AND SUPERVISORY BOARD ROTATION

The 2008 report on the enhancement of EFRAG *Strengthening the European Contribution to the International Standard-setting process* envisaged a review of EFRAG's governance arrangements, management structure and operations two years after the new arrangements were implemented. This limited review has a particular focus on the effectiveness of arrangements to secure cooperation between EFRAG and National Standard Setters. After the first limited review, a governance review will take place every five years.

The governance review process was launched at the end of 2011 and aims to issue a consultation document in spring 2012. This limited review will evaluate the potential to further enhance the effectiveness of EFRAG's governance structure and procedures, simplifying where possible. A Governance Review Task Force has been established to support the EFRAG Supervisory Board and EFRAG Governance and Nominating Committee in carrying out this review.

The members of the EFRAG Governance and Nominating Committee were (re)appointed in December by the EFRAG General Assembly. Their responsibility is not only to conduct the governance review but also making recommendations for the (re) appointment of EFRAG Supervisory Board members whose terms expire mid-2012.

MEETING WITH EFRAG MEMBER ORGANISATIONS AND NATIONAL FUNDING MECHANISMS

EFRAG Member Organisations meetings were organised in June and November 2011. In June an update on EFRAG's technical and governance activities was provided, and an exchange of views took place. In November the EFRAG Member Organisations decided on the nominations for their representatives on EFRAG's Governance and Nominating Committee. They also had an initial brainstorming session as input for the 2012 governance review.

The National Funding Mechanisms met later in November. They also nominated representatives to EFRAG's Governance and Nominating Committee, and had an initial discussion about the EFRAG governance review. The National Funding Mechanisms were updated on the current activities and financial situation of EFRAG and on plans for the future.

EFRAG National Funding Mechanisms

NOMINATING COMMITTEE

During 2011 the EFRAG Nominating Committee made recommendations for nominations that led to the following appointments:

- In February 2011 the EFRAG Supervisory Board appointed one new member, and reappointed four existing members, to the EFRAG Technical Expert Group. The appointments were effective from 1 April 2011.
- In July 2011 the 2012 EFRAG Technical Expert Group rotation process was launched with a call for candidates. The timetable was advanced compared to the preceding years in order to be able to inform the newly appointed members earlier, assisting preparation and scheduling. Following this process the EFRAG Supervisory Board appointed already in November 2011 two new members, and reappointed five existing members of the EFRAG Technical Expert Group. The reappointed members included Mike Ashley, Vice-Chairman of the EFRAG Technical Expert Group. The appointments were effective from 1 April 2012.
- The EFRAG Nominating Committee has started in 2011 preparing recommendations for the EFRAG Planning and Resource Committee members (re) appointments which were approved by the EFRAG Supervisory Board in February 2012.

Gérard de la Martinière
EFRAG SB Member

Jens Røder
EFRAG SB Member

Hans Van Damme
EFRAG SB Vice Chair

EFRAG Supervisory Board

AUDIT AND BUDGET COMMITTEE

The EFRAG Audit and Budget Committee assists the EFRAG Supervisory Board in fulfilling its responsibilities for audit and oversight. The Committee reviewed the 2010 audited financial statements and the financial situation as of 31 July 2011; and made recommendations to the EFRAG Supervisory Board for the 2012 budget. The Committee agreed the staff compensation policy.

FUNDING TASK FORCE

The EFRAG Supervisory Board closely monitors how funding evolves, including the progress of setting up additional National Funding Mechanisms. The Board welcomed the creation of the German Funding Mechanism in November 2011, which will contribute to the funding of EFRAG from 2012 onwards; and the formation of a permanent Norwegian Funding Mechanism by the Government at the end of 2011. The prospects for the establishment of National Funding Mechanisms in Spain and in the Netherlands are encouraging.

Financial Highlights

ABBREVIATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

INCOME STATEMENT	2011	2010
	000 EUR	000 EUR
Contributions		
Member Organisations	800	875
National Funding Mechanisms	1,070	1,063
European Commission	2,289	2,252
Contributions in kind	*1,179*	*1,279*
TOTAL CONTRIBUTIONS	**5,338**	**5,469**
Operating expenses		
Human resources	*-3,305*	*-3,135*
Building	-324	-300
Travel	-110	-150
Special events	-34	-20
Publications	-34	-28
Meetings	-55	-47
Other costs	-224	-213
Expenses in kind	*-1,179*	*-1,279*
TOTAL OPERATING EXPENSES	**-5,265**	**-5,172**
Operating profit or loss	73	297
Financial result	26	15
Adjustments on prior years	6	0
NET PROFIT OR LOSS	**105**	**231**

BALANCE SHEET	31/12/2011	31/12/2010
	000 EUR	000 EUR
Tangible Assets	99	115
Office Guarantee	110	109
Total Fixed Assets	209	224
Accounts Receivable	992	1,409
Current Investments	342	319
Cash	1,358	460
Deferred Charges and Accrued Income	1	4
Total Current Assets	2,693	2,192
TOTAL ASSETS	**2,902**	**2,416**
Equity: Accumulated surplus	2,003	1,898
Liabilities		
• Leasing Debt	11	15
• Accounts Payable	445	98
• Taxes, Remuneration and Social Security	376	303
• Rent Accrual	67	102
TOTAL EQUITY & LIABILITIES	**2,902**	**2,416**

The financial highlights are based on statutory financial statements audited by BDO, Belgium, who issued an unqualified audit report on those statements on 24 February 2012.

Notes

Accounting policies

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.

EFRAG accounts for its contributions and expenses in kind, consisting 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.

Patrick De Vos
EFRAG SB Member
Chairman of the Audit and Budget Committee

Contributions and expenses in kind

Contributions in kind 2011	000 EUR
Secondments	**138**[1]
Time and travel contributions	**1,041**
Technical Expert Group	*699*
Other Groups and Panels	*342*
TOTAL CONTRIBUTIONS IN KIND	**1,179**

Accounts receivable

Accounts receivable as of 31/12/2010	2010 000 EUR	2009 000 EUR
French National Funding Mechanism		350
Danish National Funding Mechanism		27
ACTEO (Group of Largest French Companies)		50
European Commission Contribution	980	977
Other debtors	12	5
TOTAL ACCOUNTS RECEIVABLE	**992**	**1,409**

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

Level of reserves

At 31 December 2011, EFRAG's level of reserves was 2 Million EUR. EFRAG's policy – that has been accepted by the European Commission in the context of the EC grants to EFRAG – is to hold reserves in the limit of 50% of the next year's budget. EFRAG's reserves remain within this limit (50% of 2012 budget = 2,6M EUR) at the end of 2011.

Off balance sheet commitments

At 31 December 2011, EFRAG's off balance sheet commitments include[2]:
- Office rents and related charges: 0,9 M EUR
- Staff commitments (severance pay and firm commitments): 1,9 M EUR,

i.e. approximately 2,8M EUR in total.

[1] Including the contribution in kind by the ItalianStandard Setter OIC of 106K euro
[2] EFRAG's off balance sheet commitments also include some leasing arrangements. The related amounts are less than the approximation in the other commitments, and therefore are ignored.
[3] Excluding contract with the EFRAG Chairman

FINANCIAL STRUCTURE OF EFRAG

Since 2010 EFRAG has had 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. Supported by the European Commission and the Council of Ministers EFRAG seeks to broaden its basis of National Funding Mechanisms. EFRAG is very pleased that in November 2011 the German Funding Mechanism has been established which will contribute to the EFRAG funding with an amount of 350 K euro from 1 January 2012 as part of the budget of the Accounting Standards Committee of Germany. A permanent Norwegian Funding Mechanism was established by the Government in Norway in December 2011. The prospects for the establishment of National Funding Mechanisms in Spain and in the Netherlands are encouraging.

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 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) makes 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

THE 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); FINANSRÅDET (DANISH BANKERS ASSOCIATION) AND FSR - DANSKE REVISORER (FSR- DANISH AUDITORS).
FRANCE	COLLECTION OF FUNDS BY THE MINISTRY OF FINANCE THROUGH A NON-MANDATORY CALL ON ALL LISTED COMPANIES AND THE ACCOUNTANCY PROFESSION FOR IASB, EFRAG AND 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) THAT 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). FROM 2012 THE NORWEGIAN GOVERNMENT WILL PROVIDE THE FUNDING TO EFRAG THROUGH A SYSTEM WHEREBY LISTED COMPANIES WILL PAY A FEE TO THE FINANSTILSYNET (THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY).
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 PUBLICLY TRADED AND LARGE PRIVATE COMPANIES COMBINED WITH FUNDING BY THE GOVERNMENT AND THE ACCOUNTING PROFESSION.

THE BREAKDOWN OF THE CONTRIBUTIONS IS AS FOLLOWS

CONTRIBUTIONS	2011 000 EUR	2010 000 EUR
Member Organisations		
FEE	300	300
BUSINESSEUROPE	175*	250*
CEA	75	75
EBF	75	75
ESBG	75	75
EACB	75	75
EFAA	25	25
Total Member Organisations	**800**	**875**
National Funding Mechanisms		
France	350	350
UK	350	350
Italy	170**	170**
Sweden	100	100
Norway	50	50
Denmark	50	43
Total National Funding Mechanisms	**1070**	**1063**
Ad hoc funding		
European Commission	2289	2252
TOTAL CONTRIBUTIONS	**4159**	**4190**

* Including 50 K euro ad hoc funding provided by ACTEO (France) in both 2011 and 2010

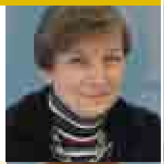
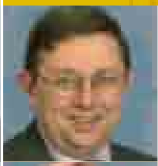
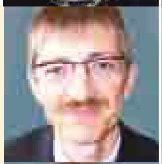
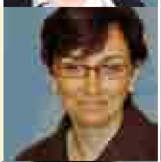
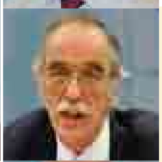
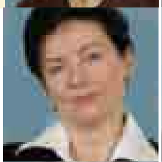
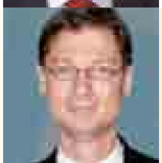
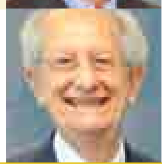
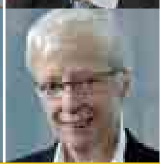
** Contribution of Italy amounts to 276k Euros in 2011 when taking into account the secondment of a full time project manager to EFRAG free of charge. In 2010 the secondment of a project manager to EFRAG free of charge was put in place in July.

Composition of EFRAG Groups and Committees

TABLE 1 – EFRAG SUPERVISORY BOARD (since 29 March)	
CHAIRMAN	
Pedro Solbes Mira	Spanish, former Member of the European Commission responsible for Economic and Financial Affairs (1999 – 2004) and Minister of Economy and Finance (2004 -2009) of Spain (public policy member)
MEMBERS	
Pär Boman	Swedish, CEO of Svenska Handelsbanken, Board Member of the Swedish Bankers' Association
Peter Chambers	UK, former CEO of Legal & General Investment Management, non-executive Director of FRC
Claudio de Conto	Italian, senior advisor of Mckinsey and member of the board of Prysmian, former CFO and general manager of the Pirelli Group, former Member IFRIC
Gérard de la Martinière	French, former Chairman of CEA, former CFO and Board member of AXA, Board member of Schneider Electric, S&P France and Air Liquide
Patrick De Vos	Belgian, former CFO of Groupe Bruxelles Lambert
Gerhard Hofmann	German, Member of the Board of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, Vice- President EACB, Vice-Chairman EBIC
Professor Robin Jarvis	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, Policy Adviser to EFAA and Technical Adviser to the IFAC SMP Committee
Professor Aldona Kamela-Sowinska	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 (public policy member)
John Kellas	UK, interim Chairman of the UK Professional Oversight Board, member of the Board of the FRC, former Chairman IAASB, former Partner KPMG
Jorge Gil Lozano	Spanish, Joint General Manager,Operative- Financial Area of the Spanish Confederation of Savings Banks
Patrice Marteau	French, Chairman ACTEO, Vice-Chair IFRS Advisory Council, Former CFO PPR Group
Professor Angelo Provasoli	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 (public policy member)
Jens Røder	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
Professor Peter Sampers	Dutch, Senior Accounting Officer at Royal DSM NV, Professor of Financial Accounting, Maastricht University
Hans van Damme	Dutch, immediate past FEE President, retired KPMG partner

The European Commission (EC) and ESMA (The European Securities and Markets Authority) attend the meetings as observers.

TABLE 2 – EFRAG TECHNICAL EXPERT GROUP (AS OF 31 DECEMBER 2011)

Françoise Flores (France) EFRAG Chairman, Partner Mazars[1]			**Mike Ashley** (United Kingdom) Vice-Chair of EFRAG TEG Audit Partner KPMG
Friedrich Siener (Germany) Director, Methods and Systems Development Group Daimler AG			**Nicolas de Paillerets** (France) Director Group Accounting Principles
Gabi Ebbers (Germany) Team Leader MD&A Group Financial and Regulatory Reporting Allianz SE			**Nicklas Grip** (Sweden) Senior Vice-President Handelsbanken
Araceli Mora (Spain) Professor University of Valencia			**Hans Schoen** (The Netherlands) Chairman of the insurance Accounting Working Group Former Audit Partner KPMG
Anna Sirocka (Poland) Audit Partner EY			**Andy Simmonds** (United Kingdom) Consultation Partner National Audit and Accounting Department Deloitte
Andrea Toselli (Italy) Partner, Leader of National Technical Department PwC			**Carsten Zielke** (Germany) Managing Director Société Générale
NON VOTING MEMBERS			
Roger Marshall (United Kingdom) Interim Chairman UK Accounting Standards Board (UK ASB)			**Jérôme Haas** (France) Chairman, Autorité des Normes Comptables (ANC)
Angelo Casó (Italy) President, Organismo Italiano di Contabilità (OIC)			**Liesel Knorr** (Germany) President, Accounting Standards Board of Germany (ASCG)

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

EFRAG Technical Expert Group

TABLE 3 – EFRAG OBSERVERS IN IASB WORKING GROUPS	
Financial Instruments	Mike Ashley (EFRAG TEG)
Insurance	Carsten Zielke (EFRAG TEG)
Lease Accounting	Françoise Flores (EFRAG Chairman)
Employee Benefits	Andrew Lennard (UK ASB)
Joint International Group on Financial Statement Presentation	Françoise Flores (EFRAG Chairman)
SME Implementation Group	Françoise Flores (EFRAG Chairman)
IFRS Advisory Council	Françoise Flores (EFRAG Chairman) / member status
XBRL Advisory Council	Françoise Flores (EFRAG Chairman) / member status

TABLE 4 – EFRAG SECRETARIAT AS OF 31 DECEMBER 2011

Françoise Flores	Chairman and CEO
Mario Abela	Research Director
Pieter Dekker	Technical Director
Saskia Slomp	Director
Nathalie Saintmard	Communications Manager
Giorgio Acunzo	Project Manager
Filipe Alves	Project Manager
Isabel Batista	Senior Project Manager
Ralitza Ilieva	Project Manager
Marc Labat	Project Manager
Latif Oylan	Project Manager
Panagiotis Papadopoulos	Project Manager
Filippo Poli	Senior Project Manager
Michel Sibille	Senior Project Manager
Rasmus Sommer	Senior Technical Manager
Anna Vidal	Project Manager
Magdalena Zogala	Project Manager
Provision of services on a project basis:	
Sigvard Heurlin	Senior Project Manager
Anne Mc Geachin	Project Manager
Aleš Novak	Project Manager
Jeff Waldier	Project Manager
Celine van der Linden*	Office Administrator
Sahar Zohadi	Office Administrator

EFRAG would like to thank Chiara Del Prete and Katrien Schotte for their valuable contributions and expertise in all EFRAG financial instruments projects.

EFRAG would also like to thank Stuart Studsrud for his thorough dedication to the Business Combinations under Common Control project.

EFRAG would like to further thank Irina Ipatova, Joaquin Sanchez-Horneros, Alessandro Turris and Marius Van Reenen for their valuable contributions as project managers.

*Thérèse Mac An Airchinnigh on parental leave.

EFRAG Secretariat

TABLE 5 – USER PANEL

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 Independent Accounting and Financial Reporting Analyst; Thomas Justinussen – Financial Analyst (Danskebank); Thomas Kaiser – Accounting Analyst (Landesbank Baden-Wurttenberg (LBBW)); Vincent Papa - Director, Financial Reporting Policy EMEA - (CFA Institute); Friedrich Spandl – Director (BAWAG); Alison Thomas – Director (PwC); Jerome Vial (Bluewin); 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), Serge Pattyn – Partner (Emerio) and Martijn Bos – Policy Advisor Accounting & Audit (Eumedion) joined the panel.

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.

TABLE 6 – 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 Veyssière – 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 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 – User – 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 SME WORKING GROUP

Françoise Flores – Working Group Chairman - EFRAG Chairman; Kati Beiersdorf – Accountant (Susat & Partner); Jean-Charles Boucher – Auditor (Tuillet Audit) ; José Maria Bové – Auditor (Instituto de Censores Jurados de Cuentas de Espana; Bové Montero y Cia); Steven Brice – Accountant (Mazars); Francis Chittenden – Academic (Manchester Business School); Federico Diomeda – Auditor (EFAA); Hugo van den Ende – Auditor (PwC); Stig Enevoldsen – Working Group Vice-Chairman – Auditor (Deloitte); Johannes Guigard – Auditor (Dottori Commercialisti); Luc Hendrickx – Preparer/User (UEAPME); Radek Ignatowski – Academic (University of Lodz); Robin Jarvis – Academic (ACCA); Manfred Jutz – Preparer (Dr. August Oetker KG); Claudia Mezzabotta – Accountant; Signe Moen – Accountant (PwC); Gerhard Prachner – Auditor (PwC); Brian Shearer – Accountant (Grant Thornton); Marc Spyker – User (l'ANR); Danielle Stewart – Auditor (Baker Tilly); Knut Tonne – Auditor (KPMG); Bart De Leeuw – Auditor (Ernst & Young).

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

TABLE 9 – MEMBERS OF THE TAX ADVISORY PANEL

Andrew Lennard - Advisory Panel Chairman (UK ASB); Carl-Eric Bohlin - Swedish Standard Setter (Swedish Financial Reporting Board); Elizabeth Chrispin - 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 Jaryssek- Preparer (Deutsche Telekom AG); Andrew Jones – User (Makinson Cowell); Olivia Larmaraud - Preparer (PSA Peugeot Citroën); Ugo Marinelli – Italian Standard Setter (OIC); Joanna Osborne – Auditor (KPMG); Thomas Senger - Auditor (Warth & Klein); Hugh Shields* - Preparer (Crédit Suisse); Alfred Simlacher- Preparer (Siemens AG); Mitsuhiro Takemura – Observer (IASB).

* left the group in the course of the year.

TABLE 10 – MEMBERS OF THE BUSINESS COMBINATIONS UNDER COMMON CONTROL

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

TABLE 11 – 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), the International Auditing and Assurance Standards Board (IAASB), the Financial Accounting Standards Board (FASB) and the Canadian Accounting Standards Board (AcSB) are invited to participate as official observers.

TABLE 12 – MEMBERS OF THE BUSINESS MODEL ADVISORY PANEL

Hans Schoen – Advisory Panel Chairman – EFRAG TEG Member – Former Auditor (KPMG); Marie-Lore Aka – Preparer (BNP Paribas); Joel Andersson – Consultant (Kanton Finansiella Rådgivning); Jo Clube – Preparer (Aviva); Jean-Marc Girard – Preparer (Caisse des Dépôts); Henning Göbel – Preparer (Deutche Postbank); Enrico Gonnella – Academic (University of Pisa); Walter Grilli – Preparer (Enel); Renata Harvankova – Preparer (Erste Group Bank); Jacques Le Douit – Preparer (AXA); Jan Marton – Academic / auditor (University of Gothenburg / KPMG); Louise McSweeney – Preparer (Barclays); Maria Nordgren – Preparer (Deutche Bank); Gunnar Nyman – Preparer (Ericsson); Isabelle Pujol Mauvoisin – Preparer (Veolia); Olivia Raad Gracco de Lay – User (BNP Paribas); Anne Schurbohm Ebneth – Auditor (KPMG); Henricus Seerden – Preparer (EIB); Roberto Silva – Consultant (Accenture Management Consulting); Brian Singleton-Green – Accountancy Body (ICAEW), Marta Soto – Preparer (Telefónica); Nikolaus Starbatty – Preparer (Siemens); Allister Wilson – Auditor (EY); Stefano Zambon – Academic (European Accounting Association / University of Ferrara).

TABLE 13 – 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; DASC - 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.

EFRAG Technical Expert Group and Consultative Forum of Standard Setters

EFRAG

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