EFRAG
European Financial Reporting Advisory Group

Annual Review 2012

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". EFRAG's activities are aimed at ensuring that European views on the development of financial reporting are properly and clearly articulated in the international standard-setting process.

Since 2010, EFRAG is funded by its Member Organisations, the National Funding Mechanisms (national systems that collect contributions to fund EFRAG) and the European Commission. The European Commission matches each euro contributed by the private sector, up to a maximum annual grant amount.

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 European public interest, and not to consider themselves as representing industry 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 the EFRAG User Panel. The purpose of the Panel is to provide broad input from users to the EFRAG Technical Expert Group.

EFRAG works closely with National Standard Setters in Europe, meeting with them every three months in the EFRAG Consultative Forum of Standard Setters, and working with them and the IASB to organise and conduct outreach events and field tests to seek views from constituents. Strong and regular coordination with the National Standard Setters of France, Germany, Italy and the UK has proven particularly effective since 2011, and has materialised in influential joint proactive work and meaningful findings resulting from field work undertaken in cooperation.

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 meetings; EFRAG staff cooperates with the IASB staff on a frequent basis; the IASB participates in outreach events and field tests organised by EFRAG in partnership with National Standard Setters in Europe; 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 National Standard Setters in Europe 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 is populated with 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. Since the middle of 2012, other National Standard Setters are entitled to participate in the meetings as observers with speaking rights.

The EFRAG Planning and Resource Committee sets the agenda for proactive work. Development of discussion papers and other output is entrusted to the EFRAG Technical Expert Group in close coordination with the Boards of the 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 2010 Strategy for proactive activities, *Focus on Improvement*.

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 sectorial affiliation. 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 EFRAG Member Organisations and three representatives from the National Funding Mechanisms.

Transparency and due process characterise the work of EFRAG.

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

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

EFRAG's transparency and independence are mainly achieved by:

- holding all discussions in public meetings; publishing meeting agendas and summaries on the EFRAG website;
- seeking early input from National Standard Setters in Europe and EFRAG working groups;
- 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;
- publishing feedback statements to report on how EFRAG reached its final positions; 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, field tests and special surveys to assess the effects of proposed standards in cooperation with the National Standard Setters in Europe and in coordination 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 in 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.

Joint Conference

EFRAG–IFRS Foundation Conference on the Move Towards Global Accounting Standards

On 11 October 2012, EFRAG and the IFRS Foundation held a joint conference to discuss an EU perspective on the *Move towards Global Accounting Standards*. The conference featured introductory speeches by Pedro Solbes, EFRAG Supervisory Board Chairman, and Michel Prada, Chairman of the IFRS Foundation, followed by a key note speech by Olivier Guersent, Head of Cabinet of Commissioner Michel Barnier.

An interactive roundtable was moderated by Adam Jones, Financial Times journalist and gathered prominent speakers:

- **Nadia Calviño, Deputy Director General, European Commission;**
- **Françoise Flores, EFRAG Chairman;**
- **Hans Hoogervorst, Chairman of the IASB;**
- **Sven Hayn, Ernst & Young;**
- **Wolf Klinz, MEP;**
- **Elisabetta Magistretti, Non-executive independent director in listed Italian companies, and**
- **Peter Malmqvist, Board member of the European Federation of Financial Analysts Societies.**

The decision of the European Union on the adoption of IAS for the consolidated accounts of listed companies catalysed the global move towards the adoption of IFRS. Today, IFRS are the financial reporting language for more than two thirds of the G20 countries. Since the adoption in 2002, the European Union has been supporting the objective of one single set of high quality globally applied accounting standards, ensuring a level-playing field for companies worldwide, and enhancing the comparability and transparency of financial information. The message was made that the European Union's aim is to adopt all IFRS issued by the IASB, provided that they are acceptable to and meeting the needs of European constituents. Europe needs to express its views early in the standard-setting process.

> it was made clear that the momentum for global standards could perhaps be slowed down by a final negative decision in the US, but could no longer be stopped.

National Standard Setters in Europe, have repeatedly said one should not sacrifice high-quality financial reporting to convergence. Improvement of financial reporting should be a priority and indeed the sole objective of the global standard-setting process.

The European Commission said that 2013 is the "year of truth' regarding US participation in IFRS. In this respect, it has announced a high level political debate on the role of the European Union and its institutions in the IFRS process, starting with a debate among the finance ministers of the 27 Member States in the ECOFIN Council in the autumn. The European Commission said that there is no realistic alternative to IFRS. Europe has to make every effort to have IFRS accepted by its stakeholders. The way the European Union expresses and conveys its interests to the IASB is important. The European Commission underlined that Europe needs to speak with one voice: one message, conveyed by one messenger, during the development of a standard: EFRAG.

EFRAG, in cooperation with the National Standard Setters in Europe, are the best chance for Europe to exercise its influence in the international standard-setting process.

European Commission representatives expressed disappointment with the financial reporting developments in the US and made clear that frustration in the EU was growing. The SEC staff paper was indeed perceived as a negative outcome. However it was made clear that the momentum for global standards could perhaps be slowed down by a final negative decision in the US, but could no longer be stopped. Convergence with US GAAP has been driving the international standard-setting process for many years and participants expressed frustration over the lack of an SEC decision on IFRS.

There was general agreement that convergence is a means but should not be a goal in itself, and should not be at the expense of a timely solution in setting a standard. EFRAG and its partners, the

The European Commission announced a high level political debate on the role of the European Union and its institutions in the IFRS process.

The European Commission called to ensure that the governance of EFRAG makes it transparent, impartial and accountable, and seen as such, and thereby is a guarantee for further strengthening the European influence in the international standard-setting process.

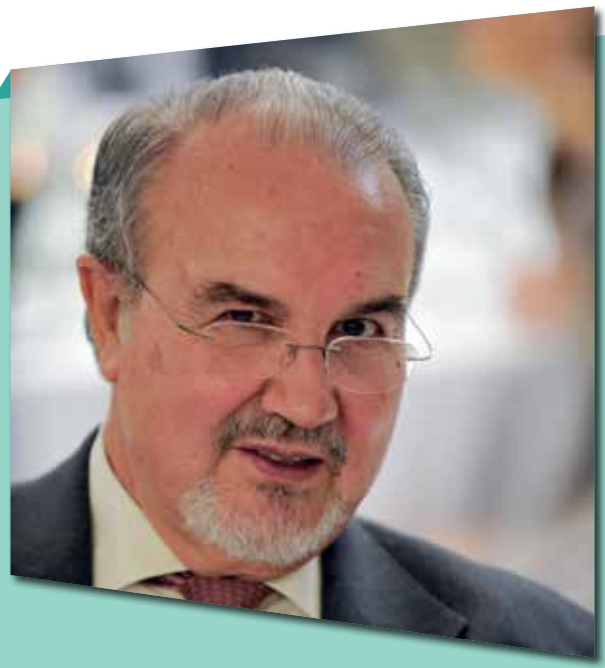
Technical standard setting is not free from political input and may have wider political implications. The financial and economic crisis has illustrated the importance of a robust and legitimate independent international accounting standard-setting process, which is responsive to the public interest. Several contributions to the conference called for the improvement of financial reporting to be the sole objective of international standard setting. A shared due process between the IASB, regional and national accounting bodies, demonstrating the evidence of such improvement is critical, not only in making the European Union IFRS policy politically sustainable but also in enhancing the adoption of IFRS worldwide.

The view was expressed that EFRAG, in cooperation with the National Standard Setters in Europe, are the best chance for Europe to exercise its influence in the international standard-setting process.

In September 2012, the EFRAG Supervisory Board held its last meeting under the chairmanship of Pedro Solbes, after the first three-year mandate of its members came to an end. Early 2012, EFRAG had started the process leading to a new composition of the EFRAG Supervisory Board with the purpose of adding new members whilst retaining some continuity. Pedro Solbes, EFRAG Supervisory Board Chairman, decided not to seek reappointment, after having led EFRAG through three very successful years. The EFRAG Supervisory Board was renewed in November 2012.

GOOD BYE AND THANK YOU

TO PEDRO SOLBES AND THE BOARD 2012



The new Board includes three public policy members nominated by the European Commission. Pedro Solbes terminated his chairmanship in November 2012. The European Commission decided not to nominate any replacement before having decided how Europe should be organised to maximize influence in the development of IFRS. In the absence of a new available chairman, the EFRAG General Assembly decided that Hans van Damme, Vice Chair of the EFRAG Supervisory Board, would act as Chairman of the EFRAG Supervisory Board until the replacement of Pedro Solbes is formally appointed. Hans van Damme kindly accepted to serve in that capacity.

EFRAG would like to **thank**

the former Supervisory Board Chairman and Members for their excellent contributions to the governance of EFRAG. Their term ended in September 2012.

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 IFRIC Member

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

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

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

EFRAG would like to **welcome**

the new Supervisory Board as of November 2012

ACTING CHAIRMAN OF THE EFRAG SUPERVISORY BOARD, FORMER VICE-CHAIRMAN

Hans van Damme
Dutch, Past FEE President, retired KPMG partner

CONTINUING MEMBERS

Jorge Gil Lozano
Spanish, Joint General Manager, Operative and Financial Area of the Spanish Confederation of Savings Banks

Gerhard Hofmann
German, Member of the Board of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, Vice-President EACB, Vice-Chairman of EBIC

Professor Robin Jarvis
UK, Special Adviser to the ACCA, Professor of Accounting at Brunel University, member of the IASB SME Implementation Group, EC Expert Group-Financial Services User Group, European Banking Authority's Supervisory Boards Stakeholder Group, Chair of the Advisory Panel to the Chartered Banker Professional Standards Board, Policy Advisor to EFAA and Technical Advisor to the IFAC SMP Committee

Patrice Marteau
French, Chairman ACTEO, former Vice-Chair IFRS Advisory Committee, Former CFO PPR Group

Peter Sampers
Dutch, Senior Accounting Officer at Royal DSM NV, Professor of Financial Accounting, Maastricht University

Patrick De Vos
Belgian, former CFO of Groupe Bruxelles Lambert

NEW MEMBERS FROM THE PRIVATE SECTOR

Stig Enevoldsen
Danish, Deloitte partner, immediate past EFRAG Chairman

Gérard Gil
French, Senior Advisor of BNP Paribas Executive Committee, Board member ANC

Burkhard Keese
German, designated CFO of Allianz Deutschland AG, Chairman of the CFO Forum Steering Committee

Elisabetta Magistretti
Italian, Financial analyst, AIAF member and non-executive independent director in listed Italian companies (Luxottica, Pirelli and Mediobanca)

Robert Talbut
British, Chief Investment Officer of Royal London Asset Management, Chairman Investment Committee of the Association fo British Insurers, member of the FRC Audit Practices Board

Anders Ullberg
Swedish, Chairman of the Swedish Financial Reporting Board and Board member of five listed companies

Mark Vaessen
Dutch, KPMG LLP UK partner, Global IFRS leader KPMG, Chairman FEE Financial Reporting Policy Group and member of the IFRS Advisory Council

NEW PUBLIC POLICY MEMBERS

Carlo Biancheri
Italian, former Joint Central Director Head of International Relations of CONSOB (the Italian Companies and Stock Exchange Commission)

Adriana Dutescu
Romanian, Professor at the Accounting Department of the Academy of Economic Studies, Bucharest university

Carlos Soria Sendra
Spanish, former Vice-President of EC Standards Advice Review Group (SARG)

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EFRAG objectives

- *Ensuring full participation of European stakeholders in the technical debate supporting the development of IFRS and expressing the technical European view throughout the IASB standard-setting process;*
- *Providing endorsement advice to the European Commission on the acceptability of International Financial Reporting Standards (IFRS) in Europe;*
- *Engaging European stakeholders in the analysis of and debate on emerging financial reporting issues by coordinating and carrying out proactive accounting activities;*
- *Advising the European Commission on changes to the Accounting Directives and related topics.*

Hans van Damme
EFRAG
Supervisory Board
Acting Chairman

Message
from the Chairman of the EFRAG Supervisory Board

Similarly to 2011, 2012 can be considered again a year of transition. This is demonstrated by the latest developments in the governance of the IFRS Foundation, the design of a new work programme including the revision of the conceptual framework, the convergence programme with the FASB coming to an end, the setting up of the Accounting Standard Advisory Forum; all of these were important steps supporting confidence in the second IFRS decade in Europe. During this period, EFRAG has further developed - in cooperation with National Standard Setters in Europe - its technical credibility in the international arena and its ability to support Europe as the most robust player in the IFRS arena.

> *Convergence remains highly desirable but IFRS should not be stuck in their evolution while searching for an agreement that is hard to attain*

For many years EFRAG has expressed its support to IASB's convergence efforts, provided that they would not be at the expense of high quality financial reporting standards. EFRAG was particularly satisfied in 2011, when the IFRS Foundation affirmed its strategy to encourage and facilitate IFRS adoption, considering that convergence can only be a transitory step into IFRS adoption, and not a final objective in itself.

After having been highly pleased with the IASB's decision to finally adopt in April 2011 a more reasonable path in the finalisation of the four main active projects on its agenda, *Revenue Recognition, Leases, Financial Instruments and Insurance Contracts*, EFRAG observed in 2012 that much time was devoted by IASB to reach agreement and maximise convergent outcomes with the FASB. EFRAG has become concerned that progress towards the finalisation of the four projects was becoming too slow as effective dates of the final standards are unlikely to be set (and should not be set) before 1st January 2018, i.e. ten to sixteen years after the projects were initiated!

EFRAG now hopes that the IASB will complete its projects in 2014, more particularly its *Financial Instruments* and *Insurance Contracts* projects, in such a manner that a full endorsement process can be achieved in Europe in the same year. This commands that attempts at reaching similar outcomes with the FASB will not unduly delay the finalisation of standards, even though direct comparability between IFRS and US GAAP financial reporting for financial instruments remains a highly desirable outcome.

> *The EU IFRS policy being unanimously reaffirmed makes Europe the most significant and robust player in the IFRS arena*

As was announced at the IFRS Foundation – EFRAG joint conference in Brussels in October 2012, the ECOFIN met in November 2012 and discussed the proposal by the European Commission to reaffirm the EU IFRS policy. The ECOFIN expressed unanimous support for this policy. In 2002, Europe kicked off the IASB success story when it decided to adopt IFRS for first time application in 2005. Ten years later, in the same year when the US SEC has "not decided to adopt IFRS", Europe reaffirms its original choice and its support of a unique set of high quality global financial reporting standards. Europe affirms itself as a robust player in the IFRS arena and remains the most significant IFRS jurisdiction. Europe is proving strong in the development of IFRS: EFRAG's technical credibility is widely acknowledged and respected internationally and ESMA, the European market security authority, is developing its best efforts to contribute to a consistent application of IFRS.

> *EFRAG's limited governance review highlighted the need for a more comprehensive review at European level*

When EFRAG's comprehensive governance review was completed end of 2008, the decision was made to undertake a limited governance review two years after the implementation that took place during 2009. The goal of the limited governance review was to assess that decisions made in the enhancement were conducive of a good cooperation between EFRAG and National Standard Setters in Europe and were satisfactory from the governance perspective of a public interest entity.

In the last quarter of 2011, having operated two years under the new governance arrangements, EFRAG prepared itself to conduct its limited governance review which came to a close end of July 2012. Whilst the review was limited in scope, it required huge efforts of dialogue and communication with National Standard Setters in Europe. Those dialogues revealed a sharp different perspective between the four larger National Standard Setters from France, Germany, Italy and the UK, and all others. The former indicated that EFRAG was impeding their national views from gaining the influence on the international scene that they thought to deserve while the latter acknowledged that without EFRAG's support they would be left without any possibility to actively participate in the international debate.

Whilst not being conclusive on the ultimate solutions, the intensive dialogue helped identify areas in which EFRAG's due process could improve. Everyone acknowledged the very influential role that EFRAG's timely draft comment letters play. Some resentment was expressed though, that EFRAG's preliminary views did not benefit from the views held by National Standard Setters and their constituencies, although the four largest National Standard Setters are members of EFRAG TEG. EFRAG therefore decided to implement an "early-input-seeking process" so as to seek views before issuing a draft comment letter, without delaying issuance. Complaints were also expressed that it was not always clear how EFRAG reached its final position and why it had not been convinced by the views and comments

that had been expressed in EFRAG's consultation process. EFRAG decided to issue a feedback statement after finalisation of its comment letters to the IASB, explaining how it had assessed the various comments and views received. These improvements have been put in place in the second half of 2012. Decision was made also to create a Due Process Oversight Committee as a committee of the EFRAG Supervisory Board. EFRAG's legitimacy in expressing a European view relies on EFRAG's due process and it is therefore of high importance that European stakeholders have confidence therein and have a place to lodge legitimate concerns.

Beyond these significant improvements which can be assessed as positive outcomes, no other changes in the governance could be decided. The limited governance review was concluded with the assessment that a more comprehensive governance review would be needed, that would take place right after the European Commission would have confirmed or adjusted EFRAG's mandate as defined in the EFRAG and EC 2006 working arrangement. This would then be one of the first missions of the newly appointed EFRAG Supervisory Board.

Europe wants more influence but does it acknowledge the influence already acquired and demonstrated?

In November 2012, the ECOFIN has expressed the need to have Europe exercise a greater influence on the development of IFRS, expressing the concern that while Europe's technical voice was heard through the work of EFRAG, Europe should be able to assess economic policy stakes earlier in the development of financial reporting requirements.

This annual review contains a few pages that look back at the success Europe has had influencing the development of IFRS, thanks to the European Commission and EFRAG.

The IFRS Foundation should have been more audacious when concluding on the IASB's due process

In revising the IASB Due Process Handbook, the IFRS Foundation has adopted a very defensive line in deciding what the objectives of the Due Process Handbook and pre-final quality check requirements should be.

First, the IFRS Foundation has not followed EFRAG in setting robust objectives for the IASB due process. EFRAG's proposals were meant to assign to the IASB due process the objective of developing greater understanding and acceptability of IFRS among its constituents, setting high its standards of accountability. The objective, as expressed by the IFRS Foundation, fails to have the same ambition. The due process is limited to ensuring that the IASB exposes itself in a transparent manner to a wide variety of different views. The IFRS Foundation should have decided to pave the way for the IASB to make its decisions acceptable to constituents.

Second, the IFRS Foundation has decided against making Review Drafts a necessary step in the IASB standard-setting process after a complete overhaul of a pervasive standard. Moreover, the IFRS Foundation has decided to limit those Review Drafts to "editorial reviews". This decision has two direct consequences: first, the IASB fatal flaw review process remains a private process in which the IASB invites participants; EFRAG believes that such fatal flaw review process should be transparent and not give a privileged access to some participants; second, the IASB prohibits that field tests be conducted as a quality control check before a standard is published. In EFRAG's view, a standard-setting process which is intended to serve the public interest at worldwide level should have an exemplary quality control process. As an example EFRAG observes that the IASB did not believe that a second exposure draft of its Revenue Recognition project was needed. EFRAG's field test has identified nevertheless significant difficulties in the interpretation of the proposed requirements.

EFRAG remains convinced that sooner or later, de facto or after proper decision making, the IFRS Foundation will acknowledge the need for greater acceptability of IFRS and for higher levels of quality control. EFRAG will continue to be active to that end.

The Accounting Standards Advisory Forum is a significant step forward in the IASB due process

2012 however ended on a positive note, with the IFRS Foundation deciding to implement the IFRS Accounting Standards Advisory Forum (ASAF), the multi-lateral discussion forum that EFRAG has been promoting for the last two years. EFRAG considered that when the IFRS-US GAAP convergence programme would have ended, the IASB should not stop discussing technical issues with the FASB, but that such discussions should be open to other main standard-setting bodies in the world. This would allow the IASB capitalising on the development of regional bodies to keep the number of participants compatible with a thorough technical discussion. EFRAG is indeed convinced that it is essential to hear and understand the recommendations that others make to the IASB in order to be able to suggest solutions that meet European expectations while being acceptable to others. In EFRAG's view it is essential that European participants in the ASAF should form a well coordinated and cohesive European delegation.

EFRAG will remain dependent upon a proper cooperation with the Member Organisations, National Funding Mechanisms and National Standard Setters. While I am pleased with the achievements over the past years, there are further improvements that can be achieved. The EFRAG team will remain committed thereto. When I speak of the EFRAG team, it comprises the management team and the full staff of the EFRAG secretariat headed by Françoise Flores as EFRAG Chairman, but equally all the volunteers that participate at the level of the EFRAG Technical Expert Group and the various working groups, advisory panels and committees, including the EFRAG Supervisory Board. Their continued support is highly appreciated and indispensable for the quality of the EFRAG work.

Françoise Flores
EFRAG Chairman

Report
of the EFRAG Chairman Françoise Flores

2012 was to see the successful conclusion of the IASB and FASB convergence programme, but the "non-decision" by the SEC, the slowdown in standard setting and disagreement on the impairment model will have 2012 remembered as a year without much progress achieved. EFRAG, however, has not remained idle and, to the contrary, made significant steps in its proactive and field-testing activities. EFRAG's coordination efforts and partnership with National Standard Setters, and more particularly with the National Standard Setters of France, Germany, Italy and the UK, have continued to develop and thrive, despite difficulties encountered during the limited Governance review.

Concluding the convergence programme with the FASB

Early 2012, the convergence programme with the FASB seemed to be running at its best: the Revenue Recognition second exposure draft was under scrutiny by constituents, agreement had been found on all major issues in Leases, work on a common impairment model was progressing, and finally the IASB had decided to undertake limited amendments on Financial Instruments, with convergence as an objective, and the two Boards having identified ways to bring their classification and measurements requirements closer.

The FASB decision to follow a different route on impairment appears to have been more than a hiccup in the relationship between both Boards and to have brought these positive developments to a halt, if not to a final stop. The FASB decision was made in the context of the SEC "non-decision" and contributed to an even larger disappointment in the whole IFRS community.

For Europe, these developments are really difficult to accept. Even though the European Commission was a participant in the agreement of the convergence programme, there is a widespread view in Europe that Revenue Recognition and Leases are projects put to the IASB agenda at the request of the US. Constituents question the longer term benefits of these projects, more particularly of the lease project, since the US are not likely to make any adoption decision in the near future. Moreover, failing to agree on common requirements for financial instruments leaves problems that arose in 2008 unsolved, although the call from G20 has all along been primarily driven by the need to reach a level playing field in the financial sector.

Throughout 2012, EFRAG has been monitoring developments at IASB level, providing regular input and feedback to the IASB. This was done informally through the participation of the IASB in EFRAG TEG and EFRAG working groups on Financial Instruments and Insurance, and more formally in EFRAG-IASB public meetings. In these meetings, EFRAG expressed the expectation that the future standard on Leases should lead to the recognition of all financing (lease) arrangements in financial statements, leaving all arrangements which are in substance service contracts unrecognised, in line with Hans Hoogervorst's speech at the London School of Economics on 6 November 2012. EFRAG has continued to request that accounting for financial instruments should be finalised on a principle basis whilst ensuring that insurance contract accounting would not suffer from accounting mismatches. It has expressed support for the IASB efforts to improve impairment of financial assets carried at amortised cost in a manner that provides earlier recognition of expected losses, reflects interest income received to cover credit losses on the one hand, and deterioration in credit quality on the other, and that can be implemented at a reasonable cost, i.e. in synergy with how entities manage credit risk.

In 2012, EFRAG also published its comment letter on the second Revenue Recognition exposure draft, after concluding a field test initiative in workshops organised in coordination with National Standard Setters in which industry representatives and the IASB also participated. This field test initiative has helped identify numerous potential difficulties in an exposure draft that the IASB and FASB believed to be a superfluous due process step from a technical standpoint. The final Revenue Recognition standard is expected to be published in 2013.

In the autumn of 2012, EFRAG ran a field test initiative on the general hedge accounting model in coordination with National Standard Setters. The field test identified that the new hedge accounting model is expected to bring significant improvements to hedge accounting, and was quite helpful in identifying adjustments in the final standard that will avoid that intended outcomes are impeded. At the same time, this proves EFRAG's assessment right that the Review Draft stage should be the basis for the IASB ultimate quality control. Finally EFRAG field test highlighted that there was no common understanding of what "macro-hedging practices" referred to, some people referring to all forms of portfolio hedging and others taking a restrictive technical view of macro hedge accounting. This lack of common understanding resulted in a gap of understanding of the IASB due process steps in the hedge accounting project.

2013 should be a decisive year for all these projects, even though most of the new standards are expected to be published in their final form no earlier than in 2014.

Successful achievements in the proactive arena validate EFRAG's longstanding strategy

Whilst the IASB was slowing down pace in the finalisation of the convergence agenda, EFRAG and National Standard Setter partners were quite active completing significant steps in their joint proactive agenda. Each project is commented in detail in this annual review and is not addressed in this report. Developments following our various proactive initiatives show that pro-active work allows Europe to be successful in influencing the IASB due process early. It also shows that partnering with National Standard Setters makes European proactive efforts more efficient, as was intended by the European Commission when it decided, back in 2008, to grant EFRAG public funding from 2010 onwards.

Understanding capital providers' needs

The EU IFRS policy was justified by the desire to decrease the cost of capital on European stock markets to the benefit of the European economy. In order to meet this objective, it is crucial to identify and understand investors' needs. Relying on the spontaneous participation of investors or their advisors in the EFRAG due process or EFRAG TEG is not sufficient. The heavy contribution which is expected from EFRAG TEG members (30% of their time devoted to EFRAG) is generally not compatible with the workload of analysts or other investor representatives, as the synergy between their responsibilities in the firm and the work of EFRAG is limited, differently from other EFRAG TEG Members. Very few comment letters are received from the user community.

EFRAG therefore decided to dedicate significant efforts in order to liaise proactively with investors and their representatives - in addition to the invaluable contribution of the EFRAG User Panel - so as to bring to EFRAG TEG the analysis and understanding of a wider community of users of financial reporting. This is intended to be a significant part of EFRAG's due process. In accordance with the shared due process concept that EFRAG promotes, EFRAG wishes to avoid multiple solicitations of investors and their representatives to provide their views on the same subject. As a result, EFRAG has been coordinating efforts with the IASB and ESMA. Any contact made at national level is to be coordinated with the local National Standard Setter.

Thanks to those efforts, a series of meetings were held in 2012. They helped EFRAG gather views from investors, assessing the effectiveness of IFRS 8 Segment Reporting in providing useful financial information as part of the IASB's post-implementation review, or testing the EFRAG-ANC-FRC joint analysis of a "Disclosure Framework for the Notes" to financial statements.

Ensuring participation of European stakeholders in the development of IFRS

Since 2010, EFRAG has affirmed its policy of bringing European stakeholders as much as feasible into the IFRS debate so that IFRS are developed up to their expectations. It is implemented by outreach events and field tests, which are all the more effective with National Standard Setters in Europe involved. Whilst, since 2010, outreach events had been primarily devoted to discussing IASB proposals, in 2012, outreach events were part of EFRAG's consultation on the proactive work that EFRAG produces in partnership with National Standard Setters. Outreach events were organised to gather views on EFRAG discussion papers on Business Combinations under Common Control[1] and Income Tax[2] in the spring, on the EFRAG discussion paper Disclosure Framework to the Notes[3], in the fall. Some of these outreach events were coupled with gathering input on the effectiveness of IFRS 8 Operating Segments as explained above. These widely successful EFRAG outreach events show that European stakeholders are ready and willing to participate in discussions on how to improve financial reporting, in advance of any project active on the IASB agenda. This is a healthy sign of Europe's ability to be an influential participant in the international financial reporting debate.

Bringing Europe's influence in the Accounting Standard Advisory Forum

We know the IASB and FASB convergence programme had put the US constituency in a privileged position in the IASB due process, as the IASB engaged in technical discussions only with the FASB and with no other accounting standard body. EFRAG and IASB held public meetings regularly in a quite open and constructive atmosphere, leading the IASB to better understand European views. However, they took place without engaging in a real technical debate with the EFRAG delegation.

The way ahead for Europe was not to discourage the IASB from holding technical discussions with the FASB, but to the contrary, to open them to regional groups such as EFRAG and major National Standard Setters. Informal discussions between the IASB and major accounting standard bodies started in 2011, but developments were to materialise following the appointment of the Executive Director of the IFRS Foundation in April 2012. Obviously the Forum should involve all jurisdictions, including those that are not (yet) IFRS adopters, as the IFRS ambition should be to continue to grow into a truly international high quality set of financial reporting standards and not to derail into fitting only the perspective of a limited portion of the globe. In the longer term this will be to the benefit of Europe.

[1] Discussion paper prepared jointly with OIC
[2] Discussion paper prepared jointly with UK ASB (now FRC Accounting Council)
[3] Discussion paper prepared jointly with ANC and FRC

EFRAG's purpose in facilitating and supporting the creation of the Accounting Standards Advisory Forum (ASAF) was to raise Europe's influence to the standing reached by the FASB in the past six years of the convergence programme. It was also to benefit from a multilateral technical discussion at international level, i.e. to understand the perspectives of others when they diverge from European views, so as to be in a position to formulate recommendations that can meet European expectations while being acceptable to others. EFRAG had been active in the past in building informal bilateral relationships and exchange of views, but not in any way capable of bringing the benefit of a committee such as the ASAF meeting four times a year in a technical discussion with the IASB.

In 2012, EFRAG has started to implement what has been called an "early-input-seeking process" developed primarily with National Standard Setters in Europe, i.e. creating the ability for EFRAG to identify and understand the diversity of views that may be held in Europe on a particular subject. This needs to be done very early in the standard-setting process, in advance of the consultation process started by the IASB. This process will form the basis to hold discussions in the EFRAG Consultative Forum of Standard Setters in preparation for ASAF meetings, so as to help bring to the ASAF discussion table a well coordinated and fully representative European delegation. In the course of 2013, EFRAG may want to extend this early-input-seeking process to other groups in Europe, and include more particularly our Member Organisations, representing many of our constituents, and ESMA as the regulator and enforcer.

Implementing such early-input-seeking process is a quite intensive and resource-consuming activity. EFRAG is however determined to make this process effective, having identified as its duty to ensure the widest pan-European participation in the IFRS development. Such participation is necessary to create in Europeans a sense of ownership in IFRS and to make the EU IFRS policy successful.

Thanks to the renewed dedication of the EFRAG Technical Expert Group, EFRAG management and staff teams, and more generally of all those who actively contribute to the work of EFRAG, EFRAG remains well equipped to face the challenges that lie ahead in 2013. In times when a lot of debate takes place in Europe to evaluate how Europe can do better in its participation in the development of IFRS, all those involved in the technical activities of EFRAG will continue to devote their best efforts to making IFRS meet Europe's expectations for high quality financial reporting.

Exercising Thought Leadership

EFRAG Proactive Work

- Publication of the "**Disclosure Framework for the Notes**" discussion paper, and active support to the debate, in coordination with the FASB. The paper is a major contribution to improving how disclosure requirements are set and how those requirements are implemented in practice. The IASB has started its work on the topic.

- Publication of a position paper, supported by 13 National Standard Setters in Europe, on "**Considering the Effects of Accounting Standards**". The IASB is launching its working group to develop an effect analysis methodology. EFRAG has been appointed to the working group and its paper is a useful basis to that work. The paper also brings a sound basis to distinguish between what is technical and what is political in standard setting.

- Completion of an academic literature review on "**How capital providers use financial statements**". The results of this academic literature review will be published and further analysed in 2013 to bring useful insights to the IASB's revision of the Conceptual Framework.

- Decision has been made, and work has started, in order to issue a series of short bulletins, to support debate in Europe and beyond on the revision of the **Conceptual Framework**.

Filippo Poli
EFRAG Senior
Project Manager

A DISCLOSURE FRAMEWORK FOR THE NOTES TO THE FINANCIAL STATEMENTS

The project is a partnership between EFRAG, the ANC and the FRC, with the objective to set a framework for improving 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 Discussion Paper was issued in July 2012; on the same day, the US Financial Accounting Standards Board (FASB) also issued a paper on Disclosure Framework. The project teams exchanged views and participated in joint meetings and best efforts were made to ensure that the debate was launched in Europe and the United States at about the same time. Both papers papers have developed quite similar approaches. Comments received by the FASB and EFRAG are convergent in many ways.

Following the publication of the Discussion Paper, EFRAG engaged in extensive outreach and consultation with European constituents. EFRAG, in partnership with National Standard Setters, organised outreach events in Brussels and eight other European cities (Copenhagen, Vilnius, Frankfurt, Warsaw, London, Amsterdam, Stockholm and Rome). EFRAG staff also participated in the US outreach organised by the FASB and discussed the content with users organisations (EFFAS and CFA Institute), accountants (FEE) and regulators (ESMA). Internationally, presentations were made at the IFRS Advisory Council and IFASS, where the principle-based approach promoted by EFRAG and its partners was welcome.

High expectations have developed internationally that the IASB should tackle the disclosure "problem". EFRAG and its partners can be satisfied that their efforts have contributed to making this a priority in the IASB agenda and provided a solid starting point. European stakeholders have expressed a very strong support for EFRAG's initiative.

In 2013, EFRAG and its partners published a feedback statement and will decide if they wish to perform further work in this area.

CAPITAL PROVIDERS' USE OF FINANCIAL STATEMENTS

The 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". Considering that this objective is too vague, EFRAG decided to undertake some proactive work to develop guidance on what is deemed useful by capital providers when they consider financial reporting. The project was also meant to provide insights into why different users may express at times contradictory needs.

EFRAG partnered with ICAS, the Institute of Chartered Accountants of Scotland, to sponsor a review of existing academic literature on the topic. The literature review was finalised by the end of 2012. EFRAG intends to perform some further work in order to best identify lessons to be drawn for standard setting.

EFRAG Business Model Advisory Panel

THE ROLE OF THE BUSINESS MODEL IN FINANCIAL REPORTING

The term 'business model' has 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 influence the revision of the IFRS conceptual framework by the IASB, ensuring that a proper rationale is developed at conceptual level that supports the reference to an entity's business model when decisions are made about recognition, measurement and presentation. The discussion is developed on an assumed meaning of the term business model that is deemed relevant for financial reporting.

Financial reporting, however, is meant to provide the basis for assessing the financial position and performance of an entity. In other words, to assess and understand how the entity is "making money", how it provides capital providers with appropriate returns on the resources invested in the entity, and how it is exposed to risks and set up to mitigate those risks. Therefore, in our view, the business model notion is relevant for financial reporting purposes when it depicts the value creation process of an entity, i.e. how the entity generates cash flows.

EFRAG and its partners in this project expect to issue a discussion paper in the first half of 2013.

CONSIDERING THE EFFECTS OF ACCOUNTING STANDARDS

EFRAG and the UK ASB have finalised the position paper and the feedback statement that they have jointly developed on "Considering the Effects of Accounting Standards". In formulating the final positions on the different aspects of effects analysis, EFRAG and the UK ASB carefully considered the outcome of the public consultation to their Discussion Paper "Considering the Effects of Accounting Standards", published in January 2011.

The EFRAG Consultative Forum of Standard Setters discussed, and supported, EFRAG and the UK ASB's joint positions, leading to a total of 15 accounting standard bodies in Europe officially supporting the position paper.

EFRAG and the UK ASB can be satisfied that they have exercised positive influence on the IASB standard-setting process. The European Commission and EFRAG, supported by a vast majority of European stakeholders, have claimed for years that the IASB should, as part of its standard-setting process, perform effect analyses. EFRAG and the UK ASB's influence have already materialised in a certain number of ways: the IASB Due Process Handbook now includes a section on effect analysis, an international working group is convened, of which EFRAG is a member, to develop an effect analysis methodology; the IASB is gradually including a specific effect analysis section in its basis for conclusions, in support of final standards, and more recently of exposure drafts.

EFRAG and the UK ASB define in their position paper the effects which are within the standard setter's remit. The standard setter should consider the effects of proposed or final requirements on financial reporting: whether the requirements increase the usefulness of financial reporting, i.e. whether they reflect economic reality, if the need for improvement that was identified at the outset of a project has been met, whether the requirements can be implemented at a reasonable cost. All these aspects are of a technical nature, the IASB should not be impeded in making appropriate decisions in this arena. This is also the domain in which EFRAG contributes a legitimate European perspective to the IASB.

The standard setter should not ignore, however, the possible interactions that its standard-setting activities may have with economic policy. The paper calls for appropriate liaison to be established and maintained with policy makers, so that improvements in financial reporting can be introduced without causing difficulty or unrest in other areas, such as prudential regulation, for example. All these concerns are of a political nature. Europe is best represented in this area by the European Commission, and the Monitoring Board of the IFRS Foundation is the forum in which those discussions should take place.

The position paper was supported by 13 National Standard Setters in Europe, evidenced by their logos on the position paper. The position paper and related feedback statement were published in July 2013.

BUSINESS COMBINATIONS UNDER COMMON CONTROL

The comment deadline on EFRAG and OIC's Discussion Paper Business Combinations under Common Control (BCUCC) elapsed on 30 April 2012.

At a high level, most respondents encouraged EFRAG to approach the issue with a view to offering alternative ideas compared to the current guidelines. Respondents had mixed views about the diversity in practice regarding accounting approaches for BCUCC. Some respondents support retaining the existing diversity and others do not. It was evident that practitioners use either predecessor accounting or acquisition accounting as a preferred method in practice. Respondents also provided suggestions on the project scope, indicating that it was too narrow, and stated that the project's effective development would gain from considering real-life examples of BCUCC.

EFRAG and OIC have decided to carry out some further work, based on the recommendations expressed in comment letters or during outreach events. Partners should attempt at defining BCUCC; gather real-life examples to see whether they provide a basis for categorising BCUCC into different types of transactions, for which different accounting treatments could apply. Should the exercise be successful, indicators of differences in economic substance might be drawn from the exercise.

In December 2012, EFRAG and the OIC issued their feedback statement. The work carried out by EFRAG and the OIC is relevant to the Research project that the IASB has decided to launch. In 2013, both partners will consider how to work in cooperation with the IASB in this area.

Andrew Lennard
FRC AC Research Director

FINANCIAL REPORTING FOR CORPORATE INCOME TAXES

In December 2011, EFRAG and the UK ASB issued a Discussion Paper "Improving the Financial Reporting of Income Tax" (the DP), and asked for comments by 29 June 2012.

Income tax is an important expense for most companies and some consider that the information provided in compliance with the existing standard, IAS 12 Income Taxes, is not as useful as it might be. The aim of the project was to gain input and understanding on whether IAS 12 should be improved, or whether there should be a fundamental rethink and a new approach developed.

While welcoming the DP, most respondents did not support moving away from IAS 12 as they thought that the standard was generally well understood by preparers and users of financial statements, and noted that any deficiencies could be addressed by limited amendments to IAS 12 and focus on improving its application. It was felt that more work was needed to understand better how users use income tax information before pressing on with an alternative accounting model that is likely to be costly to implement for preparers.

After carefully analysing comments received, both partners have decided not to perform any further work in this project, at least at this juncture. EFRAG and the UK ASB issued a feedback statement early in 2013.

SPRING 2012 OUTREACH EVENTS

EFRAG PROACTIVE DISCUSSION PAPERS IMPROVING THE FINANCIAL REPORTING OF INCOME TAX AND ACCOUNTING FOR BUSINESS COMBINATIONS UNDER COMMON CONTROL

To stimulate debate on the basis of the Discussion Papers they had issued on, respectively, Accounting for Income Tax and Business Combinations under Common Control, EFRAG and the UK ASB on the one hand, EFRAG and the OIC on the other, were keen to hear what practitioners and others had to say on these topics. Therefore EFRAG organised, in cooperation with National Standard Setters in Europe, a series of outreach meetings which took place in the spring. Meetings were held in Milan, London, Amsterdam, Vienna, and Warsaw. Feedback statements were issued subsequently.

SEPARATE FINANCIAL STATEMENTS PREPARED UNDER IFRS

The project on Separate Financial Statements is a partnership between EFRAG, the OIC, the ICAC and the DASB. EFRAG added this project to its agenda as those who apply IFRS to Separate Financial Statements raised practical concerns about the appropriateness of some IFRS requirements, given that they generally focus on the preparation of consolidated financial statements.

The project is expected to address, among other issues, the measurement of investments in subsidiaries, joint ventures and associates, and the methods of accounting for BCUCC in the separate financial statements.

In November 2012, EFRAG launched outreach activities with users of separate financial statements and standard setters to understand:

- how financial statements presented by a parent or an investor, prepared under IFRS or local GAAP, are used for economic decision-making;
- what are the financial reporting issues in Separate Financial Statements (prepared under IFRS); and
- what, if anything, is missing in the current guidance about Separate Financial Statements (prepared under IFRS).

These outreach activities are expected to bring useful insights to the partners in progressing their work in this project.

EFRAG proactive work, that is developed primarily 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.

In 2012, EFRAG and its partners followed up on the consultations with constituents based on the Discussion Papers published in 2011, and made progress in other proactive projects.

Roger Marshall (United Kingdom)
Chairman
FRC Accounting Council (FRC AC)

Angelo Casó (Italy)
President, Organismo Italiano di Contabilità (OIC)

Françoise Flores
EFRAG Chairman

Jérôme Haas (France)
Chairman, Autorité des Normes Comptables (ANC)

Liesel Knorr (Germany)
President, Accounting Standards Board of Germany (ASCG)

EFRAG Planning and Resource Committee

In addition to reviewing progress of ongoing proactive projects, the EFRAG Planning and Resource Committee decided in 2012 that EFRAG's priority in its proactive activities was to make a significant contribution to the revision of the IASB Conceptual Framework. The four National Standard Setters of France (ANC), Germany (ASCG), Italy (OIC) and the UK (FRC) joined as partners in this project, showing the unanimous view that this project had high priority. The Committee monitored and welcomed the issuance of the Discussion Paper *Towards a Disclosure Framework for the Notes*, the Position Paper *Considering the Effects of Accounting Standards* and the Feedback Statement *Accounting for Business Combinations under Common Control*.

Peter Sampers
Chairman of the EFRAG PRC / EFRAG SB Member

Hans van Damme
EFRAG SB
Acting Chairman

Angelo Casó
OIC Chairman

Liesel Knorr
ASCG Chairman

Robin Jarvis
EFRAG SB Member

Jérôme Haas
ANC Chairman

Roger Marshall
FRC AC Chairman

Françoise Flores
EFRAG Chairman

Patrice Marteau
EFRAG SB Member

PROACTIVE PROJECTS	PARTNERS
• Business Combinations under Common Control	EFRAG - OIC
• Capital Providers' Use of Financial Statements	EFRAG - ICAS (Institute of Chartered Accountants of Scotland)
• Considering the Effects of Accounting Standards	EFRAG - FRC
• Improving the Financial Reporting of Income Tax	EFRAG - FRC
• Proactive Contribution to the Revision of the IASB Conceptual Framework	EFRAG - ANC - ASCG - OIC - FRC
• Role of the Business Model in Financial Reporting	EFRAG - ANC - FRC
• Separate Financial Statements prepared under IFRS	EFRAG - OIC - DASB* - ICAC**
• Towards a Disclosure Framework for the Notes	EFRAG - ANC - FRC

*Dutch Standard Setter - **Spanish Standard Setter

Bringing the European View in the IASB Consultation Process

- *In 2012, EFRAG organised some field work to test the appropriateness of the proposals included in the IASB's Exposure Draft on Revenue Recognition. Results of that work were shared with the IASB and National Standard Setters in a series of workshops, gathering participants from various industries: software, construction, pharmaceuticals, telecommunications, long term contractors... The initiative helped EFRAG identify difficulties which would otherwise have gone unnoticed and was praised by the IASB and participants for that reason more particularly.*

- *In 2012, the IASB responded positively to EFRAG's quest for a public fatal flaw review of the General Hedge Accounting model. The field test carried out in cooperation with National Standard Setters has confirmed that the new hedge accounting model brings a series of welcome improvements. The public fatal flaw review has been useful to identify the need to improve drafting and to allow current portfolio hedge accounting (both fair value and cash flow hedges, regardless of how they are implemented in practice) to be pursued after the final general hedge accounting new requirements are published and before the IASB "macro-hedging" project is finalised.*

- *EFRAG was satisfied to see the IASB follow its long outstanding recommendation to reconsider IFRS 9 Financial Instruments Classification and Measurement requirements with the purpose of better aligning with US GAAP and of solving the accounting mismatch issue that could arise from the interaction between the requirements for financial instruments and insurance contracts. EFRAG will debate in 2013 whether these efforts bring the expected improvements.*

- *In 2012, EFRAG has identified two missed opportunities:*

  - *The failure of IASB and FASB to converge their offsetting requirements for financial instruments*

  - *The anti-abuse decision made by the IASB not to roll-up in consolidated financial statements of a non-investment company the consolidation exemption that applies to the financial statements of an investment company that is part of the group.*

Anna Sirocka
Former EFRAG
TEG Member

EFRAG would like to thank Anna Sirocka and Carsten Zielke for their six years of excellent contributions to the work of TEG!

Carsten Zielke
Former EFRAG
TEG Member

In 2012, the IASB was primarily busy with re-deliberations on the four active projects on *Revenue Recognition, Leases, Financial Instruments and Insurance Contracts*. EFRAG 2012 activities were therefore again primarily driven by the development in those four projects.

REVENUE RECOGNITION

Late in 2011, the IASB published a second exposure draft of its Revenue Recognition future standard. EFRAG decided that this second consultation period would be best used if it concentrated its efforts on ensuring that the final standard would provide meaningful outcomes, without debating again the alternative model for revenue recognition that it had promoted in the past.

To best fulfil this objective, EFRAG organised, in coordination with the IASB and National Standard Setters, a field test to assess the quality of the potential outcomes for the various industries in which concerns had arisen (software, construction, telecommunications, pharmaceuticals ...) and also test whether the proposals would be easy to implement in practice. The results of this initiative have played an important role in EFRAG's final comment letter, as they have brought evidence of difficulties that would not have been identified on the sole basis of a desk review. Hence EFRAG noted as one of its main concerns that the proposals still needed to be further simplified and clarified in order to obtain consistent application.

Whilst the IASB had followed many of EFRAG's previous recommendations, EFRAG identified areas for further work. It strongly recommended that revenue should never be recognised in excess of what the entity would be reasonably assured to be entitled. It expressed again its opposition to recognising losses due to onerous performance obligations within an overall profitable contract. It opposed to reporting changes in estimated credit losses adjacent to revenue, considering that this would distort the significance of gross margins or other similar intermediate sub-total. It recommended not prescribing any specific disclosure requirement in excess of what the principles for Interim Financial Reporting did mandate.

Finally, EFRAG was concerned about the cost-benefit effectiveness of the proposed disclosures, more particularly in industries handling mass-market contracts with numerous amendments and modifications, such as the telecommunication industry.

In June 2012, EFRAG issued a feedback statement describing how EFRAG, when finalising its comment letter, had considered the main arguments presented in the comment letters submitted to EFRAG. This feedback statement was the first to be issued after a comment letter was finalised. Such feedback statements make EFRAG's due process and public accountability stronger.

LEASES

Following up on what it did in 2011, EFRAG remained active in monitoring IASB's deliberations on Leases, and provided regular feedback to the IASB on the progress they were making in the project, notably in the regular EFRAG-IASB public meetings that took place in 2012. All summaries of those meetings have been posted to the EFRAG website.

EFRAG participated in the IASB Working Group January meeting and in the outreach events on lessee accounting that were organised by the IASB to discuss different cost recognition methods and assess those methods from the perspective of users and preparers. EFRAG facilitated the participation of European constituents in these events. The outreach activities also provided a platform for preparers and users to discuss if there should be only one cost recognition method for all leases; and if not, how to differentiate between different categories. Finally, in June 2012, the IASB and FASB concluded on a dual approach accounting model, depending on whether there was significant consumption of the asset by the lessee during the lease term.

In the course of their re-deliberations, the IASB and FASB addressed most of EFRAG's concerns. However EFRAG has doubts that our main concern will be taken into account, i.e. whether the scope of the standard or the definition of a lease will exclude all contracts which are in substance

service contracts. The IASB has considered the issue and made some tentative adjustments to satisfy our recommendations. EFRAG has dedicated a fair number of sessions to the issue, without agreeing any possible proposal to put forward to the IASB. Similar efforts have been made in coordination with National Standard Setters, but no agreement was reached.

EFRAG has also carried out efforts to gather background information that could help assess the possible impact of the proposals. This has been done in informal outreach activities with European constituents: EFRAG staff met with 11 organisations in total (leasing associations, real estate entities, transportation companies and audit firms).

FINANCIAL INSTRUMENTS

IAS 39 Replacement: Impairment

In May 2011 the IASB and FASB started their third series of joint deliberations, after the comment period of the so-called "Supplementary Document" was closed. They developed a new impairment model based on a 'three-bucket' expected loss approach that would reflect the general pattern of deterioration in credit quality of financial assets. The model would include two measurement objectives, a "12-months" and a "lifetime" expected losses, depending on whether the probability of default since inception had increased and on the overall credit quality of the borrower.

However, in July 2012, the FASB decided to develop an alternative expected loss model that utilises a single measurement approach that reflects all credit risk in the portfolio.

EFRAG expressed a preference in favour of the IASB model, subject to a number of modifications. EFRAG indicated that transfer criteria were unclear and would prove difficult to apply in practice. EFRAG requested also that the IASB justifies how the "12 months" expected loss model qualifies as a proxy for accounting for the credit loss expense paid for as part of interest revenue.

The IASB model was viewed as a good way to leverage existing risk management practices that offered flexibility. EFRAG User Panel supported the credit deterioration principle as providing useful information. EFRAG expressed support towards a converged solution but not at any cost, and stressed that the project should come to conclusion. However, EFRAG emphasised that field-testing was necessary in order to assess the impact and whether the proposals are operational.

IAS 39 Replacement: Hedge Accounting

General Hedge Accounting

The IASB published early September a long awaited "Review Draft" of their General Hedge Accounting model. Issuing a Review Draft is a new step in the IASB due process that EFRAG has promoted and welcome. It is not intended to reopen discussions on decisions that have been reached after full due process. It is intended to identify flaws in the standard, i.e. interpretation and implementation difficulties that would not have been detected before the IASB finalised its decisions.

Mike Ashley
EFRAG TEG Member and Vice-Chair
EFRAG FIWG Chairman

EFRAG had prepared for launching a field test on the basis of the Review Draft long in advance, in a coordination effort with the IASB and National Standard Setters, more particularly with the Standard Setters from France, Germany, Italy and the UK.

The pre-final general hedge accounting requirements were deemed to be bringing significant improvement notably in the following areas: (a) hedge effectiveness testing requirements; (b) the treatment of the time value of options and the treatment of forward points; (c) the possibility to designate aggregated exposures as eligible hedged item; (d) the ability to designate risk components as eligible hedged item; and (e) the ability to rebalance hedge relationships.

However the field test revealed a certain number of implementation difficulties, which include the treatment of basis risk in cross currency interest rate swaps, the complexity and the resulting uncertainty that arises more particularly from how the hedge ratio and ineffectiveness should be determined or the limitations applicable to hedged items and hedging instruments, or the complexity inherent to the treatment of time value and forward points. The field test highlighted also that there were significant uncertainties as to the acceptability in compliance with IFRS 9 of certain portfolios hedging strategies of which IAS 39 current hedge accounting is implemented at "micro" level. End of 2012 EFRAG decided to investigate the matter further, with an additional consultation being run with interested parties.

Despite the clear focus of the Review Draft, participants in the field test have stressed the inconvenience of the final requirements' limitations to reflect their hedging strategies. EFRAG acknowledged that these limitations have all been considered as part of the IASB due process. EFRAG recommended nevertheless that they receive particular attention in the assessment of whether the final standard meets its objective of better alignment of hedge accounting and hedging strategies to the benefit of users. When the IASB issues its effect analysis, reasons for limitations to hedging of credit risk, sub-Libor and the treatment of foreign currency risk compared to other risk components should be well explained, so that the final decisions of the IASB on matters in which constituents hold high stakes are well understood. The current basis for conclusions did not achieve this.

EFRAG Financial Instruments Working Group

Macro Hedge Accounting

In May 2012, the IASB made the official decision to decouple the development of "Macro-Hedge Accounting" separately from other parts of IFRS 9, i.e. to finalise IFRS 9 without having brought a solution to the single European carve-out. This from a European perspective is highly unsatisfactory, as the issue has been identified as early as 2003. 10 years later, all that Europe can expect is a Discussion Paper!

Furthermore, recent discussions have evidenced that there is no common understanding of what "macro-hedge accounting" designates, depending on whether people describe hedging strategies, or hedge accounting techniques. In a project where EFRAG continues to claim that hedge accounting should reflect how entities implement their risk management practices, EFRAG strongly believes that the IASB should embrace comprehensively all hedging strategies that those entities who implement hedging strategies at portfolio level, i.e. primarily banks, implement. This, in EFRAG's view, should be the common understanding of the term and, at least as importantly, the agreed scope for the "macro-hedge" accounting project.

IFRS 9 Financial Instruments Limited Amendments - Classification and Measurement

Throughout 2012, EFRAG monitored the deliberations of the IASB leading to limited amendments of IFRS 9. The IASB issued the related exposure draft on 28 November 2012 and EFRAG issued its draft comment letter on 31 December 2012.

EFRAG was satisfied that the IASB was considering positively two of its long outstanding requests: to eliminate interpretation difficulties of the characteristics of the instrument test, on the one hand, and to cater for the accounting mismatch that could arise from interactions between financial instrument and insurance contract accounting, on the other.

However, EFRAG was not convinced that IFRS 9 - as tentatively amended - would measure at amortised cost all instruments that, in the view of many - EFRAG included -, should qualify for amortised cost. Furthermore, EFRAG could not decide whether specific measurement guidance should be finalised for best depicting the characteristics of a third business model – the hold and sell model – or whether opening a fair value option through OCI in case of accounting mismatch was all that was needed.

Finally, EFRAG referred its constituents to the Basis for Conclusions in which the IASB summarised, under the Principle and Interest model, EFRAG's proposals for an IFRS 9 compliant model for bifurcation of hybrid financial assets.

IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation Amendments - Asset Liability offsetting

On 16 December 2011, the IASB and FASB issued common disclosure requirements that were intended to help users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The IASB also issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), which clarifies the offsetting requirements. Amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. EFRAG has been fully supportive of these amendments, although the inability of both Boards to converge IFRS and US GAAP on offsetting requirements came as a bitter disappointment.

In its deliberations on Financial Instruments, EFRAG was assisted primarily by its Financial Instrument Working Group. The Group is chaired by Mike Ashley, vice-Chair of EFRAG TEG. It was recomposed in the course of 2012 and brings to EFRAG invaluable input to the understanding of Financial Instruments related issues.

EFRAG Insurance Accounting Working Group

INSURANCE CONTRACTS

Hans Schoen
EFRAG TEG Member
EFRAG IAWG Chairman

Whilst the Insurance Contract project was not identified in 2006 as a convergence project, the IASB and FASB held joint discussions, to give themselves a chance to convergence in the accounting that governs significant financial institutions. This process significantly delayed the IASB progress in its deliberations post 2010 exposure draft. EFRAG has repeatedly emphasised the urgent need from a European perspective for an IFRS mandating insurance contract accounting.

EFRAG has monitored the detailed deliberations throughout the year, keeping itself up to date on the decisions made by the IASB. Those decisions address rather positively the comments and concerns that EFRAG had formulated. However EFRAG is convinced of the need to run a field test of the proposals, once the second exposure draft is published. This is expected to take place in the second half of 2013.

Every session that EFRAG held on Insurance Contract accounting was enhanced by the input EFRAG received from its Insurance Accounting Working Group (IAWG). The group is chaired by Hans Schoen, EFRAG TEG member, who retired from EFRAG TEG on 31 March 2013, but continued in his IAWG Chairman role. Similarly to the EFRAG Financial Instruments Working Group, EFRAG Insurance Accounting Working Group was recomposed in 2012. Discussions in the group attract a lot of interest, more particularly from IASB members who regularly attend. Agreement was also reached between EFRAG and the Groupe Consultatif, to grant each other observership in meetings. On EFRAG's end, this applies to EFRAG IAWG meetings.

Andy Simmonds
EFRAG TEG Member

Serge Pattyn
New EFRAG TEG Member

Araceli Mora
EFRAG TEG Member

Friedrich Siener
EFRAG TEG Member

Pieter Dekker
EFRAG Technical Director

Andrea Toselli
EFRAG TEG Member

INVESTMENT ENTITIES

In January 2012, EFRAG finalised its comment letter on the Exposure Draft published by the IASB end of 2011, in which it supported the IASB's efforts to provide accounting for private equity and venture capital entities that is better aligned with their business model. Users have indeed indicated to EFRAG that measuring an investment entity's controlled investments at fair value produces more decision-useful information.

EFRAG recommended that a non-investment entity parent should be required to consolidate its investment entity subsidiaries, but that it should retain the fair value measurement of the controlled entities that are held through those investment entity subsidiaries (i.e. the parent would 'roll-up' the accounting of its investment entity subsidiary). What is more relevant at subgroup level is more relevant at group level indeed. EFRAG insisted also that the existence of an exit strategy should play a more prominent role in the definition of an investment entity, as it is a characterisation of its business model.

In February and March 2012 the IASB and the FASB held round-table discussions on their proposals for investment entities in Canada, UK, USA and Malaysia. EFRAG participated in the round-table discussions, in the UK.

In its final decisions the IASB met EFRAG's recommendations, except for granting the "roll-up" in consolidation as described above, which was one of the core issues. The IASB considered that it would be weakening its consolidation standard, opening the door to abuse, and for that reason, did not give precedence to the most relevant outcome.

ANNUAL IMPROVEMENTS AND OTHER NARROW SCOPE AMENDMENTS

In 2012, EFRAG finalised its comments on the 2011-2012 proposed annual improvements and started its due process on the 2012-2013 batch. No particular issue deserves to be commented in this annual review. However EFRAG had the opportunity to, first, remind the IASB that the basis for conclusions should help understand why the IASB has made a decision, but not contain guidance on how to implement the standards; second, to reiterate its request that the IASB should amend IAS 39 to cater for a more appropriate accounting of changes in own credit risk.

EFRAG commented also on narrow scope amendments to first-time adoption requirements and started its due process on IASB proposals intended to clarify the acceptability of depreciation methods for tangible and intangible assets.

IFRS INTERPRETATIONS AND RELATED PUBLICATIONS

In line with EFRAG's recommendation, one of the outcomes of the IFRS Foundation Strategy review was to give more emphasis to the maintenance of IFRS existing requirements and to be responsive to the need for guidance that arises in practice. This strategic direction is being implemented by the IFRS Interpretation Committee. As a result, EFRAG had to consider issues which have been outstanding for a long time, as compliance with the Conceptual Framework and existing IFRS requirements did not provide for accounting outcomes that were deemed relevant in practice, or not in all circumstances. How to account for the changes in value of put options on non-controlling interests and for levies form part of these longstanding controversial issues. It is remarkable that the conceptual framework discussion that the IASB has started is considering ways in which the conceptual framework could evolve in order to bring fully satisfactory solutions to these issues.

Nicolas de Paillerets
EFRAG TEG Member

Gabi Ebbers
EFRAG TEG Member

Niklas Grip
EFRAG TEG Member

Joanna Frykowska
New EFRAG TEG Member

IFRIC - Put options written over Non-Controlling Interests

On 31 May 2012, the IFRS Interpretations Committee issued Draft Interpretation D1/2012/1 Put Options Written on Non-Controlling Interest ('NCI puts'). The Draft Interpretation applies, in the parent's consolidated financial statements, and addresses how to account for changes in the measurement of the financial liability that is recognised for an NCI put. All changes should be accounted for in profit or loss.

In July 2012, EFRAG TEG issued its draft comment letter on NCI puts. To assist EFRAG TEG in its due process, the EFRAG secretariat also conducted limited outreach activities with the staff of some European National Standard Setters to identify the extent and nature of diversity in practice and also discussed NCI puts at the May 2012 meeting of its EFRAG User Panel.

After careful consideration of comments received through its due process, in its final comment letter EFRAG supported the Draft Interpretation on the basis that it is a pragmatic, short-term approach to address the current diversity in practice in a manner that EFRAG accepts is consistent with IAS 32 and IAS 39. EFRAG noted however that eliminating diversity in practice would be at the cost of relevance in certain circumstances. EFRAG pointed out that the diversity in practice arose because of a conflict in principles in IAS 27/IFRS 10 and IFRIC 17 with IAS 32/IAS 39, and that the rationale for the Interpretations Committee's decisions should be made clear in the Basis for Conclusions.

EFRAG published a feedback statement describing how it reached its final conclusions. This was all the more necessary that constituents in Europe were divided in their views, with strongly held opposite views.

IFRIC - Levies charged by public authorities on entities that operate in a specific market

In 2011, the IFRS Interpretations Committee received requests for guidance on the accounting for levies. The main concern was related to when a liability to pay a levy should be recognised. A Draft Interpretation was issued that clarified that the obligating event giving rise to a liability was the activity that triggered the payment of the levy as identified by the legislation. It also clarified that the liability to pay a levy should be recognised progressively if the obligation event occurred over a period of time, and that the same recognition principles should be applied in the annual and interim financial statements.

Agenda Decision - Restructuring of Greek Government Bonds

The IFRS Interpretations Committee received a request for guidance on the circumstances in which the restructuring of Greek government bonds should result in derecognition of the whole asset, or only part of it, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. After deliberations, it decided not to take the issue to its agenda and to issue an explanatory wording for rejection.

Given the relevance of the issue in Europe, EFRAG decided to comment on the tentative wording for rejection. EFRAG concurred with the IFRS Interpretation Committee analysis applied to the Greek bond set of circumstances.

However, EFRAG recommended that the standards should explicitly deal with debt restructurings more generally, which would be particularly relevant in the light of the current financial crisis. EFRAG advised that this be done as part of the finalisation of IFRS 9 Financial Instruments.

Effective in influencing the IASB

The positive outcomes below are only a few examples drawn out of a long list. These examples have been selected to illustrate that influence is not gained only in the discussion of specific technical matters. Contributions provided from a higher level overarching perspective can have a significant input.

Preventing the IASB from introducing significant changes to the IFRS underlying accounting model

Understanding and accepting the IFRS underlying accounting model are critical for European stakeholders. This is the reason why EFRAG has been advocating for a revision of the conceptual framework to evaluate whether changes are needed, before any fundamental change to the IFRS underlying accounting model is made. Being successful in our influence in this domain is therefore particularly significant.

Attempt by the IASB to diminish the relevance of net income in the reporting of performance

Until recently (in fact the change in IASB chairmanship dates the official change in the official direction taken by the IASB), the IASB was advocating the elimination of net income as the "bottom line" of the income statement. EFRAG reacted strongly to every of those attempts and advocated that the IASB should launch a fundamental debate of what difference there should be between net income and "other items of comprehensive income (OCI) "(i.e. changes in equity other than net income), and whether elements of OCI should be recycled (i.e. accounted for as part of net income, upon realisation for example).
More recently, EFRAG identified the reporting of performance as being one of the priorities the IASB should work on within the revision of the IFRS conceptual framework.
This is currently taking place, and the early deliberations of the IASB are quite promising, in that EFRAG's longstanding recommendations may be followed.

Attempt by the IASB to move away from entity-specific relevant information (introducing the so-called "market participant view" of which fair value is the best known form). Examples applied to the accounting for financial instruments and insurance contracts:

- EFRAG recommended a mix-measurement approach (cost and fair value); IFRS 9 is based on the use of both measurement attributes (we would be satisfied if bifurcation of embedded derivatives in financial assets was reintroduced); the stage reached by the IASB is nevertheless rewarding for EFRAG's observations;
- EFRAG recommended that the business model (i.e. how instruments are economically managed) should play a role; IFRS 9 has formally introduced the business model notion (that was already implicit in several existing IFRS (inherited from IAS) but its notion was threatened); we need to ensure this success is not limited to financial instruments; we have been working proactively to have the business model acknowledged as relevant in the conceptual framework, which is currently being discussed;
- EFRAG recommended that hedge accounting 1) should be maintained; 2) should reflect risk management practices put in place by companies: IFRS 9 general hedge accounting model has adopted this as the basic principle;
- EFRAG recommended that own credit risk should not be reflected in the entity's financial statements (i.e. not recording a gain when the entity's credit spread deteriorates and vice versa); changes are no longer reflected in net income (in market's perception the most relevant measurement of an entity's performance), but in equity (success on this issue is only partial, we would have wished that it be totally eliminated);

- EFRAG recommended that insurance contract liabilities should be measured on an entity-specific basis (reflecting the circumstances of the entity). EFRAG has been followed as reflected in the decisions made to date in the preparation of a standard on insurance contract accounting

Providing input outside of consultation processes: exercising influence continuously

In 2011 the IASB intended to re-deliberate its proposals on *Revenue Recognition, Leases, Financial Instruments and Insurance Contracts* in an expedite fashion so as to approve of the final standards no later than June 30.

EFRAG warned the IASB repeatedly that the timing for finalisation should be eased, that re-deliberations should be conducted at a rhythm more appropriate for high quality standard setting, and also promoted this directly with the IFRS Foundation. The decision was officially made by the IASB shortly thereafter.

Proposals on *Revenue Recognition* and *Leases* more particularly had given rise to heavy concerns in the European stakeholder community (and in EFRAG as well!).

- All issues raised by EFRAG in its comment letters were re-deliberated by the IASB – (except for our request for a conceptual debate before the lease project would be progressed) – rather thoroughly;

- EFRAG monitored the revised decisions and when it was in a position to explain the possible final requirements, i.e. how the IASB had dealt with comments received, EFRAG organised a series of outreach events in Europe to test the acceptability of the revised outcomes with European stakeholders;

- The results were 1) new directions in Revenue Recognition seemed rather positive, but constituents did not wish to support them without having the possibility of reviewing them in detail; 2) the Leases project continued to raise significant concerns; 3) there was an outcry for re-exposure;

- EFRAG reported the results to the IASB publicly;

- Later, the IASB decided re-exposure of both exposure drafts;

- Field tests organised by EFRAG on the basis of the second exposure draft on Revenue Recognition have allowed identifying difficulties that would not have been identified otherwise; the IASB, who thought that their second exposure was not needed, acknowledged that this second step was useful and so were EFRAG's field tests;

- The second exposure draft on Leases is expected later in 2013.

Influencing the standard-setting process

EFRAG obtained significant changes in the IASB's standard-setting process. Two examples to illustrate:

Evidence-based agenda setting
No active project should be started without evidence of the need for improvement in practice; the proper definition of the objective and scope of a project should be derived from that evidence; there should normally be a public consultation before work starts: the IASB has followed EFRAG's recommendation and decided that every project would follow a Research phase and a public consultation would take place before the agenda-setting specific decision is prepared at standard level. This is an important achievement because it brings discipline in how changes are introduced and understanding by constituents of why and how a change is intended to be made. Prior to that success, the IASB would initiate all sorts of changes without justifying thoroughly why they were needed; once an agenda decision would be made, the scope of the changes could be modified and a small project could become a comprehensive revision without the IASB being accountable to anybody - an example of such a comprehensive revision being undertaken starting with a narrow scope amendment is the revision of the standard on provisions (IAS 37), that EFRAG contributed to stop.

Effect analyses of accounting standards
Europe in general (including the EC), EFRAG and the UK ASB (now UK FRC AC) in particular, have been calling for years for the IASB to carry out effect analyses. EFRAG and the UK ASB published a discussion paper to consult stakeholders on the scope and the approach the IASB should adopt in performing effect analyses throughout the standard-setting process. The discussion received support and comments from Europe but also from significant stakeholders worldwide. A position paper has been issued since then that is supported by 15 accounting standard bodies in Europe.

The revision of the IASB due process formally includes the need for effect analyses; the IASB has set up an international working group to define and agree the methodology for effect analyses (EFRAG is a member and the EC an observer). Our position paper is a starting point for the work of this group; the IASB has included some effect analysis, not only in the last standard published but also in exposure drafts as expressed in the European position paper.

Influencing IASB agenda setting

Europe in general (including the EC), EFRAG in particular, had been requesting public consultation on the IASB agenda-setting process. The first public agenda consultation took place in 2011.

All EFRAG's main recommendations are reflected in the decisions made by the IASB:

- Observing a period of calm (need to absorb the series of pervasive changes that will have taken place after the four current active projects are finalised);
- Giving high priority to the revision of the conceptual framework: many of our comments were brought from one comment letter to the next, evidencing that a few fundamental issues needed to be tackled; this revision is an important step because time has come to define clearly the IFRS underlying accounting model;
- Giving high priority to the perceived disclosure "problem": ever increasing notes to financial statements (cost and complexity, relevant information being obscured) while investors remain unsatisfied;
- Devote efforts to the consistent application of IFRS: the goal is a single accounting practice, not the same label.

Beyond contributing its views to the agenda consultation, EFRAG has also been influential in its proactive activities:

- Work in progress on the *Conceptual Framework:* the bulletins that EFRAG will publish in 2013 in partnership with the National Standard Setters of France, Germany, Italy and the UK have been identified as papers of interest to be discussed at the newly created IFRS Accounting Standards Advisory Forum.
- "*Business Combinations Under Common Control*" was adopted as Research project (IFRS are silent on how to account for those business combinations).
- *Disclosure Framework:* the disclosure issue has been given high priority as an active project by the IASB; various initiatives had flourished in the standard-setting community, everyone of them aiming at tackling the disclosure "overload" or "problem" (ever growing volume of notes to the financial statements while the perception that relevant information is missing remains). While EFRAG - together with the French and the UK Standard Setters - promoted their project under development at a global meeting of National Standard Setters, FASB was attracted by the directions and progress EFRAG was presenting and asked to cooperate. In February 2011, the IFRS Advisory Council recommended that the IASB adopt a principle-based approach to disclosures, such as promoted by EFRAG. The active phase has now started at the IASB.
- *Accounting for Income Tax:* EFRAG applied to itself recommendations made to the IASB: test first whether there is a need for change before you make recommendations for change! Constituents have indicated that they do not perceive the need for a radical change in the accounting for income tax for the time being; EFRAG and the UK FRC have decided no further step; the IASB consultation has shown that Income Tax was not high in the priorities of respondents.

SME ACCOUNTING

SME Implementation Guidance

In 2012, EFRAG continued providing comments on draft Q&As considered for easing the implementation of the IFRS for SMEs. However EFRAG started expressing concerns about the level of detail and the number of Q&As that were issued.

Request for Information - Comprehensive Review of the IFRS for SMEs

In June 2012, the IASB published the Request for Information: Comprehensive Review of the IFRS for SMEs ('the RFI') in order to seek views from constituents as to what, if anything, should be changed in the IFRS for SMEs, now that three years after the publication of the standard, the first comprehensive review of the standard is due to take place.

Discussions within EFRAG and input received from constituents revealed that the debate was heavily influenced by the different weight attached to the need for stability in the standard for SMEs, the need to reflect changes in user's needs, the need to align the IFRS for SMEs with full IFRS, and whether the standard should include options.

In finalising its position EFRAG generally supported that changes should only be decided if they respond to an identified and documented problem for SMEs. Unless these circumstances verify, changes made to full IFRS should not be considered, before they have proven useful for entities applying full IFRS, i.e. after a proper post-implementation review.

As expressed in its comment letter on the exposure draft on the IFRS for SMEs, EFRAG is generally against options as this would reduce comparability amongst entities using the IFRS for SMEs, increase complexity and is costly. In some cases, however, such as the revaluation of PP&E and the capitalisation of development costs, EFRAG could see benefits of including options to facilitate the adoption of the IFRS for SMEs by diverse entities in different jurisdictions.

EFRAG SME Working Group

In 2012 as in previous years, EFRAG's SME Working Group has been very instrumental in bringing insights from practice and extensive knowledge of SMEs/SMPs, and helping EFRAG reach decisions in the above reported consultations. In addition, the EFRAG SME Working Group acted as a sounding board for the European Commission and the Council on the revision of the EU Accounting Directives.

EU Accounting Directives

As years pass by, EFRAG is more and more acknowledged as the natural forum in Europe where financial reporting matters should be discussed, beyond considerations of IFRS-related issues. EFRAG responded positively to the request put by its Consultative Forum of Standard Setters and hosted a meeting in March where National Standard Setters had an opportunity to discuss and exchange views on the European Commission's 'Proposal for a Directive of the European Parliament and of the Council on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain types of Undertakings". The meeting was held with representatives of the Danish Presidency, the European Parliament and the European Commission. The EC staff and EFRAG staff kept EFRAG CFSS and EFRAG TEG members updated on the project during the year.

EFRAG Contribution to IFRS-Related Consultations launched by other Stakeholders

ESMA CONSULTATION PAPER - CONSIDERATIONS OF MATERIALITY IN FINANCIAL REPORTING

Late 2011, ESMA issued a discussion paper seeking input from stakeholders on whether guidance on how to apply materiality in practice should be issued.

EFRAG decided to contribute to ESMA's consultation. In developing work in its Disclosure Framework project, EFRAG had analysed the issue of how to apply materiality in practice quite thoroughly.

EFRAG noted that under the Conceptual Framework 'materiality' is the entity-specific approach to relevance, underscoring that all, but only relevant information should be provided. In EFRAG's view, it is paramount that issuers be encouraged to carefully select what to disclose, and not be forced into any compliance exercise.

EFRAG stated that materiality judgements should not be made in isolation, and that it is important that surrounding circumstances always be taken into account. Accordingly, whilst quantitative thresholds are helpful in highlighting the areas that need to be considered, they should never be applied mechanically without relevant qualitative factors being taken into account.

EFRAG emphasised also that any guidance on how to apply materiality in practice should be issued by the IASB and by no one else.

CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS DISCUSSION PAPER "TOWARD A MEASUREMENT FRAMEWORK FOR FINANCIAL REPORTING BY PROFIT-ORIENTED ENTITIES"

In 2012, the Canadian Institute of Chartered Accountants published, at the request of the Accounting Standards Board of Canada, a paper to stimulate the debate on measurement. Given the relevance of this issue in the revision of the IFRS Conceptual Framework, EFRAG decided to comment on this paper. The paper promotes "current market value that is capable of faithful information" as the ideal measurement attribute for all assets and liabilities. When current market value is not capable of faithful information, the most relevant substitute that is practicable of faithful representation should be used. To support the selection of a relevant substitute, a list of attributes of current market value is provided. No guidance indicates how to weigh the various attributes in such a selection. Assets and liabilities may belong to a cash-generating process and are then identified as inputs and outputs; inputs are measured on the market in which they are purchased whereas outputs are measured on the market in which they are sold. Other assets and liabilities are classified as investing and financing and are to be measured on the market on which they are exchanged. All changes in current market value or substitute are reported in profit or loss.

Overall, EFRAG rejected the measurement model proposed. EFRAG does not believe that there is anything like an ideal measurement attribute. The role of a measurement framework should be to explain the properties of various measurement bases and by reference to users' needs provide directions on when the different properties would be important. EFRAG considered that the implications of a measurement basis on both an entity's financial position and performance should be considered when deciding on how to measure assets and liabilities. In addition, EFRAG thought that in order to provide relevant performance reporting, measurement should reflect how an entity generates its cash flows (the sources of its earnings) and be linked to actual cash flows.

EFRAG nevertheless agreed with two positions in the paper: first stewardship should be considered in determining how assets and liabilities should be measured; second an appropriate measurement basis should not rely on estimates with large margins of errors when applied in practice.

ANC: PROPOSALS FOR ACCOUNTING OF EMISSION RIGHTS

In January 2012, the EFRAG PRC identified Emission Rights as a good candidate for undertaking an EFRAG proactive effort. However in May 2012, EFRAG was made aware by an ANC press release that the ANC had published some proposals, aiming at influencing the development of IFRS.

EFRAG decided to consider the ANC's proposals as a starting point in its analysis of possible accounting for emission rights. As is usual for EFRAG, it should undertake some due process and stimulate debate in the European arena and beyond. EFRAG issued a draft comment paper that discusses the recognition and measurement of emission rights and liabilities under an Emissions Trading Scheme. EFRAG explored the different issues arising from participating in such schemes, holding, trading or surrendering to the Regulator the rights and attempted to provide a direction on how the key issues could be resolved. EFRAG supported the development of specific guidance, because emission rights did not fit perfectly any existing asset category, and the accounting should be based on an entity's expected use of the rights. Two different accounting models were identified, one for rights held to comply with an emitting entity's obligations, and one for rights held for trading. EFRAG's preliminary conclusion is that a net liability approach would not provide to users all the relevant information they need.

EFRAG preliminary views were presented and discussed at the IFASS meeting in Sao Paulo in April 2013.

Providing Endorsement Advice to the European Commission

CONSOLIDATION "PACKAGE"

The only significant piece of endorsement advice that EFRAG issued in 2012 was related to what is commonly referred to as the "consolidation package". In May 2011, the IASB issued a set of new and revised requirements. IFRS 10 deals with how to consolidate subsidiaries, providing extensive guidance on how to assess control. It represents no fundamental change in principle from its predecessor IAS 27 and aims primarily at eliminating inconsistencies that had arisen in practice, either because of a lack of guidance or due to the coexistence of de facto two consolidation models, for subsidiaries and SPEs. IFRS 11 deals with the accounting of joint arrangements, identifies if within a joint arrangement the entity holds a direct interest in a share of assets and liabilities or if it benefits from an indirect interest in a joint venture. Its publication eliminates proportional consolidation from IFRS requirements and imposes equity accounting to all associates. IFRS 12 has gathered in a single standard all disclosures that relate to interests in subsidiaries, SPEs and associates. It ensures that appropriate information is provided to investors as to the involvement of the entity, whether it is controlled and consolidated or not. Amendments to IAS 27 and IAS 28 are primarily direct consequences of the issuance of the three new IFRS.

EFRAG concluded that all new requirements were meeting the technical criteria of the IAS Regulation and therefore recommended endorsement. However EFRAG had learned from carrying its field test in 2011 that listed entities in Europe may require more time for implementation of the standards than allowed by a mandatory effective date of 1 January 2013. It therefore recommended that the effective date in Europe be postponed to 1 January 2014. In doing so, EFRAG acknowledged that depending on what the implementation date entities would select some loss of comparability may arise. EFRAG however considered that the principle basis of IFRS 10, 11 and 12 made their consistent application more a challenge and that obtaining the full benefits of the new standards would rely heavily on the quality of their implementation in practice.

EFRAG also considered for endorsement amendments to IFRS 10 which were issued after the main standard was issued. The first amendment introduced a clarification on the transition provisions of IFRS 10. It was welcome and did not raise any form of controversy. The second amendment introduced a consolidation exemption for investment entities. EFRAG welcomed the consolidation exemption as enhancing financial reporting in reflecting an investment entity business model. It regretted that exemption effects of the exemption were not carried into the consolidated accounts of the group consolidating the investment entity, as this would have been a further improvement. EFRAG issued positive endorsement advice on both amendments.

OTHER ENDORSEMENT ADVICE

Early in 2012, EFRAG finalised positive endorsement advice on IFRS 13 which brings guidance on how to measure at fair value throughout IFRS.

It also finalised positive endorsement advice on supplementary exemptions and relaxations making first-time adoption easier, and on a narrowed-scope amendment on how to account for deferred tax on investment property carried at fair value.

In the course of 2012, EFRAG also considered the endorsement of amendments to both IFRS 7 and IAS 32 that reflected on IASB's effort to converge IFRS with US GAAP on the important issue of when offsetting Financial Assets and Liabilities should arise and what information to disclose. IFRS offsetting rules remained unchanged, although they benefited from clarification. The disclosures were prepared so as to allow comparability with US GAAP, efforts to bring primary financial statements alike having failed. EFRAG issued a positive endorsement advice on these two amendments which, from a technical perspective, were minimal changes.

Furthermore EFRAG recommended positive endorsement for two other exemptions for first-time adopters and a full set of annual improvements, as well as for an interpretation, IFRIC 20, dealing with stripping costs, i.e. whether to capitalise or expense costs incurred in reaching layers of minerals.

Publications and Activities

	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 – Classification and Measurement: limited amendments to IFRS 9 ***ED issued on 28-11-2012 with comment deadline on 28-03-2013***	**31-12-2012**			
IFRS 9 Financial Instruments: Fair value option for financial liabilities ***ED 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 ***ED 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 supplement 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*** ***Published in the Official Journal of the European Union on 29-12-2012***	02-03-2009	08-04-2009	***09-02-2012***	***30-03-2012***

	Draft comment letter	Final comment letter	Draft Endorsement advice	Final Endorsement advice
IFRS 11 Joint Arrangements ***Issued on 12-05-2011. Supersedes IAS 31 and SIC-13*** ***Published in the Official Journal of the European Union on 29-12-2012***	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*** ***Published in the Official Journal of the European Union on 29-12-2012***	In EFRAG's DCL on consolidation requirements	In EFRAG's FCL on consolidation requirements	***09-02-2012***	***30-03-2012***
FRS 13 Fair Value Measurement ***Issued on 12-05-2011*** ***Published in the Official Journal of the European Union on 29-12-2012***	30-7-2009	28-10-2011		***Postponed***
IAS 27 Separate Financial Statements ***Issued on 12-05-2011*** ***Published in the Official Journal of the European Union on 29-12-2012***	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*** ***Published in the Official Journal of the European Union on 29-12-2012***	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*** ***Published in the Official Journal of the European Union on 29-12-2012***	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*** ***Published in the Official Journal of the European Union on 29-12-2012***	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 – Offsetting Financial Assets and Financial Liabilities ***ED issued on 28-01-2011 with comment deadline of 28-04-2011; Amendments issued 16-12-2011*** ***Published in the Official Journal of the European Union on 29-12-2012***	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*** ***Published in the Official Journal of the European Union on 29-12-2012***	* DCL for both amendments to IFRS 7 and IAS 32	* DCL 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 IFRS 10, IFRS 11 and IFRS 12: Transition Guidance ***ED issued on 20-12-2011 with comment deadline of 21-03-2012*** ***Amendments issued 28-06-2012***	***19-01-2012***	***26-03-2012***	***17-07-2012***	***29-08-2012***

	Draft comment letter	Final comment letter	Draft Endorsement advice	Final Endorsement advice
Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities ***ED issued on 25-08-2011 with comment deadline of 05-01-2012*** ***Amendments issued 31-10-2012***	29-09-2011	***18-01-2012***	***20-12-2012***	
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*** ***Published in the Official Journal of the European Union on 29-12-2012***	07-10-2010	09-11-2010	18-11-2011	***19-01-2012***
Amendments under its annual improvements project (2009-2011 Cycle) ***ED issued on 22-06-2011 with comment deadline of 21-10-2011.*** ***Amendments issued 17-05-2012***	20-07-2011	27-10-2011	***25-06-2012***	***29-08-2012***
Amendments under its annual improvements project (2010-2012 Cycle) ***ED issued on 03-05-2012 with comment deadline of 05-09-2012.***	***08-06-2012***	***11-09-2012***		
Amendments to IFRS 1 Government Loans ***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***	***06-06-2012***
Clarification of Acceptable Methods of Depreciation and Amortisation (proposed Amendments to IAS 16 and IAS 38) ***ED issued on 4-12-2012 with comment deadline of 02-04-2012***	***14-12-2012***			
Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11) ***ED issued on 13-12-2012 with comment deadline of 23-04-2013***				
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28) ***ED issued on 13-12-2012 with comment deadline of 23-04-2013***				

	Draft comment letter	Final comment letter	Draft Endorsement advice	Final Endorsement advice
Share of Other Net Asset Changes (proposals for amendments to IAS 28 Equity method) ***ED issued on 22-11-2012 with comment deadline of 22-03-2013***	***21-12-2012***			
Proposal for amendments under its annual improvements project (2011-2013 Cycle) ***ED issued on 20-11-2012 with comment deadline of 18-02-2013***	***19-12-2012***			
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 – revised proposals ***Revised ED issued on 14-11-2011 with comment deadline of 13-03-2012***	**20-01-2012**	***25-04-2012***		
Count 2012	7	5	10	11
IFRS Interpretations Committee				
IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine ***Issued on 19 October 2011*** ***Published in the Official Journal of the European Union on 29-12-2012***	22-09-2010	03-12-2010	09-11-2011	***20-01-2012***
IFRS Interpretations Committee's tentative rejection notice in relation to the restructuring of Greek government bonds ***May 2012***	**11-06-2012**	***26-07-2012***		
IFRS Interpretations Committee's Draft Interpretation DI/2012/1 Levies Charged by Public Authorities on Entities that Operate in a Specific Market ***Issued on 31 May 2012***	***05-07-2012***	***10-09-2012***		
IFRS Interpretations Committee's Draft Interpretation DI/2012/2 Put Options Written on Non-controlling Interests	***06-07-2012***	***11-10-2012***		
IFRS Interpretations Committee's tentative rejection notice on IAS 39 Financial Instruments: Recognition and Measurement, Negative interest rates: implications for presentation in the statement of comprehensive income ***Issued on September 2012***	**21-12-2012**			
Count 2012	4	3	0	1

	Draft comment letter	Final comment letter
IASB SME		
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*** ***Final Q&As issued on 27-04-2012 (2012/3 and 2012/4)***	01-12-2011	31-01-2012
IASB Request for Information: Comprehensive Review of the IFRS for SMEs	23-08-2012	20-12-2012
Count 2012	1	2

	Draft comment letter	Final comment letter
Other Letters		
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
IASB and IFRS Interpretations Committee Due Process Handbook	19-07-2012	21-09-2012
EFRAG reports a Draft Comment Paper on "Emissions Trading Schemes"	05-12-2012	
EFRAG response to Post-Implementation Review of IFRS 8 Operating Segments	29-11-2012	
IFRS Foundation proposals to establish a Accounting Standards Advisory Forum ***Issued on 1 November with a comment deadline of 17-12-2012***	16-11-2012	21-12-2012
Count 2012	5	3

	Draft comment letter	Final comment letter	Draft Endorsement advice	Final Endorsement advice
Total Counts 2012	17	13	10	12

Proactive work	
EFRAG/ANC/FRC Discussion Paper 'Towards a Disclosure Framework for the Notes' ***with comment dead-line of 31 December 2012***	12-07-2012
EFRAG/ASB Position Paper and Feedback Statement for proactive project 'Considering the Effects of Accounting Standards'	17-07-2012
EFRAG and OIC questionnaire on impairment requirements for goodwill	30-07-2012
EFRAG and OIC Feedback Statement Accounting for Business Combinations under Common Control	20-12-2012
Count 2012	4

Feedback statements	
Outreach	
EFRAG reports on input received in European Outreach events held on the discussion papers 'Business Combinations Under Common Control' and 'Improving Financial Reporting Of Income Tax', held in	
• London, 16 April	10-05-2012
• Warsaw, 15 May	30-5-2012
• Vienna, 18 April	01-06-2012
• Milan, 15 March	14-06-2012
EFRAG reports on input received in European Outreach event held on 17 April in Amsterdam on the discussion paper 'Improving Financial Reporting of Income Tax'	29-05-2012
EFRAG reports on consolidated input received in European outreach events on the discussion paper on Business Combinations Under Common Control	05-07-2012
EFRAG reports on consolidated input received in European outreach events on the discussion paper on Improving the Accounting of Income Taxes	04-09-2012
EFRAG reports on Input received from EFFAS Financial Accounting Commission	28-11-2012
EFRAG reports on input received at Warsaw Joint Outreach event (Brussels) on the IFRS 8 Post Implementation review and EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework	29-11-2012
EFRAG reports on input received at Frankfurt Joint Outreach event (Brussels) on the IFRS 8 Post Implementation review and EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework	30-11-2012
EFRAG reports on input received at European Joint Outreach event (Brussels) on the IFRS 8 Post Implementation review and EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework	03-12-2012
EFRAG reports on input received at Vilnius Joint Outreach event on the EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework	11-12-2012
EFRAG reports on input received at London Joint Outreach event on the EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework	13-12-2012
EFRAG reports on input received from EUMEDION Audit Committee	17-12-2012
EFRAG reports on input received at outreach events on the IFRS 8 Post Implementation review	18-12-2012
EFRAG reports on input received at outreach events on the EFRAG/ANC/FRC Discussion Paper Towards a Disclosure Framework for the Notes held in Stockholm	18-12-2012
Field work	
EFRAG reports on the findings of the field-tests on implementing IFRS 10, IFRS 11 and IFRS 12	27-02-2012
EFRAG reports on findings of supplementary study regarding consolidation of Special Purpose Entities (SPEs) under IFRS 10 Consolidated Financial Statements	01-06-2012
Feedback statements	
EFRAG's feedback statement from comment letters and outreach activities on Revenue from Contracts with Customers	25-07-2012
EFRAG's feedback statement from comment letters on Annual Improvements to IFRSs 2010-2012	25-10-2012
EFRAG's feedback statement from comment letters on Levies Charged by Public Authorities on Entities that operate in a Specific Market	27-09-2012
EFRAG's feedback statement on IFRS Foundation Due Process Handbook	13-12-2012
Count 2012	22

Letters issued	
Draft Comment Letters	17
Final Comment Letters	13
Draft Endorsement Letters	10
Final Endorsement Letters	12
Other publications	
Discussion/Position papers	2
Feedback Statements	24
Others	1
Grand total 2012	**79**

Getting Input from Users in expressing European Views

EFRAG User Panel

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 on a quarterly basis into the EFRAG Technical Expert Group on the most important and topical issues. In 2012, EFRAG's User Panel focused on various aspects of accounting for Financial Instruments as well as accounting for Leases and Revenue Recognition. EFRAG User Panel views were also sought on some of EFRAG's proactive projects in partnership with the European National Standard Setters. This input is crucial for EFRAG.

Given the low level of participation of users in EFRAG's due process and the limitation in number of EFRAG TEG Members with an investor background, EFRAG considered that it should redouble efforts to ensure that users' needs are best known and understood when EFRAG TEG deliberates.

With that purpose in mind, EFRAG made two decisions:

- EFRAG appointed Carsten Zielke Vice-Chair of the EFRAG User Panel and granted him observership in all EFRAG TEG meetings, after he retired from EFRAG TEG in April 2012;
- EFRAG undertook an extensive outreach programme towards investors and their advisors. EFRAG applied its concept of "shared due process" to this new development, ensuring that constituents would be consulted only once on a given subject, and IASB, EFRAG, ESMA and National Standard Setters should benefit from that one consultation step. In 2012, EFRAG reached agreement on how to proceed with the other bodies interested in learning about user needs. It also identified more than 30 organisations which are likely to gather users to discuss accounting issues and established first contacts. A few outreach events took place in 2012, notably discussing EFRAG's Discussion Framework project and IFRS 8 post-implementation review.

Carsten Zielke,
EFRAG User Panel
Vice-Chair

Experienced users tend to develop valuable insights on what kind of reporting really matters, or what kind of reporting would matter. Without user input, standard setters can only guess what users need, or rely on feedback only from companies and auditors. The Capital Markets Advisory Committee to the IASB and EFRAG's User Panel are both platforms that allow for user perspectives to be taken into account in the standard-setting process. I encourage interested investors to contribute to this intellectually rewarding exchange of thoughts.

Martijn Bos
EUMEDION
Vice-Chair CMAC

As a member, I believe that CMAC provides a unique channel for users to discuss their views and express them to the IASB technical team and IASB members. In addition, CMAC provides an environment for investors and analysts who are interested in contributing to IASB standard-setting activities. As a user of financial information, EFRAG's User Panel helps me by providing a genuine platform to discuss financial accounting issues. I also greatly appreciate EFRAG's efforts in bringing European users' views to its discussions with interested parties, including standard setters.

Javier de Frutos
Chairman of EFFAS
Financial Accounting Commission

The Capital Markets Advisory Committee to the IASB and the EFRAG User Panel provide the IASB with timely and thought provoking commentary on the usefulness of proposed accounting information as it develops a new accounting Standard or revises an existing one. The varied backgrounds of the members ensure that the IASB is receiving balanced input about the needs of financial statement users. Without the insights of these two groups IFRS would certainly be less relevant to those it is meant to serve: users of financial statements.

Patricia McConnell
IASB Member

The main benefits of my involvement in the Capital Markets Advisory Committee to the IASB and EFRAG's User Panel have been a better understanding of current accounting problems, which are often not visible to users, and early indications of changes that are likely to be made. The illustrations prepared by the staff of EFRAG and of the IASB are helpful in providing context so that it is more straightforward to understand which companies and industries are likely to be affected. Overall I feel my involvement has significantly increased my technical knowledge and understanding.

Jed Wrigley
Fidelity Investments

Both the CMAC and the EFRAG User Panel provide an invaluable opportunity for users of financial statements to refine their understanding and to also influence key updates to accounting standards. This occurs via their dialogue with both the International Accounting Standards Board and the EFRAG Technical Expert Group and with the technical staff. There really is a two-way interaction by which users influence standard setting while the standard setters also have a chance to understand the practical application of financial reporting information and to pick the brains of those involved in the committees on how to reach out more effectively to users.

Vincent Papa
Director, Financial Reporting Policy
CFA Institute

To co-operate with other analysts, with the EFRAG and with the IASB in the user panels, has sharpened my thinking in accounting and valuation. We normally discuss important and meaningful aspects of accounting, items that frequently show up in my daily work as an equity analyst.

Peter Malmqvist
Malmqvist EQR

My involvement with both the Capital Markets Advisory Committee to the IASB and the EFRAG User Panel gave me a clear understanding of how accounting information is created, and how, as a user, I can use it. Discussing the different possibilities for each new Standard, with clear examples, highlights the ins and the outs of accounting standards and indicates what information I can use, or not. It has also been very helpful to discuss the new Standards ahead of their implementation. Finally, it convinced me that users need to be more involved in this process, so that Standards meet our needs more closely.

Jacques de Greling
Nataxis

Users, investors as well as lenders, need to understand the fundamental rules that underlie financial reporting. The EFRAG User Panel is an excellent forum that allows Users to discuss financial reporting. It allows them also to keep in touch with the fast developing world of IFRS.

Serge Pattyn
Emerio
Member of
EFRAG Technical Expert Group

Commenting on IFRS Foundation Pronouncements

AGENDA CONSULTATION

In 2011, the IASB had initiated for the first time a public consultation on its future agenda, as EFRAG had recommended it would do. EFRAG issued its comment letter in December 2011.

Decisions made by the IASB in May 2012 met most, if not all, major recommendations by EFRAG. Developing a disclosure framework and resuming the revision of the IFRS Conceptual Framework were given high priority. In addition to this, the IASB decided to deal with a narrow-scope amendment of IAS 41 Agriculture and to start a comprehensive project on Rate-Regulated Activities. This satisfies EFRAG's quest for a calm period, as none of these two projects has pervasive effects in financial reporting. The need for such projects is well identified.

In addition to this, the IASB followed two of EFRAG's very important recommendations. First, the IASB will devote resources and efforts in order to eliminate divergent practices and to help eliminate difficulties in the application of IFRS. To that end, the IFRS Interpretations Committee is expected to bring more issues to its agenda and to prepare the basis for narrow amendments to be considered by the IASB. More efforts will also be made to provide educational material. Second, the IASB decided that a Research project would always be followed by a public consultation, so that there is appropriate understanding of where and how improvement in financial reporting is needed, and what the scope and objective of a project are before it becomes active in the IASB's work plan.

IFRS FOUNDATION DUE PROCESS HANDBOOK – CONSULTATION

On 8 May 2012 the Trustees of the IFRS Foundation, responsible for the governance and oversight of the IASB published a proposed updated version of the IFRS Foundation Due Process Handbook of IASB and IFRS Interpretations Committee. This has been the first major review of the Due Process Handbook since 2006. The proposed Due Process Handbook included a more extensive discussion of the process of assessing the likely effects of an IFRS, as EFRAG, and Europe more generally, have requested for years, and a new methodology for the completion of post-implementation reviews.

In general, the handbook revision was welcome by EFRAG. It was noticed also that it addressed a number of concerns raised previously by EFRAG and its constituents. However, EFRAG made recommendations on how to best achieve a fully effective due process.

EFRAG's first request was that the objectives of the IASB due process be clearly defined and made proposals to that end. EFRAG suggests reaching common understanding of what is leaving room for improvement, proper consultation and discussion, and appropriate assessment of the effects of proposed or final requirements with the objective set at inception serving as benchmark.

EFRAG further promoted its concept of shared due process, whereby the IASB and EFRAG share due process steps so as to increase transparency, safeguard efficiency in the consultation process and foster mutual understanding. EFRAG affirms that bringing improvements to financial reporting at an acceptable cost should be the sole driver of any change to the financial reporting. EFRAG also emphasised that the principle based approach, adopted in the revised handbook, based on transparency, full and fair consultation, and accountability is essential in order to avoid that the due process would merely result in a 'ticking the box' exercise.

Finally and very importantly, EFRAG recommended that the IASB adopts a high level of quality control, in undertaking public fatal flaw reviews of its final requirements prior to publication, on the basis of the publication of Review Drafts.

IFRS FOUNDATION PROPOSAL TO ESTABLISH AN ACCOUNTING STANDARDS ADVISORY FORUM

On 1 November, the IFRS Foundation has published proposals to set up the Accounting Standards Advisory Forum (ASAF) with the aim to formalise, rationalise and streamline the relationships with the National Standard Setters and other regional bodies around the world and to engage with them on a collective basis on technical issues and to bring all of them on an equal footing without any of them having privilege access to the IASB. The IFRS Foundation requested comments by 17 December allowing for a 45-day comment period.

EFRAG welcomes the proposal and supports the idea that the ASAF will be based on multilateral and productive discussions on technical issues; and believes that ASAF has the potential to bring significant improvement in the IASB due process. It should help the IASB considerably in reaching its objective of greater acceptability of IFRS.

EFRAG supports the IFRS Foundation's view that, to be technically effective and efficient in the discussions as well as globally representative, ASAF should be compact in size. ASAF can only be successful if quality of the technical debate is high. However, EFRAG believes that Europe (EU), given its diversity and significance in the use of IFRS, should be entitled to at least three seats in ASAF.

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

EFRAG believes that representativeness in ASAF is important. Therefore we believe that, although the IFRS Foundation should allocate seats to regions, the compositions of the seats within the regions or jurisdictions should be the responsibility of the region or jurisdiction concerned, provided that criteria set by the IFRS Foundation are met. This will allow bringing not only the right level of expertise and commitment to the discussion table in relation to the topics on the agenda, but a variety of possible views, more particularly in the project early stages. This should include the presentation of specific regional or national issues and concerns that need to be addressed.

Saskia Slomp
Director at EFRAG

Europe (EU) should be fully represented at the Forum. The European Commission should be involved in determining how the EU should be represented. EFRAG is ready, capable and available to participate, and help build for each meeting a technically competent and representative European delegation. EFRAG is willing to work in close collaboration with the National Standard Setters in Europe to ensure that no European constituent feels omitted.

EFRAG agrees that participants in the ASAF should be asked to make specific commitments, and EFRAG can support the idea of formalising those commitments in a Memorandum of Understanding for each participant in ASAF. However, we believe that the commitments in the proposal are not appropriately aligned with the purpose and scope of ASAF. The overriding common objective of creating one single set of high quality globally accepted financial reporting standards should be the criterion for such participation.

The IFRS Foundation launched the Forum in the first quarter of 2013. The first meeting addressed the revision of the Conceptual Framework.

Governance Report

CONDUCTING EFRAG'S LIMITED GOVERNANCE REVIEW AND SUPERVISORY BOARD ROTATION

In 2012, the EFRAG Governance and Nominating Committee (EFRAG GNC) responsible for monitoring the functioning of and exercising oversight over the EFRAG Supervisory Board (EFRAG SB), its subcommittees and its due process; making recommendations for the appointment of the EFRAG SB members; and for conducting a review of EFRAG's governance arrangements, became active again in 2012. Members of the EFRAG GNC were (re)appointed in December 2011 for a two-year term by the EFRAG General Assembly. Two of them were replaced during 2012. In the course of 2012, the EFRAG GNC developed its terms of reference which were approved by the EFRAG General Assembly in December 2012.

New EFRAG SB composition

The EFRAG GNC recommended to the EFRAG General Assembly the new composition of the EFRAG SB as far as the private sector members were concerned. A call for candidates was launched in March 2012. The existing EFRAG SB members were asked to complete a self-assessment on the basis of a performance questionnaire. The EFRAG GNC had three meetings and three conference calls in which the existing members were evaluated, candidates were reviewed and a shortlist was prepared. The EFRAG SB members from the private sector were (re) appointed in two steps for a period of three years by the EFRAG General Assembly in its meetings of 25 October and 20 November upon recommendation of the EFRAG GNC. The EC nominated public policy candidates, with the official EC nomination procedure for three public policy members being completed at the end of December 2012. The Chairman of EFRAG Supervisory Board will be nominated at a later stage once the wider framework of the IFRS strategy for Europe has been determined, the mandate for EFRAG has been confirmed or adjusted and the context for EFRAG's governance structure has been set. The EFRAG General Assembly approved Hans van Damme as acting Chairman until a new Chairman of the EFRAG SB has been appointed.

EFRAG limited governance review

As a result of the 2008 enhancement report "Strengthening the European contribution to the international standard-setting process", EFRAG was due to undertake a limited Governance Review in 2012. The focus was to assess the effectiveness of the arrangements in securing co-operation between EFRAG and National Standard Setters in Europe and of the new governance arrangements. In the process of conducting this review the EFRAG GNC has had an extensive exchange of views, holding discussions and meetings with National Standard Setters, with EFRAG's Member Organisations, National Funding Mechanisms and the European Commission. The limited governance review was facilitated by the EFRAG SB. The European Commission participated as an observer in all meetings and conference calls, and closely monitored the process.

At several stages a draft consultation document was shared with National Standard Setters, National Funding Mechanisms and EFRAG Member Organisations. The four National Standard Setters from France, Germany, Italy and the UK made proposals on how they would change EFRAG's governance to improve the working relationship between EFRAG and the National Standard Setters. Following these, and after discussions with the EFRAG Member Organisations and the European Commission and with other National Standard Setters in Europe, the EFRAG GNC presented a 'broad outline' proposal aiming to address several of the concerns raised by the four National Standard Setters mainly in relation to proactive work. However, the four National Standard Setters indicated in the latest discussions that the status quo was considered a better solution.

Considering all these aspects, the EFRAG GNC has decided to close the limited review without proposing changes to the current governance arrangements. The process of the limited Governance Review has, however, identified in discussions with EFRAG's stakeholders a number of desirable operational and due process improvements that can be implemented under the present governance and constitutional arrangements. EFRAG has implemented or is in the process of implementing some of them.

A comprehensive review of EFRAG's governance is due to take place as soon as the European Commission is in a position to confirm or adjust EFRAG's mandate on behalf of Europe in the development of IFRS.

EFRAG SUPERVISORY BOARD

The EFRAG SB met four times in 2012: February, May, September and November. In addition, two conference calls were held in December. In its February meeting, the EFRAG SB approved the reappointment of the two EFRAG SB members sitting on the EFRAG Planning and Resource Committee, including the Chairman, and appointed two additional EFRAG SB members for a two-year term. In this meeting, the Board also provisionally approved the audited financial statements of 2011 for submission to the EFRAG General Assembly.

In the May meeting Michel Prada, Chairman of the IFRS Foundation Trustees who was appointed in the beginning of 2012, made a presentation to the Board and exchanged views. Consideration of the multi-year planning was also on the agenda. The Board was kept informed about the progress on the limited governance review.

In its September meeting, the Board agreed on continuation of the subcommittees until the first meeting of the EFRAG SB in its new composition on 22 November. The Board started discussing due process oversight in this meeting.

On 22 November, the EFRAG SB had its first meeting in its new composition. The meeting started with an induction meeting to inform the new members about EFRAG's governance, activities, and financial aspects as well as the commitment of each EFRAG SB member to work in the European public interest. The Board approved in this meeting the new composition of EFRAG TEG from April 2013, including the reappointment of the EFRAG Chairman Françoise Flores. The Board also approved the 2013 budget for submission to the EFRAG General Assembly. The Board discussed the EFRAG Draft Comment Letter on the IFRS Foundation proposal for the establishment of the Accounting Standards Advisory Forum. Subsequently the Board had two conference calls in December to discuss and agree on the EFRAG Final Comment Letter considering discussions in the EFRAG Consultative Forum of Standard Setters meeting, the comment letters received and comments received through other channels.

The EFRAG SB operates two permanent committees, a Nominating Committee and an Audit and Budget Committee.

Hans van Damme
EFRAG
Supervisory Board
Acting Chairman

EFRAG Nominating Committee (EFRAG NC)

The role of the EFRAG NC is to recommend candidates for the EFRAG TEG yearly rotation process and for the EFRAG PRC as far as the non-National Standard Setter seats are concerned. The January conference call of the EFRAG NC was addressing the recommendation for reappointment of the Chairman for two years and the existing EFRAG SB member for one year. In addition, the Committee nominated two additional EFRAG SB members for a two-year term, following the decision of the EFRAG SB of September 2011 to extend the EFRAG SB members in the EFRAG PRC from two to four.

In the June conference call, the Committee prepared for the 2013 EFRAG TEG rotation process. A call for candidates was issued in the beginning of July 2012. The EFRAG NC had three conference calls altogether and one meeting in November and two interview days with seven candidates for EFRAG TEG membership, one in October and one in November. The EFRAG GNC evaluated the performance of the existing EFRAG TEG members based on self-assessment performance questionnaires completed by EFRAG TEG members and observation by Committee members in EFRAG TEG meetings. The Committee recommended the appointment of three new members and the reappointment of two members for two years. The Committee also recommended the reappointment of the EFRAG Chairman for her second three-year term.

EFRAG Audit and Budget Committee (EFRAG ABC)

The EFRAG ABC held three meetings in February, April and May 2012. In the second half of 2012, preparations for the September and November EFRAG SB meetings took place by exchange of email and bilateral conversations between the EFRAG ABC Chairman and members of the EFRAG ABC. In February, the 2011 audited financial statements were reviewed. In April, the Committee reviewed the 2014-2020 funding forecasts for submission to the EC in preparation of the financing decision for the 2014-2020 budget period. In May, the EFRAG ABC reviewed the 2012 forecast and the 2013-2015 multi-year planning. The Committee reviewed early November the 2013 proposed budget by exchange of emails.

Patrick De Vos
EFRAG ABC
Chairman

EFRAG General Assembly

The EFRAG General Assembly had four meetings in 2012. Two members of the EFRAG GNC who had stepped down were replaced. The General Assembly approved the composition of the Supervisory Board, including all members originating from the private sector and the public policy members nominated by the European Commission, subject to the formal procedure of their official appointment. The EFRAG General Assembly approved the 2011 audited financial statements, considered the 2013 budget and approved it for use as a basis for the EC grant application.

Financial Highlights

Abbreviated financial statements as of 31 December 2012

INCOME STATEMENT	2012	2011
	000 EUR	000 EUR
Contributions		
Members Organisations	800	800
National Funding Mechanisms	1,445	1,070
European Commission	2,523	2,289
Contributions in kind	*1,212*	*1,179*
TOTAL CONTRIBUTIONS	**5,980**	**5,338**
Operating expenses		
Human resources	-3,536	-3,305
Building	-338	-324
Travel	-112	-110
Special events	-14	-34
Publications	-53	-34
Meetings	-66	-55
Other costs	-387	-224
Expenses in kind	*-1,212*	*-1,179*
TOTAL OPERATING EXPENSES	**-5,718**	**-5,265**
Operating profit or loss	262	73
Financial Result	30	26
Adjustments on prior years		6
NET PROFIT OR LOSS	**292**	**105**

BALANCE SHEET	31/12/2012	31/12/2011
	000 EUR	000 EUR
Tangible Assets	207	99
Office Guarantee	114	110
Total Fixed Assets	321	209
Accounts Receivable	355	992
Current Investments	371	342
Cash	2,183	1,358
Deferred Charges and Accrued Income	4	1
Total Current Assets	2,913	2,693
TOTAL ASSETS	**3,234**	**2,902**
Equity: Accumulated surplus	2,297	2,003
Liabilities		
• Leasing Debt	8	11
• Accounts Payable	469	445
• Taxes, Remuneration and Social Security	379	376
• Rent Accrual	81	67
TOTAL EQUITY & LIABILITIES	**3,234**	**2,902**

The financial highlights are based on statutory financial statements audited by BDO, Belgium, who issued an unqualified audit report on those statements on 4 February 2013.

CONTRIBUTIONS AND EXPENSES IN KIND

Contributions in kind 2012	000 EUR
Secondments	120
Time and travel contributions	
Technical Expert Group	*755*
Other Groups and Panels	*346*
TOTAL CONTRIBUTIONS IN KIND	1221

ACCOUNTS RECEIVABLE

Accounts receivable as of 31/12/2012	2012 000 EUR	2011 000 EUR
Danish National Funding Mechanism	6	
BUSINESSEUROPE	8	
European Commission Contribution	341	978
Other debtors		14
TOTAL ACCOUNTS RECEIVABLE	355	992

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

LEVEL OF RESERVES

At 31 December 2012, EFRAG's level of reserves amounts to 2,3M€. EFRAG's policy is to hold reserves in the limit of 50% of the next year's budget. As at the end of 2012, EFRAG's reserves remain within this limit (50% of 2013 budget is 2.7M).

OFF BALANCE SHEET COMMITMENTS

EFRAG's off balance sheet commitments at 31 December 2012 of 1,9M€ include[4]:

- Office rents and related charges: 0,6M€
- Staff commitments (severance pay and firm commitments[5]): 1,3M€.

[4] EFRAG's off balance sheet commitments also include some leasing arrangements. The related amounts are less than the approximation in the other commitments, and are therefore ignored.
[5] The estimate reflects employment and secondment contracts only (services contracts excluded).

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. The German Funding Mechanism contributed to the EFRAG funding with an amount of 350K€ from 1 January 2012, as part of the budget of the Accounting Standards Committee of Germany. The permanent Norwegian Funding Mechanism established by the Government in Norway increased its contribution to 75K. The EFRAG Supervisory Board appointed Stig Enevoldsen as funding coordinator with the aim to broaden contributions to the funding of EFRAG. Prospects for the establishment of a National Funding Mechanism in the Netherlands is 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 also in 2012 by seconding a project manager to EFRAG free of charge.

EFRAG also receives voluntary ad hoc contributions.

THE EFRAG MEMBER ORGANISATIONS ARE:

FEE	FEDERATION OF EUROPEAN ACCOUNTANTS
BUSINESSEUROPE	EUROPEAN BUSINESS FEDERATIONS
INSURANCE EUROPE	EUROPEAN (RE) INSURANCE FEDERATION
EBF	EUROPEAN BANKING FEDERATION
ESBG	EUROPEAN SAVINGS BANKS GROUP
EACB	EUROPEAN ASSOCIATION OF COOPERATIVE BANKS
EFAA	EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS

NATIONAL FUNDING MECHANISMS HAVE BEEN ESTABLISHED IN:

DENMARK
CONTRIBUTIONS FROM IMPORTANT BUSINESS ORGANISATIONS IN DENMARK NAMELY REALKREDITRÅDET (ASSOCIATION OF DANISH MORTGAGE BANKS); REALKREDITFORENINGEN (DANISH MORTGAGE BANKS' FEDERATION); DANSK ERHVERV (DANISH CHAMBER OF COMMERCE); DANSK INDUSTRI (CONFEDERATION OF DANISH INDUSTRY); DANMARKS REDERIFORENING (DANISH SHIPOWNERS' ASSOCIATION); 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.

GERMANY
ACCOUNTING STANDARDS COMMITTEE OF GERMANY.

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
THE NORWEGIAN GOVERNMENT PROVIDES THE FUNDING TO EFRAG THROUGH A SYSTEM WHEREBY LISTED COMPANIES 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 contributions is as follows:

CONTRIBUTIONS	**amount in 1000 euro**	
	2012	**2011**
Member Organisations		
FEE	300	300
BUSINESSEUROPE	175*	175*
INSURANCE EUROPE	75	75
EBF	75	75
ESBG	75	75
EACB	75	75
EFAA	25	25
Total Member Organisations	*800*	*800*
NFMs		
France	350	350
Germany	350	
UK	350	350
Italy	170**	170**
Sweden	100	100
Norway	75	50
Denmark	50	50
Total National Funding Mechanisms	*1.445*	*1,070*
European Commission	2,523	2,289
TOTAL CONTRIBUTIONS	**4,768**	**4,159**

* Including 50 K euro ad hoc funding provided by ACTEO (France) in both 2012 and 2011.
**the Italian contribution amounts to 290K€ in 2012 (276K in 2011) when taking into account the secondment of a full time project manager to EFRAG free of charge.

Appendices

TABLE 2 – EFRAG TECHNICAL EXPERT GROUP (as of 31 December 2012)

Françoise Flores (France)
EFRAG Chairman, Partner Mazars[1]

Friedrich Siener (Germany)
Director, Methods and Systems Development Group
Daimler AG

Gabi Ebbers (Germany)
Team Leader MD&A Group Financial and Regulatory Reporting
Allianz SE

Araceli Mora (Spain)
Professor, University of Valencia

Joanna Frykowska (Poland)
Executive Director
EY Poland

Andrea Toselli (Italy)
Partner, Leader of National Technical Department PwC

Mike Ashley (United Kingdom)
Vice-Chair of EFRAG TEG
Audit Partner KPMG

Nicolas de Paillerets (France)
Director, Group Accounting Principles

Nicklas Grip (Sweden)
Senior Vice-President, Handelsbanken

Hans Schoen (The Netherlands)
Chairman of the Insurance Accounting Working Group
Former Audit Partner KPMG

Andy Simmonds (United Kingdom)
Consultation Partner, National Audit and Accounting Department Deloitte

Serge Pattyn (Belgium)
Partner
Emerio

NON VOTING MEMBERS

Roger Marshall (United Kingdom)
Chairman
FRC Accounting Council (FRC AC)

Angelo Casò (Italy)
President, Organismo Italiano di Contabilità (OIC)

Jérôme Haas (France)
Chairman, Autorité des Normes Comptables (ANC)

Liesel Knorr (Germany)
President, Accounting Standards Board of Germany (ASCG)

[1] During her mandate at EFRAG, any involvement in Mazars activities is suspended.

EFRAG Technical Expert Group

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

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)
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 2012	
Françoise Flores	Chairman and CEO
Philippe Longerstaey	Research Director
Pieter Dekker	Technical Director
Saskia Slomp	Director
Nathalie Saintmard	Communications Manager
Giorgio Acunzo	Project Manager (seconded)
Filipe Alves	Project Manager
Didier Andries	Project Manager
Isabel Batista	Senior Project Manager
Ralitza Ilieva	Project Manager
Marc Labat	Project Manager (seconded)
Panagiotis Papadopoulos	Project Manager
Filippo Poli	Senior Project Manager
Benjamin Reilly	Project Manager
Michel Sibille	Senior Project Manager
Rasmus Sommer	Senior Technical Manager
Robert Stojek	Project Manager
Apostolena Theodosiou	Project Manager (seconded)
Anna Vidal	Project Manager (seconded)
Provision of services on a project basis	
Sigvard Heurlin	Senior Project Manager
Anne Mc Geachin	Project Manager
Claudia Mezzabotta	Project Manager
Aleš Novak	Project Manager
Jeff Waldier	Project Manager
Aurélie Diela	Payroll and Finance Officer (outsourced)
Melanie St-Yves*	Office Administrator
Neha Mehra	Office Administrator

EFRAG would like to thank Mario Abela in his quality of EFRAG Research Director for his drive and expertise in coordinating European proactive activities in cooperation with the National Standard Setters.

EFRAG would also like to thank Magdalena Zogala and Latif Oylan for their valuable contributions as project managers.

EFRAG would like to extend their thanks to Celine van der Linden and Marlène Corbinais for their enthusiasm and organisational skills in supporting the team.

Mario Abela

*Thérèse Mac An Airchinnigh on extended parental leave.

TABLE 5 - EFRAG USER PANEL

Françoise Flores – User Panel Chairman – EFRAG Chairman; Carsten Zielke – User Panel Vice-Chair, EFRAG TEG Observer; Jean-Baptiste Bellon - Financial Analyst (Trapeza Conseil); Martijn Bos – Policy Advisor Accounting & Audit (Eumedion); 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); Peter Malmqvist – Financial Analyst (Malmqvist EQR AB); Ivano Francesco Mattei – Financial Analyst (Banco Popolare Italy);Vincent Papa - Director, Financial Reporting Policy EMEA - (CFA Institute); Serge Pattyn – Partner (Emerio), EFRAG TEG Member; Alison Thomas – Director (PwC); Jerome Vial (Solvaxis); Guy Weyns – Managing Director Global Valuation & Accounting (Morgan Stanley); Jed Wrigley - Fund Manager, Director of Accounting & Valuation (Fidelity International).

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 - EFRAG FINANCIAL INSTRUMENTS WORKING GROUP

EFRAG would like to thank former Members of the group for their valuable contributions:

Laure Guégan – Auditor (EY); 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).

And welcome the new group:

Mike Ashley – Working Group Chairman - EFRAG TEG Member and Vice-Chair - Auditor (KPMG); David Bradbery – Preparer (UBS Investment Bank); Riccardo Bua Odetti – Auditor (PwC); Carlo Calendrini – Standard Setter (OIC); Antonio Corbi – Observer (ISDA); Pierre-Henri Damotte – Preparer (Société Générale); Chiara Del Prete – Preparer (UniCredit); Karin Dohm – Banking (Deutsche Bank); Gunther Gebhardt – Academic (Goethe University Frankfurt); Vincent Guillard – Auditor (Mazars); Terry Harding – Auditor (KPMG); Armin Hausmann – Preparer (Novartis International); Ratislav Kovacik – Banking (Ceska Sporitelna); Selma Marte – Banking (BNP Paribas); Charlotte Pissaridou – Banking (Goldman Sachs); Frank Tassone – Observer (EIB); Delphine Vliegen – Industry (EPIC SNCF); Yvonne Wiehagen-Knopke – Preparer (DZ Bank AG).

Representatives of the European Commission, the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA, formerly CEBS), the European Investment Bank (EIB) and the International Swaps and Derivatives Association (ISDA) are invited to participate as observers.

TABLE 7 - EFRAG INSURANCE ACCOUNTING WORKING GROUP

EFRAG would like to thank the former Members of the group for their valuable contributions:

Bernard Bolle-Reddat – Preparer (BNP Paribas); Helle Gade – Preparer (Danish Insurance Association, Forsikringogpension); Benoît Jaspar – Preparer (Generali);

And welcome the new group:

Hans Schoen – Working Group Chairman (EFRAG TEG Member and Former Audit Partner, KPMG); Vanessa Casalegno – Insurance industry (BNP Paribas); Alexander Dollhopf – Actuary (Towers Watson); Hugh Francis – Preparer (Aviva); Fabrice Guenoun – Preparer (AMICE); John Instance – Actuary (Financial Reporting Council); Susanne Kanngiesser – Insurance industry (Allianz); Joachim Koelschbach – Auditor (KPMG); Jacques Le Douit – Preparer (AXA); Francesco Nagari – Auditor (Deloitte); Jean-Michel Pinton – Insurance industry (CNP Assurances); Sabrina Pucci – Academic (University of Rome); Massimo Tosoni – Insurance industry (Generali); Gail Tucker – Auditor (PwC); Carsten Zielke – User (EFRAG User Panel Vice-Chair).

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 (Insurance Europe) 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 - EFRAG SME WORKING GROUP

Françoise Flores – Working Group Chairman - EFRAG Chairman; Kati Beiersdorf – Accountant (RBS RoeverBroennerSusat GmbH & Co. KG); Jean-Charles Boucher – Auditor (MBV & Associés) ; 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 (until January 2012) – 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 - EFRAG 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 10 - EFRAG 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; ASCG - German Standard Setter; EASB – Estonian Accounting Standards Board; KILA - Finnish Accounting Board, Ministry of Employment and Economy - Finnish Standard Setter; FER – Swiss Standard Setter; SFRB – Swedish Financial Reporting Board, 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 – Italian Standard Setter; KSR Accounting Standards Committee, Polish Ministry of Finance; RJ Dutch Standard Setter DASB; TASB-Turkish Standard Setter, FRC – Financial Reporting Council, UK Standard Setter.

EFRAG Consultative Forum of Standard Setters

EFRAG
European Financial Reporting Advisory Group

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