

International Accounting Standards Board (IASB)
Attn. of Mr. H. Hoogervorst, Chairman
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Amsterdam, 29 November 2011

Ref: B2011.63

Subject: Eumedion response to the IASB Agenda Consultation 2011

Dear Mr. Hoogervorst,

We welcome the opportunity to submit comments on the International Accounting Standards Board (IASB) formal consultation agenda on the strategic approach and the broad shape of the IASB's work plan. By way of background, and to put our comments in context, Eumedion is the Dutch based corporate governance forum for institutional investors. Our 69 Dutch and non-Dutch participants - with a long term investment horizon - have together more than € 1 trillion assets under management.

We highly appreciate the transparency and openness of the IASB – explicitly seeking the view of investors and users – in developing its future agenda. We believe that the agenda clearly highlights the key challenges the IASB is facing in finding the balance between the competing future financial reporting needs and the constraints related to its existing priorities. We are responding in light of our purpose to address and comment on accounting and auditing practices from an international institutional investor perspective. Through comment and dialogues with standard setters, preparers and auditors and others we strive to provide the quality and integrity of listed companies' financial and non-financial reporting. Appropriate reporting in conjunction with disclosures is critical to obtain necessary information for institutional investors' sound judgments.

A detailed response follows, which reflects the order of questions raised in the consultation document. The first set of questions addresses the overall balance in the strategic approach. The second set involves what specific projects to include in the agenda.

Question 1

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

Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Question 1(b)

How would you balance the two categories and five strategic areas?

If you have identified other areas for the IASB's agenda, please include these in your answer.

Regarding the overall balance of the IASB strategic priorities, Eumedion believes that maintaining the existing IFRS and developing new standards and/or amendments to existing standards both are crucial elements for the future agenda. We agree with the five strategic areas that fall into the two main categories (i. development of financial reporting, ii. maintenance of existing IFRS). Differentiating between the five areas is not preferable, as they are interrelated and of equal importance.

Given the limited resources available, we believe the IASB should not only continue to carry out post-implementation reviews on a regular basis and improving the application of existing IFRS but also perform in-depth research of changes in the financial markets and business reality. Some of the changes may very well affect how the effectiveness of financial reporting standards is perceived by institutional investors and other users. The need for appropriate research efforts in preparation for future reporting needs is even more crucial, as the pace of the financial markets and business environment changes has been progressing in recent years.

We generally agree with IASB's intention to complete the update of the Conceptual Framework within a reasonable period of time. This completion process though should not end up in a long lasting 'standstill period' for the numerous important projects that have been added to the agenda previously. It should be possible to finalise new standards or amend existing ones, when necessary to meet users' needs, before the adjusted Conceptual Framework has been completely decided.

As far as the interaction between IFRS and 'Integrated Reporting' concerns, Eumedion would like to stress that relevant information to investors extends beyond the traditional boundaries of

financial statements and we support integrated reporting across a broader range of performance information. We value the very definite goal of bringing together the financial statements with the key non-financial information. We hope that Management Commentary will gain more acceptance globally as we see great merit in its use as a fundamental document for any integrated reporting framework. Eumedion recommends that companies provide explanation of the link between financial and non-financial information to a company's business model, strategy and performance. In this respect we expect that the IASB will continue to perform its important contribution to the work of the International Integrated Reporting Council (IIRC) in developing this link and framework.

From the perspective of institutional investors investing in many listed companies in various countries worldwide, we are in principle in favour of achieving the highest possible level of effective global convergence. However, considering the constraining factors the IASB has to deal with, we endorse those who argue that convergence with in particular US GAAP should – at least for the moment – no longer be a key priority. In our view the main focus regarding convergence should be on serving those regions that have adopted or clearly wish to adopt IFRS.

Question 2

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

In our view finalising the important projects that were previously added to the IASB agenda (contracts revenues, leases, financial instruments) as well the revision of IFRS 8, are among the most pressing financial needs. We refer to our answer to question 2(a) below.

Question 2(a)

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Notwithstanding the constraints, we fully support IASB's intention to continue to give top priority to existing projects, including contract revenues, leases, financial instruments (e.g. hedge accounting and impairments). Finalising these projects within short notice would undoubtedly raise investors' confidence in financial reporting and help them to make better investment decisions.

What is of paramount importance is the proposed revision of IFRS 8. Under the current IFRS practices many companies fully consolidate subsidiaries that are only partly owned. We greatly support amendments that result in disclosure of five key numbers on a proportional basis (revenues, depreciation, operating profit, cash and debt) in order to provide transparency in *economic ownership*, in addition to the fully consolidated reports, which are based on control. The key numbers based on proportional consolidation should not only present figures of the various operating segments but also the reporting entity as a whole.

Question 2(b)

Adding new projects to the IASBs agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASBs agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASBs agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

Regarding the projects previously added to agenda but deferred, Eumedion has the view that there is a need to reactivate the following projects:

- *Business combinations between entities under common control:* This is a subject that is not particularly covered in the current IFRS framework. The accounting for those transactions highly diverges in practice from country to country and from company to company which makes it difficult for institutional investors to obtain sufficient insight in these transactions. To solve this a harmonised approach for a definition of a business combination involving entities or businesses under common control and the methods of accounting for those transactions in the acquirer's consolidated and separate financial statements is needed.
- *Discount rate:* We think that a level playing field within the IFRS framework in respect of determining interest rates to discount future cash flows is needed to increase the validity of financial statements. One of the current complications in comparing the various financial statements is that they use rates based on various different accounting measurement objectives for calculating discount cash flows. Using these various discount rates may potentially lead to inefficiencies in selecting investment projects.
- *Earnings per share:* As institutional investors, we would welcome reactivating the project providing a more standardised approach for the calculation of earnings per share taking the potential dilutive effects in consideration. A lot of effort was already being put in this project. In particular, obtaining clear and ongoing insight in the fully diluted shares outstanding is one of a number of key indicators used by institutional investors in the financial analysis to assess a company's value and performance.

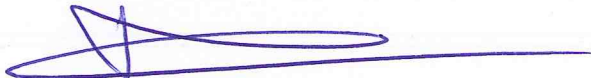
- *Post employment benefits*: IAS19 continues to cause problems and is generally not effective in dealing with the reporting issues resulting from the hybrid risk-sharing pensions schemes prevalent in the Netherlands, despite certain text changes in the recently issued revised standard. Eumedion believes a more fundamental review of the IAS 19 is necessary to finally solve the significant reporting problems in the Netherlands.

In order to make room for other projects we believe that the following projects might be removed that were previously added to the IASB agenda but deferred or that were previously newly suggested:

- *Agriculture, particularly bearer biological assets*: We believe that IFRS should consist of standards that are by nature broadly applicable in a sense that they are not just limited to one specific business area.
- *Presentation and disclosure standard*. Developing the chapter on presentation and disclosure could be performed as part of the Conceptual framework.
- *Country by country reporting*: we believe that country-by-country reporting is not an issue for the IASB to address as a financial statement standard-setter.
- *Islamic (Shariah-compliant) transactions and instruments*

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Wouter Kuijpers (wouter.kuijpers@eumedion.nl and tel. + 31 20 708.5882)

Yours sincerely,



Rients Abma
Executive director