



Request for Views: 2015 Agenda Consultation

ICAEW welcomes the opportunity to comment on the *Request for Views: 2015 Agenda Consultation*, published by IASB in August 2015, a copy of which is available from this [link](#).

This response of 12 January 2016 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 146,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2016
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: frfac@icaew.com

icaew.com

MAJOR POINTS

Major projects – and a strategic vision

1. We welcome the IASB's consultation on its agenda priorities. In our view this is a crucial part of the IASB's overall due process, providing a useful opportunity to reflect on the progress made in recent years and to consider any on-going or new accounting issues that have arisen. Indeed, we are pleased to note the IASB has concluded several major projects since the previous agenda consultation including IFRS 15 *Revenue Recognition* and IFRS 9 *Financial Instruments*.
2. The work plan also suggests that completion is on the horizon of two further major standards-level projects – insurance contracts and leases. We understand that the new leases standard will be published in January 2016. Therefore it will be important that the IASB now prioritises the insurance project to ensure that it is completed without further undue delay. Equally, we strongly recommend that the IASB now focuses on the revised Conceptual Framework and Disclosures Initiative projects, aiming to complete them in a timely manner.
3. We also believe that the project on extractive activities should go back to the assessment stage. IFRS 6 *Exploration for and Evaluation of Mineral Resources* is an interim standard and simply leaving the project as 'inactive' is not a viable option. Indeed, given the importance of the sector around the world, it undermines the credibility of the IASB. We believe that further consideration of this topic is necessary, the focus of which should be on the needs of users and the extent to which existing standards, including interim IFRS 6, are deficient.
4. Major projects aside, we believe that the IASB should take this opportunity to consider more broadly its strategic vision for the future, perhaps setting goals for different time intervals eg, 1, 3, 5 and 10 years. This would enable the IASB to frame its work plan within the context of those goals, differentiating between short-term projects and those that may run across a number of years. Doing so would allow the board to plan and prioritise its projects more effectively, consider the most appropriate allocation of resources, and consider what its ultimate goals are as an organisation. In future, this might be facilitated by co-ordinating the IFRS Foundation Trustees' reviews of structure and effectiveness and IASB agenda consultations so that the Trustee's review has been completed before the agenda consultation gets underway.

The need for a period of stability

5. We note that it will be several years until the standards on revenue recognition, leasing, financial instruments and insurance are fully implemented, and even after this point there will be much to do in assessing their application in practice and in responding to emerging issues. Consequently, we believe that the need for a period of stability should be a central guiding principle in the IASB's consideration of its future strategic vision and work-plan.

Collaboration over convergence

6. After more than 10 years of working in close tandem, the IASB and FASB are due to bring their formal partnership to a close very soon. We have supported the ending of the era of formal convergence between IFRS and US GAAP, which has served its purpose. In our view, any further amendments to proposed or existing IASB requirements designed to harmonise standards with the US would not be justified unless they represent a significant improvement in financial reporting for IFRS preparers and users.
7. That is not to say that the IASB should not collaborate with the FASB or other organisations on specific projects. Indeed we strongly believe that the IASB should now redouble its efforts to establish effective partnerships with standard setters and other organisations across the globe and consider how these partnerships could usefully assist the IASB to implement its work plan. For example, establishing partnerships with an appropriate organisation on a specific research

project might enable a more effective use of IASB staff and board members' time in the early stages of a project. This would enable staff to focus on other areas, perhaps ensuring that projects develop at a better pace.

An opportunity to adopt an innovative and comprehensive approach to the Disclosure Initiative

8. We consider the Disclosure Initiative to be a critical project and strongly recommend that it is given a high priority by the IASB. We note that the initiative is currently made up of a number of research, standards-level, and maintenance and implementation projects. While we largely agree with the topics being addressed within the various sub-projects, in our view, the IASB should make the 'principles of disclosure' element the key priority.
9. Having said that, we would also like the IASB to take a more comprehensive approach to the project, for example, revising standards already acknowledged as being disclosure-heavy. Indeed, it may be helpful for the IASB to accelerate, where possible, some work in this area to demonstrate its commitment to ensuring a proportionate disclosure framework. In addition, we believe there is scope for the IASB to be more innovative and to collaborate more effectively with other organisations and stakeholders. For example, it could consult with those, including auditors, who have real-life experience of applying the standards, or ask organisations to review and propose amendments to the disclosures for a particular standard and then compare the results. In our view, adopting these types of methods could provide helpful information, save time, and demonstrate IASB's commitment to engage with constituents and its willingness to deliver change.

RESPONSES TO SPECIFIC QUESTIONS

Question 1:

The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;
- (b) its Standards-level programme;
- (c) the Conceptual Framework;
- (d) the Disclosure Initiative; and
- (e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

10. We believe the IASB should now focus on concluding its major projects and limit the number of narrow scope amendments made to existing accounting standards. As the new leases standard is expected to be published in January 2016, the insurance project should take priority in the allocation of resources.
11. That said, it is unclear to us why the overall level of resources allocated to standards-level projects is expected to stay the same throughout the entire period under review when the leases and insurance standards are, according to the IASB work plan, nearing completion.
12. We welcome the introduction of the research programme to the IASB's standard setting process. In our view, it is far more effective to first explore issues in some depth, before deciding whether any further action is required. However, in terms of resources, we believe it would be useful for the IASB to redouble its efforts to develop partnerships with other organisations to assist with specific research projects. This might enable a more effective use of IASB staff and board members' time in the early stages of a project, enabling staff to focus on other areas, and perhaps ensuring projects develop at a better pace. We appreciate that partnerships developed in this way would need to be well supervised. However, at the very

least, the IASB should consider the resources available elsewhere and how they may usefully be harnessed to assist with the implementation of its work plan.

13. When considering the priority and resource allocation for individual research projects it may be useful for the IASB to first analysis the expected impact of the project on the market. More generally, we believe the IASB should focus on those projects that are cross-cutting, and will therefore affect a number of standards, for example, the Disclosure Initiative and the projects on discount rates, performance reporting and intangible assets

Question 2:

The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB:

(a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.

(b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?

(c) remove any other projects from its research programme?

14. We note that the Interpretations Committee recently decided not to add the subject of variable payments for asset purchases to its agenda as it was considered 'too broad for the Interpretations Committee to address within the confines of existing IFRSs.' However, contingent pricing of asset acquisitions is very common in modern business and further clarification of the accounting treatment would be helpful. Therefore, we believe this subject should be added to the IASB's research agenda.
15. Regarding the proposal to add a broad-scope project on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, we believe that the IASB should, in line with its procedures, first carry out a full and proper Post Implementation Review (PIR) of this standard. This will enable the IASB to gather evidence of any issues with the existing standard and inform the decision as to whether or not further investigation is required.
16. More generally, we feel that some research projects could be re-organised and/or sub-divided, in particular the projects dealing with intangible assets. This is discussed further in our response to question 3.
17. We have noted that the proposed work plan does not address how the revised Conceptual Framework will affect existing standards. For example, will a further research project be required to look at how the revised Framework interacts with all standards, or will the IASB address ad hoc issues as they arise? Further clarity in this area would be helpful.
18. Regarding inactive projects, we agree that the projects on foreign currency translation and high inflation should now be removed from the research agenda. However, we believe the project on extractive activities should go back to the assessment stage. IFRS 6 *Exploration for and Evaluation of Mineral Resources* is an interim standard and simply leaving the project as 'inactive' is not a viable option. Indeed, given the importance of the sector around the world, it undermines the credibility of the IASB. We believe that further consideration of this matter is necessary, the focus of which should be on the needs of users and the extent to which existing standards, including interim IFRS 6, are deficient.

Question 3:

For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and

urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

19. We have reviewed each research project as described in Appendix A of the request for views considering its relative important and urgency (generally included in brackets alongside the title of each project below). Generally speaking, we think the IASB should prioritise projects that are cross-cutting.

Assessment stage projects

20. **Goodwill and impairment** (see below for our ranking) – there are several projects concerning the accounting for intangible assets on the IASB’s research agenda. We agree that this is an important area in the current business environment with many modern businesses relying on the value of intangible assets. However, the projects outlined in the consultation appear at different stages, deal with various issues, and are generally rather diffused. We believe the IASB should take this opportunity to review again all these projects, reorganising and prioritising the various elements. We have suggested a possible approach below.

- **Project 1: Intangible assets** – to address the issue identified in the IFRS 3 PIR as to the extent to which other intangible assets should be separated from goodwill. However, we believe this project should be broader, addressing also the inconsistency between the treatment of acquired and internally generated intangible assets. This could then also address concerns about accounting for research and development activities and recognition and measurement of intangible assets, currently grouped together with ‘extractive activities’ in the inactive stage of the research plan. We would assign this project a ranking of high importance and high urgency.
- **Project 2: Amortisation of goodwill** – to address the issue identified in the IFRS 3 PIR as to whether goodwill should be amortised. In our view, the IASB has already reached a conclusion on this matter and it is unclear what further benefit will be gained from this research project. We would therefore assign this project a ranking of low importance and low urgency.
- **Project 3: Impairment** – this project would investigate the third issue raised in the IFRS 3 PIR as to whether changes should be made to the existing impairment test for goodwill and other non-current, non-financial assets. We agree that this subject warrants further consideration. Indeed, anecdotal evidence suggests that IAS 36 *Impairment of Assets* is poorly applied in this area, particularly in relation to the use of future estimates. Therefore, we consider this project to be of medium importance and urgency.

Although the ‘amortisation of goodwill’ and ‘impairment’ projects are identified separately above, it will be important to adopt a coordinated approach when addressing these closely linked topics.

21. **Definition of a business** (importance: medium, urgency: high) – we understand that this project is also the result of the IFRS 3 PIR which identified certain challenges in determining whether a transaction is a business combination or an asset acquisition. The research project will consider whether the challenges identified can be addressed by either ‘clarifying the existing definition of a business or by eliminating the differences between the two accounting treatments.’ We agree that further work is necessary. There appears to be a genuine practical issue here with the complex requirements being interpreted in different ways. At the very least, the IASB should consider this lack of consistency as part of this project. For this reason we have designated this project as medium importance but high urgency.
22. **Discount rates** (see below for ranking) – this is likely to be a large project cross-cutting many standards. In our view, discount rates are generally not well-understood and we agree that it would be helpful for there to be greater internal consistency between the standards. However,

in our experience there is one area that creates particular confusion - how to account for and present any changes in a discount rate. We therefore recommend that the IASB divides this subject as follows:

- Understanding the differences in discount rates and the effects of those differences (importance: high, urgency: high).
- Accounting for and presenting changes in discount rates (importance: high, urgency: high).

23. Income taxes (importance: low, urgency: low) – we note that the IASB intends to consider the results of recent surveys of users of financial statements and stakeholders in order to assess whether it should: embark on a fundamental review of IAS 12; make targeted improvements to existing requirements; or take no further action. While we consider this to be a low priority project for the IASB, we take this opportunity to note that we do not believe that targeted improvements to IAS 12 would be an effective course of action. Also, any fundamental review should touch on the current debate about the benefits of better tax disclosures by companies.

24. Pollutant pricing mechanisms, formerly emissions trading schemes (no ranking given) – the IASB has noted that the assessment stage for this project is nearing completion, with a discussion paper expected in 2016. Therefore, we have not provided a ranking as we believe it is necessary first to review the forthcoming paper. Having said that, our general preference would be for this matter to be addressed as part of a wider consideration of non-reciprocal arrangements with governments, and ideally within the revised Conceptual Framework. Indeed, in our recent response to the IASB's draft revised Conceptual Framework, we outlined concerns with the proposed definition of a liability, including the application of the definition to certain categories of obligation where it is difficult to identify a benefit received eg, levies. We noted in our response that the revised framework should discuss items that come into the category of non-reciprocal arrangements, but which are important features of business activity. If appropriately addressed in the revised Conceptual Framework, it may be possible to avoid the need for specific rules for pollutant pricing mechanisms. In light of this, unless there is significant evidence to suggest otherwise in the discussion paper, we recommend that this project becomes inactive.

25. Post-employment benefits, including pensions (importance: medium, urgency: medium) – the purpose of this project is to assess whether a solution can be developed for hybrid schemes without the need to reconsider the current accounting requirements for defined benefit and defined contribution schemes. We agree that there is an issue with the accounting for hybrid schemes and that a broader review may be necessary. We are not convinced, at this stage, that this matter will be resolved without a fundamental rethink of the standard.

26. Primary financial statements, formerly performance reporting (see below for ranking) – in our view, this project should be sub-divided as follows:

- Examining the purpose, structure and content of primary financial statements (importance: low, urgency: low) – we consider this subject to be of low importance and urgency. Having said that, we believe that IAS 7 *Statement of Cash Flows* could usefully be improved.
- Examining issues about performance reporting (importance: high, urgency: high) – as discussed in our response to the IASB's revised Conceptual Framework, we believe this to be a fundamental issue and that further work is needed.

27. Provisions, contingent liabilities and contingent assets (no ranking given) – as noted in the consultation document, it is difficult to determine whether a project on IAS 37 will be required without first considering the feedback received on the revised Conceptual Framework. Having said that, it appears at this stage that this matter is not likely to be resolved by the revised Framework. Therefore it may be that further investigation is required, although we

would prefer this to be a cross-cutting project that looks at how these matters are dealt with across all standards. Given the uncertainty of this project, we have not assigned a ranking.

- 28. Share-based payment** (importance: low, urgency: low) – we do not consider this to be an important or urgent research project. In our view, preparers are now well-accustomed to the accounting requirements of IFRS 2 *Share-based Payment* and any resultant diversity is not a fundamental concern.

Development stage projects

- 29. Business combinations under common control** (no ranking given) – we note that a discussion paper on this matter is due for publication in early 2016. Therefore, we have not provided a ranking as we believe it makes sense first to review the forthcoming paper. Having said that, in our view, the issues cannot be adequately resolved until the IASB carries out a broader discussion of the principles for separate financial statements. As noted in our recent response to the IASB's draft revised Conceptual Framework, we feel the IASB could usefully articulate the extent to which its standards should deal with separate financial statements. We recommend that the IASB considers this matter further within its review of the draft revised Conceptual Framework.
- 30. Disclosure Initiative – principles of disclosure** (importance: high, urgency: high) – the Disclosure Initiative is divided into various sub-projects. In our view, the IASB should prioritise the 'principles of disclosures' element of this project.
- 31. Dynamic risk management** (importance: high, urgency: high) – we encourage the IASB to bring this project to its conclusion, either through identifying a solution or, if no solution can be agreed, concluding that no further work will be carried out on this project. As an integral part of the wider IFRS 9 project, we consider this project to be of high importance and urgency.
- 32. Equity method** (no ranking given) – we understand that views vary on the complexity of the equity method of accounting. In addition, we note that numerous changes and amendments in this area have done little to help clarify matters over the years. However, as the IASB is planning to issue a discussion paper on this matter in 2016 we have not provided a ranking as we believe it is important first to review the forthcoming paper. Nevertheless, we note from the consultation paper that the IASB is planning first to investigate how the equity method could be simplified and to address implementation issues, and then at a later date to review the objective and principles of the method. In our view, a more logical approach would be first to consider the principles and objectives eg, should we be using the equity method, and then from this basis consider how it is applied.
- 33. Financial instruments with characteristics of equity** (importance: high, urgency: high) – as this matter is not currently addressed under the draft revised Conceptual Framework, we believe this project to be high priority.

Question 4:

Do you have any comments on the IASB's current work plan for major projects?

- 34.** We believe the IASB should limit the number of narrow scope amendments issued for existing accounting standards and instead focus on its major projects. In particular, the project on insurance contracts and the revised Conceptual Framework should be a major priority, with the IASB aiming to finalise these projects and issue new or revised standards without undue delay. We have outlined more detailed comments on several of the projects below.
- 35. Conceptual Framework** - we strongly welcome the revised Conceptual Framework project. This makes significant progress towards a high quality, comprehensive conceptual framework for international financial reporting standards. However, as outlined in our recent response to the IASB's proposed revised Conceptual Framework, we believe there are a number of key

areas that need to be tackled before the revised framework can be finalised. Some of these issues will require further consideration and additional work. We encourage the IASB to prioritise the finalisation of these matters in the best possible way.

- 36. Disclosure initiative** – we also support the IASB’s Disclosure Initiative. As noted above, while we largely agree with the topics being addressed within the various sub-projects, in our view the IASB should make the ‘principles of disclosure’ element the key priority.
- 37. Rate-regulated activities** – IFRS 14 *Regulatory Deferral Accounts* was issued as an interim standard to make it easier for those entities that recognised regulatory deferral accounts under their local GAAP to move to IFRS. However, we understand that in jurisdictions such as Canada, companies subject to rate regulation have been allowed to continue reporting under US GAAP rather than adopt IFRS because the interim IFRS 14 is not considered to fully address their needs.¹ Therefore, as noted in our response to the IASB’s 2014 discussion paper, *Reporting the Financial Effects of Rate Regulation*, we support further investigation of this matter, but continue to stress that this should be focussed on the needs of users and the extent to which, if at all, current IFRS reporting is deficient.

Question 5:

Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders’ needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

- 38.** In our view, the IASB needs to distinguish better between those cases in which poor drafting is resulting in ‘genuine’ issues and those in which there is a general reluctance by preparers and auditors to exercise judgement on a particular matter. This is important, as the latter situation will, more often than not, be resolved only by the IASB producing additional detailed guidance which may not be appropriate to principle-based standard setting. On the other hand, drafting weaknesses that are creating genuine issues may warrant further attention.
- 39.** The agenda consultation identifies that since 2012 the IASB has issued 15 annual improvements and narrow scope amendments, which, given the timing of annual reviews, demonstrates that a large number of narrow scope amendments are issued separately. In our view, issuing too many separate amendments creates confusion for both preparers and users. We would prefer the IASB to include the majority of the more minor and narrow-scope amendments within the annual improvements review. This is a far more effective and efficient way of disseminating a wide range of proposed amendments
- 40.** Also, as outlined in our response to the 2015 IFRS Foundation Trustees’ *Review of Structure and Effectiveness*, we feel that more needs to be done to ensure that the standards issued by the IASB are without exception clear, easy to understand and operational in practice. If this is to be achieved, it may be necessary to introduce some sort of new or improved ‘fatal flaw’ or ‘quality control’ review mechanism to ensure that the final standards are not only technically sound and applicable in practice but are also very well drafted and easily understood. We believe this could contribute towards an improved IASB due process and help to ensure that the board can get it right first time.

Question 6:

Does the IASB’s work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

- 41.** The IASB’s work plan does not provide much detail on the expected timetable for the various projects. Therefore it is difficult to assess whether change will in fact be delivered at the right

¹ C. W. Nobes and S. A. Zeff, ‘Have Canada, Japan and Switzerland Adopted IFRS?’, *Australian Accounting Review*, Volume 26, Issue 1, 2016

pace. Our response to this question is largely based on the experience of recent major standards-level projects such as leases which have been extended across a number of years, arguably not delivering change at the right pace. To avoid similar delays in the future, we believe the IASB should critically assess the content of its discussion papers, exposure drafts, and indeed final standards. Exposure drafts have sometimes been too long, with insufficient clarity on the expected impact of the proposals. Ideally, the most detailed and in-depth document should be the discussion paper, since that will be exploring various options, with subsequent documents becoming more concise once the proposed solution has been determined.

42. Equally, as noted above, we believe that improvements to the IASB due process are necessary to help ensure that new standards are always clear and operational. We suggested a number of proposed improvements to the IASB due process in our response to the 2015 IFRS Foundation Trustees' *Review of Structure and Effectiveness*, a copy of which can be found [here](#).

Question 7:

Do you have any other comments on the IASB's work plan?

43. We are concerned that the IASB's work plan includes a number of projects that the board has already considered and debated but failed to finalise: for example, performance reporting, financial instruments with characteristics of equity, and dynamic risk management. This is far from ideal. In our opinion, the IASB should be able to conclude on a project and incorporate its conclusions into a standard or revised standard, or conclude that no changes will be implemented and that diversity may continue as a result. However, it is not helpful for projects to be continually re-opened and re-examined without substantial progress.
44. Also, as indicated above, we have concerns with the projects on extractive activities and rate-regulated activities. While we agree that further investigation is required in both areas, we believe the focus should be on the needs of users and the extent to which, if at all, current IFRS reporting is deficient. If, on consideration, it is concluded that existing standards do not give a true and fair view, the IASB should explore how those standards may usefully be amended.
45. Other points we have identified regarding the proposed work plan include:
- It is not clear when projects are expected to move from one stage to the next or be completed. It would have been useful for the IASB to demonstrate how projects are expected to develop in blocks of time.
 - When the board concludes that no further action is required on a specific research project, we agree that items should become inactive, provided this does not mean that projects remain on the agenda indefinitely. In line with the procedure adopted for this consultation, all inactive projects should then be considered at the next agenda consultation to determine whether they should be removed completely.

Question 8:

Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?

46. We understand that the IASB is proposing to extend the interval between agenda consultations from three to five years, largely due to the fact that it generally takes longer than three years to complete a major research project and then any subsequent major standards-level project. As a result, many of the projects appearing on any given agenda consultation will appear again in three years.

- 47.** With this in mind, we agree that a five-year agenda consultation may be more appropriate, although we believe that the research activities should continue to be reviewed and consulted upon more frequently. However, regardless of the interval between agenda consultations, we would expect the board to review its work plan on a continual basis, taking into consideration any emerging or unexpected issues identified by stakeholders. It is therefore important for the IASB to ensure regular and effective outreach with its stakeholders in order to gather feedback and, when appropriate, reconsider its activities.