



18 November 2011

Our ref: ICAEW Rep 107/11

Mme Françoise Flores
Chair
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

By email: commentletter@efrag.org

Dear Mme Flores

Agenda Consultation 2011

ICAEW welcomes the opportunity to comment on the EFRAG's draft comment letter to the IASB on their Request for Views *Agenda Consultation 2011* published by the IASB in July 2011.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We set out below our responses to the questions posed in EFRAG's draft comment letter. We would however emphasise that we are still formulating our views on the IASB paper. For your reference we also attach as an appendix to this letter a copy of our draft response to the IASB.

Question 1: Do you agree with EFRAG's preliminary main messages? If not, what messages should be included in our final comment letter?

We agree that the central theme of the response should be the need for a period of calm following the rapid change of recent years and accept that this offers a good opportunity for the IASB to further progress work on the conceptual framework. We also agree that convergence with US GAAP has now run its course and that convergence efforts should no longer underpin the IASB's agenda.

However, there are also some areas in which our views do differ slightly from those of EFRAG. We appreciate the rationale behind EFRAG's identification of a 'need for an evidence based agenda setting process', but we feel that the focus here could be changed. For all of the 22 projects listed as contenders for the IASB's agenda, and possibly for others not included in this list, proponents of the particular project are likely to be able to point to evidence suggesting a need for action in that area. Therefore the existence of such evidence should not be taken as a sufficient criterion for adding a project to the agenda. The paramount consideration at the present time should be the achievement of a period of calm, not the development of a mechanism that could potentially extend the agenda.

We also feel that the focus of the second paragraph on enhancing the conceptual framework could be reversed. EFRAG suggests that standard development activity should be curtailed if the putative standard is in conflict with the conceptual framework; we do not concur. Although it is desirable for a robust conceptual framework to underpin standard setting activity, such a framework cannot exist in a vacuum. It should be developed as far as possible in the context of practical contemporary practice and to the extent that practice moves on, it should be responsive to these changes. Therefore while it may be desirable in some cases to reject proposed standards that are inconsistent with the framework, in practice these conflicts may sometimes indicate that it is the framework that should be re-examined.

Finally, we support EFRAG's call for the IASB to broaden its research work. However, we would go further. Research could be a useful way of exploring some of the various projects that constituents have put forward for inclusion on the agenda without making any commitment to further action. Where it was identified that a particular area should be taken further, the research conducted would provide a firm foundation from which the project could be developed.

Question 2: EFRAG has not expressed a specific preference for the projects to be undertaken other than the Conceptual Framework. Do you think EFRAG should suggest some additional projects?

(a) If so what projects?

(b) Should EFRAG recommend as agenda items its proactive projects on business combinations under common control, income tax and disclosure framework?

We agree with EFRAG's decision not to express support for any particular projects. We are supportive of the IASB undertaking further research work as noted above and EFRAG's pro-active work on common control and income tax could usefully feed into this. However, we would not support these being taken onto the agenda at this stage. We second EFRAG's support for further development of the disclosure framework.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

John Boulton ACA
Manager, Corporate Reporting

T +44 (0) 20 7920 8642
E john.boulton@icaew.com



30 November 2011

Our ref: ICAEW Rep XX/11

Your ref:

Mr Hans Hoogervorst
International Accounting Standards Board
30 Canon Street
London
EC4M 6XH

Dear

Agenda Consultation 2011

ICAEW is pleased to respond to your request for comments on the IASB's *Agenda Consultation 2011*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

[Insert your electronic signature here]



ICAEW REPRESENTATION

AGENDA CONSULTATION 2011

Memorandum of comment submitted in November 2011 by ICAEW, in response to the IASB's Agenda Consultation 2011 published in July 2011.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the International Accounting Standards Board's agenda consultation published on 26 July 2011, a copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work 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 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. 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.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

ICAEW and IFRS

5. We strongly support the steps the IASB has taken in recent years to strengthen its due process. The Board's commitment to consult regularly on its agenda priorities is a key part of these efforts and we therefore warmly welcome the release of the Request for Views. Both the increasing adoption of IFRS and the need for standard setters to respond to perceived accounting issues revealed at the height of the financial crisis have led to a period of sustained activity on the part of the Board. This period is now drawing to a close and we believe that the coming years offer the opportunity to pause, allow time for users to adapt to the requirements of the revised standards and to consolidate progress to date. We therefore appreciate that this is an opportune moment to reconsider the agenda priorities of the Board and we welcome the opportunity to comment at this important juncture.
6. ICAEW has been a strong supporter over many years of international financial reporting standards. Events in the global economy continue to demonstrate the importance to increasingly integrated global marketplaces of transparent financial information, comparable across international boundaries, and of consistent measurement and recognition techniques. At a time of significant uncertainty in the global economy, it is essential that the Board chart a clear and steady course through the potentially choppy waters ahead.
7. We note that the consultation is underpinned by an assumption that the current work-plan will soon be completed. We agree that it is strongly in the interests of constituents to draw the outstanding active projects to a close on a timely basis – while giving due consideration to ensuring that the resultant standards have due support and are of high quality. Users and preparers will need to deal with a raft of changes in the near future and after a lengthy period of international debate are now in urgent need of clarity as to exactly what those changes will be. There is not yet a final resolution on a number of key projects and recent progress has tended to extend rather than conclude these. We applaud the Board's decision to re-expose the crucial proposals on revenue recognition and leasing as this ensures that constituents

have ample opportunity to shape the final stages of the development of these new standards, thereby further demonstrating the Board's commitment to strengthening due process. But despite the desirability of appropriate consultation, it is also important to maintain momentum. The time is now approaching to bring these projects to an appropriate conclusion.

Convergence has run its course

8. Over the past few years the Board's agenda has been dominated by the process of convergence with United States GAAP. We recognise the extensive efforts made in attempting to achieve a single set of globally accepted accounting standards and support the goal of international comparability that this project represents. In principle we believe that when setting standards the Board should be mindful of the situation in other key jurisdictions, not least the US, as it is in the interests of constituents that inconsistencies be minimised. However, we do not believe that continuing with the formal programme of convergence between IFRS and US GAAP is justified. This process has benefited from the considerable patience of IFRS constituents as they have worked through the series of changes necessary to their own reporting to facilitate convergence. Once the currently outstanding major projects are completed, IFRS will in our opinion have achieved sufficient convergence with US GAAP for the US to be able to decide as to whether or not IFRS is adopted for their domestic issuers. Further amendments to IFRS to facilitate adoption, or efforts to extend convergence, unless they represent a significant improvement in the standards for all IFRS preparers and users, should in our opinion be resisted. This is all the more desirable given that recent convergence efforts have generally added rules and complexity to standards at the expense of clear principles.
9. We recognise that continued convergence pressures, beyond wholesale standard publication or revision, could emerge in calls for interpretation or improvement of IFRS, and we would therefore be similarly opposed to minor amendments being proposed for this purpose. We recognise, however, that further consideration is necessary of the interpretation process for converged standards. In particular, it is currently unclear what the implications of EITF interpretations will be for IFRS reporters, particularly those that are US foreign public issuers. It is possible that a separate de-facto GAAP could develop for these entities if they are required to follow differing EITF interpretations that do not affect other IFRS preparers. Further debate involving the IASB, FASB and SEC is desirable as to how to address these concerns.

The need for a period of calm

10. After the rapid pace of change experienced in accounting standards over the past few years, we believe that the biggest priority over the medium term should be to aim for a period of calm. It will be several years until the current suite of new or revised standards is fully implemented, and even after this point there will be much to do in assessing their operation in practice and in responding to issues emerging. Furthermore, constituents, particularly users, have for several years faced a significant period of change and uncertainty; a lack of stability has the potential to damage the credibility of international standards. Consequently we believe that the need for a period of calm should be a central guiding principle in the establishment of the future workplan.

An opportunity to complete the conceptual framework and to establish a clear framework for disclosure

11. Given this backdrop, an excellent opportunity presents itself to focus on completion of the conceptual framework. It is well accepted that the quality and legitimacy of standards is enhanced through their underpinning by a principles-led, conceptually-robust framework. This framework, however, is currently far from complete. Over the next three years or so the Board could profitably devote further effort to the completion of this task and by doing so establish firmer foundations for future standard setting. However, we would stress that such work should not proceed in isolation, that the concepts underpinning the framework should be rooted in practical empirical example and hence should lead to some concrete improvements in standards. We would anticipate that full use should be made of the experience gained over the

past few years of intense standard development, and perhaps also of the lessons revealed by forthcoming post implementation reviews, to inform and shape work on the framework.

12. Among the areas that would be covered by such a project, we feel strongly that definitive establishment of what we mean by performance, the purpose of net income and the rationale for distinguishing income statement items from those taken to OCI is long overdue. The lack of clear guidance in this area may have retarded a number of projects and so it is in the Board's best interests to tackle it. Such a project should include a consideration of thorny issue of recycling, with a view to determining once and for all whether and when it is appropriate. We believe the IASB needs to focus on this to deal with the criticism, articulated by many, that the Board is focussed too much on the statement of financial position and yet everyone else, preparers and users alike, are focussed (to a greater or lesser extent depending on industry) on income when judging performance. This does not in our view involve overturning the approach of defining the elements of financial reporting by reference to assets and liabilities, but it does mean that a proper articulation of flows of gains and losses as a key element of performance is necessary for IFRS-based financial reporting to remain of real practical use to investors (as well as preparers).
13. Allied to this, a project to establish an overarching disclosure framework could also usefully be added to the workplan, perhaps being worked in to the conceptual framework project to some extent. Concern has been raised in recent years about the volume of disclosure required by IFRS and particular disclosures have been deemed superfluous by some commentators. As standards develop over time, sometimes through consequential amendments, there is a tendency for additional disclosure requirements to be accreted. Reports by the UK Financial Reporting Council, including Cutting Clutter, the UK Financial Reporting Review Panel's 2010 Annual Report, and the report by the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants in Scotland, *Losing the Excess Baggage*, all highlight concerns without setting out a rationale that would be useful to standard setters in taking the research forward. A project to establish an overarching framework for disclosure would help to bring more coherence to disclosure and by doing so facilitate more meaningful presentation of information.
14. The Board could make a major contribution to eliminating unnecessary costs in preparing financial statements around the world by publishing a special framework for subsidiaries. The Australian Accounting Standards Board (AASB) and the UK Accounting Standards Board (ASB) have done some useful work in this area, however the full benefit of such a concept can only be obtained through the development of a single global methodology. Therefore alongside its work to develop an overarching disclosure framework the Board might consider whether a reduced framework of disclosure for subsidiaries could also be incorporated.

Strategic research

15. In addition to the conceptual and disclosure frameworks, we agree that the Board could also usefully use this period to oversee some strategic research into financial reporting issues. Indeed at this point an appropriately directed research programme could be a useful mechanism for releasing some of the pressure the Board is under to commence standard setting activity in certain areas. We strongly believe that now is the time for a period of calm and consequently that activities to develop new standards should be curtailed. However, we do recognise that there are concerns from different quarters about a variety of elements of current IFRS. By conducting research some of these concerns could be explored and better understood without any commitment being made to a particular course of action. If then at the next agenda review the project was adopted it would benefit from greater clarity about the issue in question and its possible resolution. National standard setters, as well as academic institutions and professional accountancy bodies, are well placed to assist in this strategic research and we feel that much could be achieved through closer working with these bodies. This should mean that strategic research need not involve building an extensive and expensive in-house research capacity at the IASB. Nevertheless, regardless of how they are structured

we do feel that any research efforts should be conducted firmly in the public eye with adequate opportunity to comment as conclusions are reached.

16. We favour practical research of this kind over more conceptual work. However, it could also be useful to consider what the financial reporting landscape is likely to look like in ten years' time and to then explore how the priorities thus suggested could be addressed. Some of these long-range strategic issues, such as 'integrated reporting', may be outside of the traditional remit of the IASB. and it is therefore important that proper consideration be given to whether and not just how they should be addressed.

Specialised activities could also be addressed

17. The consultation paper lists in Appendix C 23 new or deferred projects that could be considered for inclusion in the workplan. Nearly all of these projects should, in our opinion, continue to be deferred while the Board focuses on post implementation reviews and a period of calm. However, there are two specialised projects of limited applicability that we believe could usefully be pursued.
18. The first of these is extractive activities. Ever since the introduction of IFRS, the continuation of certain sector-specific accounting practices has been tolerated due to the deficiency of international standards in this specialised area. A project to address this deficiency has been on-going for some time (in spite of its characterisation in the consultation paper as a project suggestion), but due to other competing agenda priorities, has not progressed far. A simplified agenda for the next three years may provide an ideal opportunity to finally complete this project. In our response to the discussion paper (ICAEW REP 72-10) we did not agree that a discrete standard was necessary in this area, but we suggest that some guidance setting out how the established principles of IFRS should be applied in the sector would be useful. It is important however in developing such guidance to aim for consistency with requirements applicable in other key jurisdictions; if this is not possible for recognition and measurement, then it may be that adoption of the oil and gas reserve disclosures from US GAAP may be an interim solution.
19. The Board may also wish to consider whether it is desirable to re-open IAS 41 Agriculture, at least on a limited basis. There are concerns, particularly in the developing world, that the fair value requirements for biological assets may lead to inappropriate volatility where commodity prices, such as palm oil, may be subject to significant fluctuations. We think that there is a strong case for further work in this specialised area.

XBRL should not influence the development of accounting standards

20. As integration of XBRL into financial reporting processes becomes more sophisticated, it makes sense to establish a protocol for considering the incorporation of XBRL alongside development of the standard. However, XBRL is merely a tool for encoding the information required by an accounting standard to facilitate electronic communication and analysis, and important though this is, we would like to take this opportunity to reiterate that XBRL considerations should certainly not affect the way in which a particular standard develops. At the moment, XBRL appears to us to be about establishing a generic data set; financial reporting is about communication, not just data analysis.

21.

New IFRS jurisdictions

22. As IFRS are increasingly adopted by jurisdictions with differing traditions of reporting and regulation, the IASB may well face demands over the next few years for an increase in the number of interpretations of its standards. Companies in the early stage of IFRS implementation face many challenges, particularly in jurisdictions where the existing accounting framework relies heavily on a detailed body of rules, as well as, or instead of, principles-based standards. The forthcoming publication of several major new standards will

add to such challenges, and this may well lead to demands for a significantly increased level of interpretations of IFRS, not least as a solution to divergent practice.

23. Whilst the IFRS Foundation should provide advice and assistance to new IFRS jurisdictions, demands for interpretations should be resisted. Few of the issues involved are likely to merit the publication of formal interpretations, or other material of a similar status, whether by the IFRS Interpretations Committee, or by local regulators and other bodies. We believe that a single set of robust and well-understood standards is far more effective in promoting high quality financial reporting than a complex body of accounting literature. A proliferation of formal and de facto interpretation may result in complexity for all IFRS users, with a patchwork of diverse and inconsistent precedents. It would dilute the primarily principles-based nature of IFRS, and might well stymie the emergence over time of good practice and common understandings.

A longer-term perspective

24. The work of the Foundation in establishing a high quality international regime for financial reporting is coming to be seen, not only as the accepted global currency for listed companies, but as a gold standard for other types of entity seeking greater transparency. These developments are to be encouraged. Indeed, we think it is in the public interest for the Trustees and IASB to consider the desirability, and feasibility, of addressing accounting by not-for-profit entities as soon as resource constraints allow. We do accept however that may not be for some time yet.
25. Similarly, we agree that it would be impractical for the IASB to extend its activities to the public sector at present, and note that IPSASB has made an important contribution to the standard of public sector accounting around the world and to the promotion of global standards closely-aligned with IFRS.
26. Whatever decisions are taken in the longer-term over expanding the remit of the IASB, such efforts should not be allowed to undermine or distract the IASB from its focus on setting standards that facilitate the production of commercial financial information for capital providers. It is essential that the financial statements are focussed in this way and it would not be acceptable for standards to be drafted in such a way that they detracted from this aim in the interests of satisfying the information requirements of other types of entity.

RESPONSES TO SPECIFIC QUESTIONS

Question 1

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

27. We agree that post-implementation reviews should form an important element of the Board's future workplan. Beyond this however, we believe that the main strategic priority for the Board should be to establish a period of calm following the rapid changes of recent years. Additionally, there is clearly an opportunity here to complete work on the conceptual framework, but with some practical outcomes in mind, including to work on the establishment of a disclosure framework. As part of this work it would be worthwhile dedicating some time to resolving the definition of the income statement and the rationale for deciding which items properly belong in 'Other Comprehensive Income'. If it is felt necessary to conduct further work in some specific areas then this could be better approached through targeted research such that, at the point the next agenda is set, action could be planned from a firmer foundation – that is if action is still deemed necessary at all.

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?

28. We agree with the Board's division of potential issues into two categories and five strategic areas. Within these we believe that maintaining existing IFRSs should be afforded higher importance than developing financial reporting – we believe that developments should be deliberately limited over the next three years to provide a period of calm after the considerable changes of recent years. We agree that the conceptual / disclosure framework would be a useful area of focus for the Board. We also agree that there may be capacity (particularly if this is conducted through liaison with national standard setters and other bodies) over the next three years to conduct research into identified financial reporting issues, although we would stress that we would expect any future projects arising from this to be led by empirical need rather than conceptual considerations. Projects driven by conceptual aims rather than practical needs may be more open to criticism and perhaps less effective in meeting the needs of users. Consequently, in our opinion activity on standards-level projects should be curtailed dramatically following the conclusion of the current workplan.
29. We agree that post implementation reviews and responses to implementation needs should form a significant element in the future workplan, subject to our comments about interpretations above, and national standard setters could assist in the identification of potentially problematic areas here. However, as set out in paragraph 7 above, we believe that convergence has run its course and consequently we do not believe that it would be justifiable to conduct post-implementation work that was aimed at addressing convergence issues.

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.

30. See paragraphs 28 and 29 above.

Question 2:

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

31. As set out in paragraph 27 above, we believe that the main priority for the next three years should be the establishment of a period of calm. Beyond this, the IASB could usefully focus on working with national standard setters to perform post implementation reviews.

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?

32. We appreciate the inclusion of a comprehensive list of new and deferred projects in appendix C of the consultation paper. However, we do not feel that the current exercise is best approached by making choices from an exhaustive list of possible options. We would prefer to limit the number of projects scheduled for attention and to focus instead on establishing a period of calm following the rapid changes of recent years. The Board's attention could then more usefully be directed to post-implementation reviews and to completion of the conceptual and disclosure frameworks.
33. There are however two exceptions to this. As set out in paragraph 18 above we feel that projects on Extractive Activities and Agriculture could usefully be progressed. We do not support the development of specific IFRSs for certain industries, but these are areas where there is a recognised need for reform. Furthermore, action here need not affect mainstream IFRS constituents.
34. We would nevertheless add that there are some projects listed in Appendix C which the IASB should not undertake either now or in the future as they do not fit within its remit of developing high-quality standards to help users make economic decisions, or because the basis for a

standard to be developed has not been established. Those subjects we believe do not fall within the remit of the IASB include Islamic finance, country-by-country reporting and (arguably) even earnings per share. On this latter subject, it remains an anomaly that the IASB has a standard over one measure of performance and no other although this is understandable given the importance of consistency in this area. It is also not clear why a standard is necessary for rate-regulated activities when existing standards could probably be applied but the resulting accounting is not universally liked. There are a number of areas where the established principles of IFRS are adequate to deal with measurement yet where calls are made for a separate specific regime. In many of these cases, if additional material is needed at all (and judgment may often be sufficient) it should be in the form of non-mandatory guidance. We are also opposed in principle to the extension of IFRS into areas that have traditionally been addressed through regulation.

35. Finally, we would reiterate that any decisions about new projects should be made only after rigorous effects analysis, which should be embedded as an essential and continuous part of standard setting. A timely determination of possible positive and negative effects associated with the development of a new standard could allow limited resources to be targeted more efficiently and reduce subsequent calls for revision.

Question 2(b)

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's 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 IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

36. As set out in paragraph 27, we believe the main focus should be on a period of calm. However, we do feel that, as set out in paragraph 18 above limited scope projects on extractive activities and agriculture could usefully be attempted.

E john.boulton@icaew.com

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