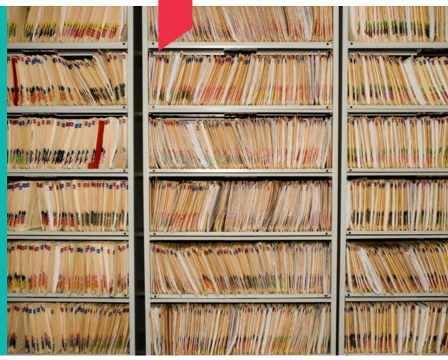
IASB FEEDBACK STATEMENT ON THE 2011 AGENDA CONSULTATION
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2013/03



STATUS
Final

EFFECTIVE DATE
n/a

ACCOUNTING IMPACT
Feedback from the IASB on its future project priorities and changes to the way in which standards will be developed.

Background

On 18 December 2012 the International Accounting Standards Board (IASB) published *Feedback Statement: Agenda Consultation 2011* (the feedback statement) which marks the conclusion of the IASB's public consultation in respect of the IASB's future agenda and priorities. The feedback statement summarises comments received in response to the IASB's *Request for views: Agenda Consultation 2011* (request for views) which was published in July 2011. In total, the IASB received over 240 comment letters.

In his foreword to the feedback statement, IASB chairman Hans Hoogervorst has outlined five clear themes that were communicated from respondents:

1) A 'period of clam' is now required in the wake of seemingly continuous change and accounting standards over the past decade
2) Priority needs to be directed back towards the conceptual framework project
3) The IASB needs to address improvements to targeted areas highlighted by respondents
4) The IASB needs to pay greater attention to the implementation, maintenance, and post-implementation review processes
5) The IASB needs to improve the way in which standards are developed, including front-loaded research and more rigorous cost benefit analysis.

This IFR Bulletin summarises areas of the feedback statement that are of particular interest to users and preparers of financial statements, with regards to the IASB's:

1) Future internal technical work program
2) Other ancillary activities and arrangements.

IASBs future technical work program

The feedback statement notes that, going forward, the IASB sees its technical work programme as being focused on three key areas:

1) Implementation and maintenance (including post-implementation reviews)
2) The conceptual framework project
3) A small number of major IFRS projects.

Implementation and maintenance

Rather than creating new requirements, respondents to the feedback statement suggested that the IASB should place greater emphasis on maintaining the portfolio of existing IFRS requirements (via interpretations, narrow-scope improvements, annual improvements, and education). Many respondents were also of the view that the IASB and the IFRS Interpretations Committee needed to be more active in addressing matters related to the practical application of IFRS, now that the IASB and Financial Accounting Standards Board (FASB) joint convergence projects are coming to an end. This message was similar to that received as a result of a review of the IFRS Interpretations Committee (the Interpretations Committee) that was undertaken by the IASB and the IFRS Foundation's Due Process Oversight Committee (DPOC) in early 2011.

Since that review, changes to the Interpretations Committee have included:

- Development of a revised agenda criteria to allow a wider range of requests to be dealt with
- A wider range of methods to address implementation matters, such as developing proposals for the IASB for targeted narrow scope amendments
- Improvements to communications on issues that the Interpretations Committee decides not to address
- Expanded outreach, and transparency surrounding its decisions, on issues that the Interpretation Committee decides to address.

Post-implementation Reviews

The Post-implementation Reviews process (PIR) was introduced in 2007 by the Trustees of the IFRS Foundation. The PIR is conducted in two phases:

- ***Phase 1***: Setting of the scope of the review and establishing questions to be asked in the *Request for Information* outreach document
- ***Phase 2***: Collecting information from the *Request for Information* outreach document, after which a report is published setting out the findings and identifying any actions to be taken. The report is also considered by the DPOC.

Currently, the IASB is working on its first PIR, IFRS 8 *Operating Segments*, which commenced in early 2012. The next planned PIR is for IFRS 3 *Business Combinations*.

Conceptual Framework

The Conceptual Framework project was previously one of the IASB and FASB convergence projects. However, this project was suspended in 2010 to allow the IASB and FASB to focus on high priority standards-level projects.

In May 2012, the IASB decided to restart the Conceptual Framework project on its own, focusing on five topics:

1. ***Reporting Entity***: To clarify the nature of the entity about which the financial information is being prepared, including consideration of the definitions of a reporting entity, and control of another entity
2. ***Presentation***: This includes the role of other comprehensive income (OCI) and recycling
3. ***Disclosure***: To develop disclosure principles to assist the development of disclosure requirements in IFRS
4. ***Elements***: refine and clarify the current definitions of an asset and a liability, together with the liability/equity boundary and non-financial liabilities
5. ***Measurement***: To develop clear guidance, based on the objectives and qualitative characteristics of financial reporting, for the approach to initial and subsequent measurement.

The objectives and qualitative characteristics chapters of the framework will not be extensively reviewed.

While the IASB intends to undertake the project on its own, it has indicated that it will involve other standard setters that have had experience with implementing and/or revising their own conceptual frameworks.

The project will not be carried out in isolation from other IASB projects, and the IASB has already indicated that it will use some of the practical problems that have arisen in leases, emissions trading schemes, rate-regulated activities and non-financial liabilities to test the concepts being developed in the framework. Feedback received from constituents in response to earlier consultations on proposals for the conceptual framework will also be revisited.

Conflicts between existing IFRSs and the new sections of the framework will be identified on a proactive basis throughout the project, with any changes to IFRSs being considered alongside other financial reporting issues as part of the IASB's normal technical programme.

The IASB has indicated that it has a target to finalise the new sections of the conceptual framework by September 2015, with a discussion paper to be published in June 2013. A paper presented to the IASB at its December meeting proposed that, in the event that additional issues were identified during the project, that additional resources would be added to the project team to ensure that the 2015 deadline is met.

Major IFRS projects

The IASB is planning to change the process under which major IFRS projects are carried out. The main change is to add a specific research phase prior to the issue of a discussion paper for public comment. This phase will include an assessment of whether a project should be undertaken at all (whether this is an amendment to an existing standard, or the development of a new one).

Under this approach, the IASB will develop research papers, or discussion papers, as the first step in determining whether there is a potential problem that merits the IASB developing a standards-level solution. Only then will a decision be taken about whether the project should be added to the IASB's agenda.

Current standards-level projects

The feedback document indicates that the IASB plans to give high priority to finalising the existing Memorandum of Understanding, and joint, projects that it has been working on with the FASB. These are the projects for:

- Financial instruments
- Revenue
- Leases
- Insurance contracts.

Research projects

The feedback statement identifies a number of priority research projects, including:

Emissions trading schemes (ETS)

This will focus on the economic characteristics of ETS, and an initial analysis of potential financial reporting solutions, including how to account for allowances awarded by a scheme administrator and for liabilities associated with the related emission of greenhouse gases.

Business combinations under common control

This will focus on group restructurings and reorganisations that are outside of the scope of IFRS 3 *Business Combinations* due to the combining entities being under common control. A related topic is 'push down' accounting where consolidated values for assets and liabilities in a newly acquired subsidiary are 'pushed down' to that subsidiary.

The project will identify common features of different types of restructurings as an initial step towards determining when book value or fair value should be used.

Discount rates

Many IFRSs specify discount rates to be used to estimate the present value of future cash flows, with different standards requiring different rates.

The project will look at the various discount rates required by IFRSs, and whether variations result in any inconsistencies that need to be addressed.

Equity method of accounting

The project will involve a fundamental assessment of the equity method both in terms of its usefulness to investors, and difficulties for preparers in respect of complexities and inconsistencies created by interactions with other IFRS requirements (eg, goodwill impairment, share based payments, and joint arrangements).

Extractive activities – Intangible assets – Research & development activities

The project will assess the feasibility of developing one set of financial reporting requirements for investigative, exploratory and developmental activities across a wide range of activities.

Financial instruments with the characteristics of equity

The project will focus on identifying financial instruments that are difficult to classify under the current requirements, or for which classification is commonly questioned by preparers. It will be carried out in conjunction with the Conceptual Framework project, with those instruments for which classification is questioned providing test cases for the staff developing the elements chapter.

Foreign currency translation

The project will examine work carried out by the Korea Accounting Standards Board on volatility of reported income on long-term construction contracts that are associated with movements in foreign currency exchange rates, and assess whether any amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* would be appropriate.

Non-financial liabilities (amendments to IAS 37)

The IASB has previously proposed changes to the requirements of IAS 37 (in 2005, and subsequently in 2010).

The research project will focus on identifying examples of non-financial liabilities that are continuing to cause difficulty in practice. These will provide test cases for the staff developing the elements chapter of the *Conceptual Framework*.

Research will also be carried out for financial reporting in high inflationary economies.

Longer term research projects

Discussion papers or research documents are not anticipated to be issued in the next three years for a further three topics, due to their nature and complexity. However in its feedback statement the IASB has encouraged other standard setters to investigate these topics on its behalf:

– Income taxes
– Post-employment benefits (Phase 2)
– Share-based payments.

New standards-level projects

In response to the comments received from the request for views, the following three topics have been identified as being the first new projects that the IASB will consider:

Agriculture

IAS 41 *Agriculture* requires entities with agricultural activity to report the biological transformation of agricultural assets at fair value less costs to sell.

Some preparers have expressed concerns about the practical difficulties of applying IAS 41 to biological assets that bear crops (e.g. fruit trees and vines), specifically in measuring the bearer assets (e.g. the tree) separately from the crops (e.g. the fruit). Unlike their crops, the bearer assets are not sold, and instead their productive capacity is consumed in generating the crops.

There was broad support from respondents to the request for views for reviewing this aspect of IAS 41.

Rate-regulated activities

Many countries have regulations designed to provide price and stability of essential services (e.g. energy). This can include defining and regulating returns, and/or subsidising the construction of assets.

While some national GAAPs provide specific guidance, there is no equivalent guidance in IFRS. The IASB has decided to restart the project (after it was suspended in 2010) in two phases. The first phase will consider whether an interim IFRS should be developed for jurisdictions moving to IFRS, with the second phase being a comprehensive project.

Separate financial statements: use of the equity method

In 2005 the option to use the equity method to measure investments in subsidiaries, joint ventures and associates in an entity's separate financial statements was removed. However some jurisdictions still legally require listed entities to account for their investments in these investees in this manner in their separate financial statements, meaning that two sets of separate financial statements need to be prepared.

The IASB will reconsider reintroducing this option in respect of separate financial statements, as it is understood that this would probably reduce compliance costs without resulting in a loss of information.

Suspended projects

The IASB has requested that IASB staff review several projects for which work has previously been suspended, and report on them with recommended courses of action. These include projects relating to:

– Earnings per Share
– Government Grants
– Discontinued Operations.

A potential project relating to country-by-country reporting requirements received very little support from respondents. Consequently the IASB does not plan to undertake any specific work on this topic.

Other activities

Islamic (Shariah-compliant) transactions and instruments

It is noted that the IASB could benefit from learning more about these transactions and instruments, with it being acknowledged that neither the IASB or its staff have expertise in this area. A consultative group is being set up to look at the relationship between the transactions and instruments, and IFRS, and to assist in educating the IASB.

Work already undertaken by some national standard-setters suggests that IFRS provides relevant information about Shariah-compliant transactions and that there is little, if anything, the IASB would need to do to bring this sector of the economy within IFRS. However, the feedback statement notes that the IASB needs more information before it is able to assess whether it agrees.

Disclosure Forum

Feedback in the request for views from preparers was that, in order to avoid additional time and cost involved in justifying why a particular disclosure has been omitted (whether to their auditors or to regulators), they typically adopt a 'checklist approach' under which they disclose all items included in the checklist rather than applying judgement and disclosing only material items.

This has been a factor in the steady increase in the volume of disclosures in financial statements.

In 2013 the IASB will host a forum bringing together securities regulators, auditors, investors and preparers, to assess strategies for improving the quality of financial reporting disclosures.

Collaboration with national accounting standard-setting and regional bodies

As the IASB and FASB joint projects come towards their completion, the IASB has highlighted its desire to increase its efforts in developing a network of national and regional bodies that are involved with accounting standard setting. Such bodies would become an integral part of the global standard-setting process, and would contribute in a variety of ways, such as:

- Undertaking research in collaboration with the IASB
- Providing input on the IASB's priorities
- Encouraging stakeholder input from their own jurisdiction into the IASB's due process
- Identifying emerging issues
- Assisting with the identification and disclosure of deviations of national standards from IFRS.

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