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Request for Views: 2015 Agenda Consultation

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Request for Views: 2015 Agenda Consultation (the RFV).

Our detailed responses to the questions posed in the Request for Views are set out in the Appendix.

If you have any questions on our response, or wish us to amplify our comments, please contact our Global Head of IFRS, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

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Responses to Request for Views 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?

In terms of overall prioritisation among the five areas highlighted in the RFV, we believe it is particularly important to complete the work on the Conceptual Framework and Disclosure Initiative projects. This is due to the cross-cutting nature of these projects and their importance in guiding other future standard-setting activities.

Upon completion of the Conceptual Framework, and the Principles of Disclosure component of the Disclosure Initiative, we urge the Board to undertake an assessment of existing Standards. The assessment should aim to identify principles and disclosure requirements that are inconsistent with the new Framework and disclosure model. We would then expect future standard-setting activity to work towards eliminating or reducing these inconsistencies, although the priority given to individual projects would of course need to be balanced with other activities.

More generally, we agree that the factors provided by the Board in paragraph 55 of the RFV are appropriate to consider when prioritising individual projects and allocating resources to them. These factors will indirectly impact the balance among the three remaining areas identified in the RFV. In addition to these factors, however, we believe there are a number of other considerations that warrant attention, including:

a. *The 'return on investment' of the Board's resources (overall cost-benefit)* – Consideration of the relationship between the extent of improvement that a project is expected to deliver and the resources required to complete it is perhaps already implicit in the factors listed in B55. However, we suggest that the Board considers ways to makes this 'return on investment' assessment more robust and explicit. Doing so would involve drawing on past experience to make better estimates of the resources that a particular project is expected to consume. Ideally, quantitative (as well as qualitative) indicators of the improvements expected would also be considered. This might include estimation of the number of entities that are materially affected by an identified problem in existing standards, and a consideration of the impact of that problem.

b. *Constituents' need for a 'period of calm'* – given that preparers will need to implement new standards on revenue, financial instruments and leasing in 2018 and 2019, we suggest that a 'period of calm' is needed. In this period no major, broad-based new standards should come into effect unless exceptional circumstances arise. A period of two or three years after the effective date of the new leasing standard seems appropriate.

Finally, we are somewhat surprised to see that the Board expects "no overall change" in the level of effort devoted to Standards-level projects in the period covered by the agenda consultation (RFV.30). With several major projects either recently completed or expected to be completed in the near future, we would have expected the effort in this area to decline as resources are redirected towards an expansion of the Research Programme.

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?**

As noted in our response to Question 1, we would expect additional research or standard-setting projects to follow from completion of the Conceptual Framework, and the Principles of Disclosure component of the Disclosure Initiative. We also support the *addition of a project to consider the practice issues relating to the application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*. Beyond this, we do not propose adding any further projects to the research programme at this time.

We support removing the (currently inactive) projects on foreign currency translation and high inflation from the research programme. We find both of these issues to be of relatively limited interest or applicability within our network of member firms, and see no compelling evidence suggesting that a more comprehensive review of IAS 21 *The Effects of Changes in Foreign Exchange Rates* is needed at this time.

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.

We have considered each of the projects identified by the Board in Appendix A to the RFV and provided our views below regarding each project's importance and urgency. Consistent with our remarks above, we have tended to prioritise projects where the perceived benefits are higher in relation to related costs, after due consideration of the number and size of constituents with the potential to be impacted, and the anticipated significance of those impacts.

Assessment-stage Projects

Project	Importance	Urgency
a. *Definition of a business* – Entities applying IFRS 3 *Business Combinations* today regularly face a number of uncertainties in determining whether a transaction represents a business combination or an asset acquisition. We also note that practice in applying the existing definition has developed somewhat differently in accordance with US GAAP, despite the fact that the US standard is substantially converged with IFRS 3. In general, we believe that consistency of application would be best served at this time by providing entities with additional clarification and illustrative examples in this complex area, for which we perceive a high demand. Finally, we think it is important that the Board follows-up issues identified to be of concern in the Post-Implementation Review (PIR) process in order to demonstrate that the process is substantive and effective.	Medium	Medium
b. *Discount rates* – We believe that the identification of discount rates used in different Standards and obtaining an understanding of the reasons underlying those differences are worthwhile endeavours. Having said that, we are unaware of any significant reason why urgency is required. We believe this is something that can be pursued in the longer term.	Medium	Low
c. *Goodwill and impairment* – We agree that the three specific issues identified in the PIR of IFRS 3 and summarised in the RFV are important and should be addressed with some urgency.	High	High

d. *Income taxes* – We understand that the IASB staff are currently assessing whether to embark on a fundamental review of IAS 12, make targeted improvement to the existing requirements, or take no further action. We acknowledge both the importance of this topic and the fact that questions concerning the application of IAS 12 arise frequently in practice. However, we are aware of a significant number of small- to medium-sized enterprises for whom such questions represent a largely academic exercise, while larger entities are frequently better equipped from a resource standpoint to deal with the challenges currently faced. For this reason we believe this project should be assigned a relatively low priority.	Low	Low
e. *Pollutant pricing mechanisms* – We agree that the application of existing IFRSs to emissions trading schemes and other pollutant pricing mechanisms has led to significant diversity in practice. Given these schemes are continuing to increase in importance, and recognising the potential for uneven treatment on the revaluation of related assets and liabilities, we believe that additional guidance is needed in order to ensure greater consistency of application.	Medium	Low
f. *Post-employment benefits* – The application of IAS 19 *Employee Benefits* to hybrid schemes with characteristics of both defined contribution and defined benefit plans is challenging. The IFRS Interpretations Committee (IC) has identified a need for new guidance in this area but has ultimately concluded that the issue is too broad for its own agenda. It therefore seems important to ascertain whether such hybrid schemes can be successfully accommodated with the existing IAS 19 models or new guidance is needed (and should be developed). That said, we remain uncertain over how pervasive the schemes in question are around the world. For this reason we have assigned it a medium priority.	Medium	Medium
g. *Primary financial statements* – The continued widespread use of alternative performance measures within financial statements strongly suggests that many entities are experiencing challenges in communicating their financial performance to users solely on the basis of the existing performance reporting model. In addition, the challenges faced by the Board in determining a conceptual basis for reporting some elements of performance in other comprehensive income (in the context of revising the Conceptual Framework) suggests to us a need for new thinking in performance reporting. We believe this issue is both important and urgent.	High	High

h. *Provisions, contingent liabilities and contingent assets* – Assuming the completion of planned revisions to the *Conceptual Framework* does not entirely resolve the concerns identified in the RFV, we agree that the recognition and measurement of liabilities under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* warrants further attention, particularly in how the requirements have been applied in IFRIC 21 *Levies*. We also encourage the Board to consider whether, in the longer term, this project should be expanded to include a broader assessment of how liabilities are recognised and measured across all Standards.	Medium	Medium
i. *Share-based payment* – We agree with the Board's observation that constituents often struggle to apply certain aspects of IFRS 2 *Share-based Payment* and we support this project to identify the main areas of complexity and their causes.	Medium	Medium

Development-stage Projects

Project	Importance	Urgency
a. *Business combinations under common control* – As these transactions are scoped out of IFRS 3 there is an absence of available guidance and this has led to some diversity in practice. While relatively commonplace in certain situations (eg. initial public offerings), overall this is still a fairly narrow scope issue and we have therefore assigned a medium importance and urgency.	Medium	Medium
b. *Disclosure initiative – Principles of Disclosure* – We support the development of a set of underlying principles for IASB use in drafting disclosure requirements for new or amended Standards. We believe the most significant value to be contributed by this project will come from the subsequent application of those principles to existing disclosure requirements within individual Standards to identify where improvements are needed. In saying this, we acknowledge that the 'disclosure problem' is multi-faceted and partly caused by behavioural factors. Successful change will require the full cooperation of preparers, regulators and auditors. Nonetheless, responsibility for setting the underlying disclosure objectives and requirements rests with the Board. We believe that a continuation of the Board's vigorous response to the concerns raised should act as both an enabler and a catalyst for broader cultural and behavioural changes.	High	High

c. *Dynamic risk management* – This is a narrow-scope issue primarily impacting larger institutions which has limited applicability within our member firm network at this time.	Low	Low
d. *Equity method* –The number of submissions made to the IFRS Interpretations Committee concerning the application of the equity method confirms the existence of significant complexity that many preparers are encountering. Together with this fact, the recently expanded use of the equity method in separate financial statements supports an assessment of high importance and urgency.	High	High
e. *Financial instruments with characteristics of equity* – While existing requirements are generally operational, the classification of financial instruments as liabilities or equity is a complex area that challenges many constituents and warrants a review to determine whether existing requirements can be improved. We also note the IC was to reach consensus on the measurement of mandatorily convertible instruments such as 'bail-in debt' or on non-viability contingent capital (an important issue on which alternative interpretations can have a highly material impact on reported outcomes).	High	Medium

Inactive Projects

Project	Importance	Urgency
a. *Extractive Activities/Intangible Assets/R&D* – Effecting improvements to (or replacement of) IFRS 6 *Exploration for and Evaluation of Mineral Resources* is an appropriate medium-term goal. This is needed to (a) reduce diversity in accounting for the recognition, measurement, amortisation, and impairment of exploration and evaluation assets, and (b) align the guidance with the principles of the Conceptual Framework and the accounting for other tangible and intangible assets. Having acknowledged this, we note that the existing diversity appears to be well understood by most constituents. In the longer term, we believe that the IASB should reassess the pros and cons of industry-specific Standards such as IFRS 6. In principle, it seems preferable to develop Standards with principles that are appropriate to a broad range of industries. That said, we also acknowledge that certain types of transactions, or features of transactions, might be so specific to particular industries that specialised guidance is merited. If so, the Board could also consider whether this might in some cases be provided by way of application guidance and/or illustrative examples accompanying the applicable Standards.	Medium	Low

Question 4

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

As noted in our response to Question 1, we believe it is important to complete the Conceptual Framework project as soon as due process allows. Other major priorities should include completion of the Leasing and Insurance projects.

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)?

We comment in detail on implementation support to meet stakeholders' needs in our recent response to the IFRS Foundation Trustees' Request for Views – *Trustees' Review of Structure and Effectiveness: Issues for the Review*. In general, we believe that the IASB and Interpretations Committee are providing the right mix of implementation support, although we think that some additional analysis is needed on the issue of consistent application and what the organisation is aiming to achieve in this area.

We also have some concerns about the number of subsequent amendments and clarifications that are currently being issued. We encourage the Board to consider whether modest additional investments in pre-issuance quality control (eg fatal flaw reviews and field testing) might reduce the burden placed on preparers who must implement these changes.

In addition to addressing application issues at the Standard level and interpretation level, we believe there is a continuing role to be played by Transition Resource Groups (TRGs) in responding to stakeholders' needs. As noted in our recent comments on the IFRS Foundation Trustees' Request for Views, we think that the experience of the two TRGs to date has been positive overall. The deliberations of both TRGs have served a valuable educational purpose. The revenue TRG has identified issues that have led to some proposed clarifications to the standard.

We also fully understand that TRGs may not be appropriate for all new standards and that they should have a limited life. When a major new standard is issued (or possibly even before), we believe it is essential that some process is put in place to help identify and address any major implementation issues. At the same time it is also necessary to manage the risk of repeated changes and the resulting uncertainty for constituents. As ever, a balance needs to be struck.

In our response to the IFRS Foundation Trustees' Request for Views, we have encouraged the Trustees to consider amending the Constitution to formalise the remit of TRGs.

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?

We recognise that finding the right pace of change involves balancing competing factors. The Board aims to deliver ongoing improvement in financial reporting around the world, including addressing constituents' needs for timely resolution of implementation issues, while also ensuring that any Standards (and subsequent amendments to those Standards) are of high quality and that constituents are not over-burdened with change.

With this in mind we believe that the pace of change is generally appropriate and does, in general, reflect consideration of the urgency of each matter.

Question 7

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

The length of time required to finalise IFRS 9 *Financial Instruments* has caused us to reflect on whether certain steps in the Standard development process could be executed more efficiently. We observe that the leasing and revenue projects also took a substantial period of time to complete. In saying this, we do of course understand that developing major new standards takes a considerable period of time and that the Board should not compromise either on due process or on quality.

We think that the more recent focus on evidence-based standard-setting, underpinned by more extensive research before taking on a standards-level project, offers potential to improve the efficiency of the standards-level phase. We therefore encourage the Board to consider whether relatively modest additional up-front investments might, in future, shorten the time to completion by avoiding the need to re-expose the draft documents. In addition, it is important to reflect on what went well and what did not as each project completes and incorporate any lessons learned into the process going forward.

In the case of IFRS 9, with hindsight it was perhaps inadvisable to sub-divide the project into multiple phases.

With regards to the leasing project, we note that the discussion paper did not touch on lessor accounting, whereas the first Exposure Draft did and that this disconnect may have ultimately contributed to some inefficiency in the development process. With these examples in mind, we encourage the IASB to review to look at how these processes can be made to run more effectively in the future.

We encourage the Board to continue to draft principles-based Standards and to resist the temptation to draft increasingly detailed rules in response to requests for consistent application. The focus should remain on drafting high quality principles that will allow for a high degree of consistency to be achieved through the exercise of professional judgement by constituents.

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?

In addition to the reasons given in the RFV, we note that the Agenda Consultation process is not the only tool at the Board's disposal for initiating a change in direction when collective priorities shift. The Advisory Council, for example, also provides some agility. With this in mind, we support an increase in the interval between agenda consultations from three years to five years.