



Project:	IASB 2015 Agenda Consultation	Meeting	AASB December 2015 (M149)
Topic:	Consider draft comment letter	Agenda Item:	9.1
Contact(s):	Evelyn Ling eling@asb.gov.au (03) 9617 7631	Project Priority:	High
		Decision-Making:	High
		Project Status:	Form Board views

Introduction and objective of this paper

- 1 The objective of this paper is to:
 - (a) seek Board member views on the draft AASB submission to the IASB Request for Views: 2015 Agenda Consultation. The draft submission is included as **Appendix A** to this staff paper.
 - (b) agree on the process for finalising the AASB submission.

Link to ITC 33

- 2 The IASB Request for Views was issued by the AASB as Invitation to Comment ITC 33 *Request for Comment on IASB’s Request for Views on 2015 Agenda Consultation*. ITC 33 is available on the AASB’s website at the following link: http://www.aasb.gov.au/admin/file/content105/c9/ITC33_08-15.pdf

Draft AASB submission

AASB outreach

- 3 Comments were due on ITC 33 by **9 November 2015**. At the time of writing, one comment letter has been received from Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). The comment letter is included as **Agenda Paper 9.2 Comment letter on ITC 33**.
- 4 The staff analysis of the comment letter received is included as part of the draft submission in **Appendix A** to this agenda paper. Staff will provide a verbal update to the Board of further submissions received before the Board meeting, and will table the submissions, if any.
- 5 In addition, the IASB 2015 Agenda Consultation was noted at presentations made at CPA Congress sessions in Melbourne, Brisbane and Sydney in October 2015, and at the various Reporting Service Performance Information education sessions held in November 2015. Staff did not receive any immediate feedback from participants on the agenda consultation at these events.

About the draft submission (Appendix A)

- 6 The staff recommendations are reflected in the draft AASB submission attached as Appendix A. The draft submission has been prepared to facilitate the Board's discussion on the form and content of the AASB response to the IASB 2015 Agenda Consultation.

Question 1 to the Board

Do Board members agree with the draft submission? If not, what aspects of the submission would Board members like to be amended or further developed?

Finalising the AASB submission to the IASB

- 7 Staff will update the draft submission to reflect Board member comments following the Board meeting. As there is no further Board meeting before close of the comment period, staff recommend that the AASB comment letter be finalised out-of-session with the Chair.

Question 2 to the Board

Do Board members agree with the staff recommendation for the AASB submission to be finalised out- of-session by the Chair?



Australian Government
**Australian Accounting
Standards Board**

AASB Meeting 2-3 December 2015 (M149)
Agenda Paper 9.1 (Appendix A)

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APPENDIX A: DRAFT COMMENT LETTER

This document is a work in progress and has been prepared by AASB staff to facilitate the deliberations of the AASB on the IASB 2015 Agenda Consultation for the purpose of forming tentative Board views.

[X] November 2015

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans

Request for Views: 2015 Agenda Consultation

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the 2015 Agenda Consultation. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

Note to Board members:

Staff have not yet drafted a cover letter, but intend that it comment on the following:

- the need to balance between quick-wins research projects and longer-term accounting principles research projects;
- urge the IASB not sacrifice longer-term returns for short-term achievements by scoping projects narrowly. The AASB considers that the IASB needs to critically evaluate whether short-term projects addressing narrow scope implementation issues are the best use of its resources, or whether longer-term fundamental reviews of standards are required. This is ultimately a question of balance, but the AASB would generally support resources being committed to efforts with longer-term gain rather than piecemeal changes; and
- the selection of projects and the development of proposals should demonstrate IASB leadership and relevance to standard-setting.

The AASB's responses to the specific matters for comment are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact me, Angus Thomson (athomson@asb.gov.au), or Evelyn Ling (evelynl@asb.gov.au).

Yours sincerely,

Kris Peach
Chair and CEO

APPENDIX: AASB Comments on 2015 Agenda Consultation

Note for Board members:

As agreed by Board members at the 21-22 October 2015 meeting, the Board's submission to the IASB Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* is being finalised by staff out-of-session with the Chair.

Q1. 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?

Note for Board members:

The HoTARAC submission (Agenda Paper 9.2) prioritises the Conceptual Framework and Disclosure Initiative projects, followed by the Standards-level programme. The submission considers this to be a logical sequence to enable more effective use of resources.

Staff agree that it would be appropriate for IASB resources to be committed to completing existing major projects. However, staff think it is more important for the AASB submission to highlight the research programme. Staff consider that progressing the research programme is necessary for the IASB to stay relevant and a thought leader.

The AASB appreciates the efforts of the IASB to date in balancing resources between its standards-level and research programmes, and notes that, depending on the outcomes of the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*, the IASB may also need to consider striking an appropriate balance with a wider set of reporting projects. The AASB considers that factors the IASB should consider in striking this balance include whether a project:

- (a) is responding to a broad user group need;
- (b) demonstrates leadership in developing accounting thought; and
- (c) is expected to result in the development of principles-based accounting requirements.

The AASB supports the proposal to commit more resources to progressing the research programme.

The AASB suggests that a balance between new IFRS development, corporate reporting, and IFRS maintenance be struck by confining new developments to more fundamental research that will lay the groundwork for new and revised IFRS, and to researching strategic issues. For example, the AASB is strongly of the view that resources could – and should – continue to be allocated to progressing the Conceptual Framework beyond the current project, as it considers there remain opportunities and scope to develop accounting principles in this regard (particularly on measurement and defining profit).

The AASB considers that in the agenda consultation period the standards-level projects will generally be an output of the research programme (including Disclosure Initiative), or maintenance and implementation projects (including PIR). With regard to maintenance and implementation projects, the AASB suggests the IASB consider extending the role of the Annual Improvements project beyond minor clarifying amendments, to also incorporate certain narrow-scope improvements to IFRS that are not necessarily time-critical (see also the AASB's response to Question 6 in its comment letter responding to the Request for Comment on *Trustees' Review of Structure and Effectiveness: Issues for the Review*).

Q2. 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 projects(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?**

Note for Board members:

The HoTARAC submission recommends projects on:

- (a) government grant accounting by recipients. Staff agree and have incorporated this project in the draft response below;
- (b) government grant accounting by grantors. As the IASB does not presently make IFRS for application by public sector entities, staff think this project should not be included in the AASB comment letter. However, staff think this is a project that could possibly be included on the Board's future domestic agenda;

The HoTARAC submission also recommends that projects that potentially overlap could be combined, to make more effective use of resources. Staff agree broad projects are preferable, as staff think this allows for better development of principle-based accounting – this is reflected in the draft response below. However, staff do not think that existing projects need to be further combined at this time.

The AASB considers that a review of research priorities is timely. The AASB considers that the research programme should include a mix of both shorter-term (for example, shorter than 3 years) and longer-term projects (longer than 3 years), reflecting both the need to develop responses to strategic and timely issues that affect a broad audience, and core accounting principles that will inform future financial reporting. The AASB considers, in weighing-up projects to be included/retained on the research programme, and to stay relevant, the IASB needs to develop accounting thought in areas that appear to be gaps in external reporting and require leadership, when it is clear there are user needs that are not being met.

Removal of existing projects from the research programme / given a lower priority

The AASB supports removing the existing projects on foreign currency translation and high inflation from the IASB's research programme.

The AASB also supports removing the existing project on the equity method, if the project is not re-scoped. The AASB is of the view that it would be more useful for the IASB to undertake a fundamental review of the equity method of accounting, including exploring whether there is a role for equity accounting and whether alternative approaches such as proportionate consolidation have a place in IFRS, rather than the proposed immediate narrower scope project.

In addition, the AASB supports deferring work on existing projects on post-employment benefits, share-based payments and dynamic risk management. With respect to:

- (a) post-employment benefits and share-based payments, the AASB is of the view that resources may be better committed to a comprehensive post-implementation review of IAS 19 and IFRS 2; and
- (b) dynamic risk management, the AASB is of the view that it may be useful to wait until the revised hedging requirements are implemented to gauge how this project should be progressed.

New projects to research programme

The AASB suggests that the IASB add the following projects to its research programme:

- (a) Conceptual Framework – the AASB thinks that resources should be committed to further research into measurement and the definition of profit, as the AASB does not consider the proposals in ED/2015/3 *Conceptual Framework for Financial Reporting* to be fully developed in this regard;
- (b) Review of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* – following the issue of IFRS 15 *Revenue from Contracts with Customers*, the AASB issued proposals on the accounting for income of not-for-profit entities.¹ The AASB believes its work might be useful as a basis for dealing with all income recognition in one IFRS and facilitate the removal of IAS 20, and the government grant requirements from IAS 41 *Agriculture*;
- (c) Equity method – as commented on above, the AASB supports re-scoping the existing equity method project to include a fundamental review; and
- (d) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – the AASB considers that a fundamental review of IFRS 5 is necessary and reasonably urgent given the extent of implementation issues raised and amendments to date pertaining to IFRS 5. The AASB also considers it would be useful to review the drafting of IFRS 5 given the scope of the Standard has been extended since its issue to include assets held for distribution to owners. The AASB does not support an approach of continual piecemeal amendments to IFRS 5.

In addition, the AASB suggests the IASB consider a project on standardising the terms of likelihood used in IFRS. The AASB thinks that its joint project with the Korea Accounting Standard Board on the terms of likelihood may help inform whether a project would be

¹ AASB Exposure Draft ED 260 *Income of Not-for-Profit Entities* was issued in April 2015 and is available on the AASB's website at http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf.

useful. The AASB thinks that consistent understanding of the interpretation of terms of likelihood, and limiting variation in the terms used in IFRS would be useful in achieving consistent application of IFRS and therefore improving comparability between entities, both within and across jurisdictions.

Q3. 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.

Table 1 below summarises the relative importance and urgency the AASB places on the existing projects of the IASB. Table 2 summarises the relative importance and urgency the AASB places on the projects recommended (see response in Question 2) for inclusion in the research work plan. In considering the relative importance and urgency of each project, the AASB had regard to the scope/possible scope of the project and the strategic value of the project, and whether the project should be informed by a final Conceptual Framework pronouncement.

In addition, of the existing and possible projects, the AASB considers the following to be the top three key strategic and timely projects that should be committed to and progressed as a priority. The AASB thinks these projects are important to demonstrate that the IASB is responding to user needs and is taking a leadership role in developing accounting thought:

Strategic projects:

- 1 Financial Instruments with Characteristics of Equity
- 2 Conceptual Framework – Measurement and Definition of Profit
- 3 Intangible Assets (focussing on disclosures, as a first step)

Timely projects:

- 1 Review of IFRS 5
- 2 Business combinations under common control
- 3 Goodwill and impairment

Notes for Board members:

- 1 In both Tables, the last column ‘Basis of ranking for importance and urgency’ is included for Board member information for the purposes of evaluating the staff ranking of the projects into columns Importance/Urgency. Staff do not intend to include this column in the final comment letter.
- 2 Not all the rankings ascribed to projects in Table 1 mirror those currently ascribed to the corresponding projects on the AASB’s research programme. The latest AASB’s research work plan is included as part of Agenda Item 16.
- 3 Not all the rankings ascribed to projects in Table 1 mirror the rankings by HoTARAC. The HoTARAC rankings are based in part on whether the project should be informed by a final Conceptual Framework pronouncement. HoTARAC has assigned the highest rankings to the following projects: Discount Rates, Post-

employment Benefits and Disclosure Initiative – Principles of Disclosure. Staff conversely have suggested a low priority be placed on a Post-employment Benefits project, given the extent of entities expected to be impacted compared to those affected by other projects.

Table 1: Existing research projects

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
Assessment stage	Definition of a Business			Appears to have been moved to standard-setting work plan
	Discount Rates	High	Medium	Staff consider that it would be useful for a sound basis for determining discount rate requirements/ guidance in future IFRS to be developed, so as to improve consistency between IFRS
	Goodwill and Impairment	Medium	Medium	Staff consider that a review of impairment requirements generally may be timely, given ASIC's focus on impairment and issues entities have with developing appropriate impairment models
	Income Taxes	Low	Low	A fundamental review of the Standard should be undertaken, but staff think this should take a lower priority to other projects
	Pollutant Pricing Mechanisms	Medium	Low	Staff think this is an area that the IASB could provide leadership and develop consistency in the accounting for varied emission trading scheme models
	Post-employment Benefits	Low	Low	Staff think a lower priority should be ascribed to this project as the range of entities and jurisdictions affected is not as broad compared to other projects
	Primary Financial Statements	Medium	Medium	Staff think that this project has the potential to be useful in progressing accounting thought pertaining to profit and other comprehensive income

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
	Provisions, Contingent Liabilities and Contingent Assets	High	Medium	Staff support the development of this project but consider it should be deferred until the current Conceptual Framework proposals are finalised
	Share-based Payment	Low	Low	Staff think a lower priority should be ascribed to this project given its narrow-scope nature
Development stage	Business Combinations under Common Control	Medium	Medium	Staff think that this project has the potential to be useful in improving consistency for the accounting for business combinations under common control, but this in part depends on whether the project scope is sufficiently broad
	Disclosure Initiative – Principles of Disclosure	High	Medium	Staff consider that this project is of high importance as it responds to user needs, however, think that the IASB should take the time needed to develop sound principles
	Dynamic Risk Management	Low	Low	Staff consider the IASB should wait to see how new hedging requirements are implemented to help gauge how this project should be progressed
	Equity Method	Low	Low	Staff think the current project is a stop-gap fix and does not negate the need for a fundamental review of the role of the equity method of accounting and its possible alternatives
	Financial Instruments with Characteristics of Equity	High	High	Staff think this project is of high priority and urgent, as it should inform on whether the proposed revision of the definition of a liability (as part of the Conceptual Framework project) is appropriate

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
Inactive	Extractive Activities, intangible assets, R&D	Extractive activities: Medium Intangible assets/R&D : High	Medium	Staff consider it would be useful to have consistent accounting globally for extractive activities, and note that this would place Australian mining entities on a more level playing field globally. Staff think a review of the accounting for intangible assets is timely due to their increasing relative significance. Staff note it may be that better disclosures are developed in advance of developing recognition & measurement approaches
	Foreign Currency Translation	Low	Low	Staff agree with proposed deletion of the research project
	High Inflation	Low	Low	Staff agree with proposed deletion of the research project

Table 2: New research projects proposed by the AASB

Project	Importance	Urgency	Basis of ranking for importance and urgency
Conceptual Framework – measurement and definition of Profit	High	Medium	Staff have assessed the urgency of the project as ‘medium’ as staff consider it is a longer-term project, and that the Financial Instruments with Characteristics of Equity project needs to take priority
Review of IAS 20	Medium	Medium	Staff think this project could be considered in the context of extending the remit of the IASB to set standards also for private sector not-for-profit entities
Equity method – fundamental review	High	Medium	Staff think it would be more useful for a fundamental review of the equity method to be conducted, rather than a narrow scope project addressing various implementation issues
Review of IFRS 5	High	High	Staff think it would be more useful for a fundamental review of IFRS 5 to be conducted, rather than further narrow scope projects addressing varied implementation

Project	Importance	Urgency	Basis of ranking for importance and urgency
			issues
Terms of likelihood	Medium	Low	Staff think this project could improve consistency in application of IFRS between entities and jurisdictions

Q4. Do you have any comments on the IASB's current work plan for major projects?

Note for Board members:

The HoTARAC submission notes "...the difficulties in finalising projects such as leases may indicate fundamental flaws in the application of accounting concepts". Staff think this sentiment is consistent with the draft response below.

The AASB supports the IASB progressing the major projects on the IASB's current work plan. However, the AASB encourages the IASB to be guided more by the need to fully develop project proposals or final IFRS than by targeted deadlines for completion of a project. The AASB thinks that time spent in this regard should help result in fewer cases of having to develop two Exposure Drafts for a project, fewer implementation issues arising subsequent to the issue of a final pronouncement, and less need for subsequent amendments. The AASB thinks that this would also help ensure that the Basis for Conclusions for each IFRS more thoroughly addresses the IASB's thinking. For example, the AASB notes the recent Transition Resource Group for Revenue Recognition (TRG) deliberations have resulted in proposals to amend IFRS 15 before its effective date. As noted in our submission to IASB ED/2015/6 *Clarifications to IFRS 15*, the AASB considers that amending standards prior to their effective date is not an ideal approach to setting standards. The AASB thinks this could have been avoided had more time been spent considering the potential implementation issues before issue of the final standard.

The AASB is particularly concerned about the Conceptual Framework project which is intended to inform future standard-setting, and which itself has aspects that are to be addressed as part of other current projects. The AASB supports not finalising aspects of the proposals that are expected to be informed by related work until such time as the outcomes of that work are known. The AASB does not support finalising proposals that may be subsequently indefinitely deferred or could be expected to be amended in the short-term, as in the case of the recent amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, nor of finalising partly developed proposals.

Q5. Are the IASB and 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)?

Note for Board members:

The HoTARAC submission recommends that the IASB consider bringing forward post-implementation reviews (PIR) where there is evidence that a new IFRS has proved difficult

to apply in practice. Staff do not support bringing forward PIRs, as the staff view is that it would be preferable for the IASB to commit to fully considering implementation issues before a final pronouncement is issued (see draft response to Question 4).

The HoTARAC submission further recommends additional IFRS 9 *Financial Instruments* implementation support be provided, and notes the Revenue Transition Resource Group. Staff have not incorporated the HoTARAC recommendation into the draft response, consistent with the Board's view in other recent submissions recommending against the use of Transition Resource Groups.

The AASB supports the extent of implementation support currently provided by the IASB and IFRS Interpretations Committee. However, we have the following concerns and observations:

- (a) As suggested by our response to Question 4, the AASB does not support the use of Transition Resource Groups. The AASB's further concerns on the existence of Transition Resource Groups are included in its response to the Request for Comment on *Trustees' Review of Structure and Effectiveness: Issues for the Review*; and
- (b) The AASB notes that a number of post-implementation reviews (PIR) will be conducted during the period 2016-2020, including the PIR of IFRSs 10-14 and PIR of narrow-scope amendments to various IFRS. The AASB thinks that the ability of the IASB to respond in a timely manner to other implementation issues will consequently be more limited than present.

Q6. 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?

The AASB supports the IASB's thorough standard-setting process and the extensive outreach that is done, but also considers that the development of major new and revised IFRS takes too long. However, the AASB encourages the IASB to take as much time as necessary to ensure that proposals reflect sound accounting principles, rather than be rules or exceptions-based or be partly developed in nature.

Note to Board members:

The comment below reflects the view expressed in the HoTARAC submission.

Further, the AASB recommends the IASB consider including, in its published work programme, the rationale for a project, the project's relative priority, and its relationships to other projects on both the IASB's research and standard-setting work programmes.

Q7. Do you have any other comments on the IASB's work plan?

Note to Board members:

Staff had regard to comments made in the HoTARAC submission as part of finalising the AASB submission to the IASB Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*.

The AASB urges the IASB to have greater regard to the steps jurisdictions need to take to include new and revised IFRS into their reporting frameworks in its standard-setting approach. There are changes that the IASB could make that would simplify the process for many jurisdictions, for example, batching of changes.

The IASB also needs to have greater regard to the needs of jurisdictions that adopt each IFRS soon after their issue, rather than jurisdictions with lengthy endorsement processes.

Q8. 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?

Note to Board members:

HoTARAC supports the present three-year interval between Agenda Consultations as it considers this period to be more responsive to user needs. Staff agree that it is necessary for the IASB to timely review its strategy and priorities. Staff think that the HoTARAC concern is addressed by the staff proposal below for the IASB to conduct an annual review of its work plan.

The AASB supports the proposed five-year interval between Agenda Consultations. The AASB thinks the IASB should adopt a longer-term mindset, and focus its efforts on developing accounting principles in selected research topics that may necessarily require a period of development that is longer than three years.

However, the AASB notes the IASB should be able to consult in advance of the five-year interval, should events occur that suggest earlier consultation would be useful. In this regard, the AASB suggests the IASB formally reviews its work plan annually, with a view to whether an earlier Agenda Consultation is warranted.

The AASB does not support a seven-year interval between Agenda Consultations. The AASB is concerned that this interval is too long to ensure that the IASB remains relevant to its stakeholders.