



Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@asb.gov.au

8 February 2016

Dear Kris

Re: AASB ITC 33, IFRS IC DI/2015/1 and DI/2015/2

I am enclosing a copy of PricewaterhouseCoopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ITC 33 *Request for Comment on IASB's Request for Views on 2015 Agenda Consultation*
- IFRIC Interpretation DI/20125/1 *Uncertainty over Income Tax Treatments*
- IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure drafts. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink that reads 'Margot Le Bars'.

Margot Le Bars
Partner, PricewaterhouseCoopers

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
DX 77 Melbourne, Australia
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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

18 December 2015

Request for Views: Agenda Consultation 2015 (the 'Agenda Consultation')

We are pleased to respond to the invitation by the IASB to comment on the Agenda Consultation, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Agenda Consultation.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We welcome the opportunity to provide input to the future agenda of the International Accounting Standards Board (IASB) (the Agenda). This letter considers some of the broader issues that we believe the IASB should consider when establishing the Agenda.

We believe that there are four areas that the IASB should consider when establishing priorities for the next period. These are:

- Completing the major projects for Leases, Insurance, the Conceptual Framework and the Disclosure Initiative.
- Providing sufficient maintenance and implementation support for existing standards, major new standards completed in the period, and the work of the IFRS Interpretations Committee (IC). We believe that such support is an integral and expected part of the standard-setting process and is vital to achieving consistent application and to maintaining the overall soundness and credibility of IFRS.
- Maintaining alignment of the IASB and the FASB on existing converged standards, including aligning the work of the IC and Emerging Issues Task Force (EITF) when implementation questions arise.
- Participating in the broader debate on the future of corporate reporting to ensure the relevance of IFRS in financial reporting is sustained and enhanced in the long term, alongside the IASB's primary focus on IFRS as a set of high quality accounting standards that supports sound financial reporting.

PricewaterhouseCoopers International Limited, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652



Our answers to the specific questions in the Agenda Consultation provide more detail on the views expressed above and are included in Appendix A to this letter.

If you have any questions on this letter, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322).

Yours faithfully

PricewaterhouseCoopers



APPENDIX A

Question 1 – The balance of the IASB's projects

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?

We agree that the main areas identified provide an appropriate distinction between the types of standard-setting activity that the IASB might engage in, and that distinguishing these areas is valuable in framing the considerations of the Agenda. However, the distinction should not limit the flexibility of the IASB to commit resources to the most important projects as necessary, because the five areas are inextricably linked in the development and successful implementation of standards-level projects. Prioritisation is important among the individual projects in each area, but less so between the five areas themselves. The time and resource devoted to each category and area should be assessed on a continuous basis, to reflect the latest developments.

We support an emphasis on the finalisation and / or implementation of the recently issued and forthcoming major standards-level projects Revenue (including amendments), Financial Instruments, Insurance, and Leases.

We believe that maintenance and implementation, including robust Post-Implementation Reviews (PIRs), are as important to the overall development of financial reporting as the other main areas, and adequate resources in this area are required to ensure a robust and coherent set of accounting standards as the foundation of financial reporting.

The allocation of resources between the five main areas should also consider:

- Remaining aligned with the FASB on the converged standards, and
- Long term relevance of IFRS in financial reporting (see also our response to Question 7).



Question 2 – Research projects

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?*

Our comments on the prioritisation of research projects are noted below in our response to Question 3. We agree that the volume and complexity of projects in the research phase and the level of resources needed for these projects means that the case for adding further projects must be compelling. However, we observe that a significant number of issues have arisen from the application of IFRS 5, and we suggest a research project on this standard is added.

We agree with removing the foreign currency translation and high inflation projects from the work plan.

Question 3 – Research projects

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 evaluated a number of factors to assess the projects that would improve the quality of financial reporting most effectively and that should therefore be prioritised in the work-plan. These factors are:

- Projects where no guidance is currently available, as this can lead to diversity in practice.
- Areas where the volume of practice issues indicates an urgent need for change. Practice issues often arise where there are known inconsistencies between existing guidance or when the outcome required by a standard does not always reflect the economic substance of the transaction.
- Whether a project will also inform decisions on other research topics. For example:
 - The Disclosure Initiative will impact other standards-level projects.



- The conceptual framework principles for non-financial liabilities should be finalised before progressing with Employee Benefits, Provisions and Pollutant Pricing Mechanisms.
- Financial Instruments with the Characteristics of Equity (FICE) should be considered before share-based payment projects.
- Whether divergence between IFRS and US GAAP will arise from previously converged standards. It would be helpful for the IASB to prioritise areas where the FASB has already taken due process steps (for example on the definition of a business), to ensure that issues identified in converged standards are addressed effectively. The IASB should consider aligning the IC's and EITF's work once implementation questions arise.
- The synergy benefits that might be realised when other standard setters are working on similar projects (for example, the classification of debt).

We suggest that the following research projects should be prioritised based on the above-mentioned factors:

- Financial Instruments with Characteristics of Equity (FICE);
- Disclosure Initiative;
- Equity Method;
- Income Taxes;
- Goodwill and Impairment; and
- Business Combinations under Common Control.

We think that it is important to accelerate the priority projects to standards-level projects.

Question 4 – Major projects

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

The completion of the major projects for Leases, Insurance, the Conceptual Framework and the Disclosure Initiative should remain a priority for the IASB, combined with adequate implementation support.

The work plan for the major projects should be assessed in combination with the research projects, with time and resources devoted to each project being assessed on a continuous basis, considering the latest developments.



Question 5 – Maintenance and implementation projects

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 think that both, implementation support and ongoing maintenance of standards, are essential in the standard-setting process. Transition resource groups (TRGs), PIRs and the IFRS IC are fora in which the IASB engages that are beneficial in supporting consistent application. However, their effectiveness is not being maximised. Our perspective on the three fora is as follows:

- The creation of TRGs to provide further implementation support in addition to the IC is a relatively recent development for major projects. Generally, we believe that the public discussion of issues through the existing TRGs has helped with the implementation of the new standards. We suggest that TRGs or another similar implementation process should be considered for all significant new standards. We acknowledge that a TRG will not be necessary in all instances. The IASB should reflect on the benefits and challenges of the IFRS 15 and the IFRS 9 TRGs in designing the structure of future TRGs. These TRGs should have enough flexibility to include the appropriate stakeholders and meet with the necessary frequency over a sufficient period.
- PIRs should continue to be performed for all significant new standards, and the results of the reviews followed up expeditiously. Adding the results to the research agenda might not result in a timely enough resolution of the more significant issues identified in a PIR. We also think that an important element of implementation support is for the IC and the EITF to work together on issues involving converged standards in order to maintain that convergence. We suggest that this consideration should influence the prioritisation of projects that the IC takes on, and the level of resources devoted to such issues, to ensure that the IC is effective in this area.
- The IC has a valuable role in maintaining existing standards and issuing interpretations. We note there has been an increase in non-authoritative agenda decisions which we do not believe, in all cases, is the best way to reduce application diversity. However, agenda decisions that refer to the relevant existing guidance can be helpful in removing diversity. When the IC concludes that an issue is too broad or cannot be addressed on a timely basis, these decisions tend to increase or preserve, rather than reduce, diversity in practice. While we understand that this might be the only solution for some submissions, it should occur less often.
- The IASB recently reduced the number of in-person IC meetings from six to four, which, in our view, will not be helpful in expediting the resolution of issues.

The IASB should look at ways to increase dialogue with stakeholders as a way of encouraging consistent application. We note that national standard setters, regulators and other stakeholders (for example, the Basel Committee on Banking Supervision) are providing guidance on IFRS, and we are concerned that such guidance might be inconsistent with IFRS as issued by the IASB, inhibiting the consistent application of the standards. We encourage the IASB to look at ways of increasing dialogue and engagement with those stakeholders. Consistency might be enhanced by having a three-way dialogue between IOSCO, the IASB and the auditing firms.



Question 6 – Level of change

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 acknowledge that it is challenging to balance the demands to deliver solutions at quick pace with careful evaluation of stakeholders' views, whilst also supporting effective implementation. We encourage the IASB to seek out efficiencies in the standard-setting process. For example, it might assess whether some changes can be effectively developed as a standards-level project without first performing a research project. We recognise that the research phase might be useful in developing robust standards, however, there might be occasions when it is not necessary and slows the development of a solution.

We encourage the IASB to define milestones for research projects to ensure that projects do not remain inactive or with very little progress for too long, and that there is a mechanism to ensure that decisions are made to continue or discontinue the project on a timely basis. These milestones should be discrete checkpoints where the progress is assessed to determine the possibility of success in resulting in a change to a standard. The milestones should consider both time and progress (for example, next due process document).

We believe the IASB should review the "fatal flaw review" process. The IASB should allocate sufficient time to receive, incorporate, or address all substantive final comments from key stakeholders on standards just prior to finalisation. This assessment might consider:

- additional final reviews where there are significant changes compared to the previous Exposure Draft, or where there are more potential interpretation issues;
- involvement of the IASB and / or senior staff when considering comments received via the fatal flaw process; and
- whether there is adequate explanation of how fatal flaw comments were disposed of, particularly when they do not result in a change.

Successful implementation of this concept could lessen the need for changes or additional guidance after a standard's finalisation.

Question 7 – Any other comments

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

We encourage the IASB to allocate time to stay abreast of current reporting developments to ensure that IFRS remains relevant as part of a broader reporting framework. However, given the IASB's full agenda, we believe that maintaining the current level of involvement in wider corporate reporting developments, rather than increasing it, is appropriate in order to maintain the relevance of IFRS and to meet stakeholders' needs for information.



Question 8 – Frequency of agenda consultations

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 general, we think that three to five years is an appropriate interval to seek this feedback. However, we think it's important the IASB monitors emerging issues in between formal consultations and considers seeking feedback if necessary.