



Australian Government

**Australian Accounting
Standards Board**

Postal Address

PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

22 December 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.

To stay relevant, the IASB must invest resources into a research agenda that improves accounting thought in areas that appear to show gaps in external reporting and require thought leadership, when it is clear there are user needs that are not being met. The AASB encourages the IASB to continue allocating resources to topics related to developing the Conceptual Framework. Other thought leadership projects that not only improve financial reporting, but contribute to developing external reporting more broadly, should also be undertaken. 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.

The AASB supports the proposal for a lengthier interval between agenda consultations. The AASB considers that this will better enable the IASB to strike a balance between those projects that may necessarily take longer to complete due to their forward-thinking nature and those that are problem-solving and could be addressed in a shorter period. In determining this balance, the IASB should critically evaluate whether short-term projects addressing narrow-scope implementation issues are the best use of its resources, or whether the IASB's objectives would be better served by undertaking a longer-term fundamental review of an IFRS. The AASB would generally support resources being committed to efforts with longer-term gain, especially where decisions on short-term narrow-scope projects could be subject to change resulting from current research projects.

The AASB's responses to the questions in the Request for Views are included in the attached Appendix.

If you require further information on the AASB's responses to the Request for Views, please contact me, Angus Thomson (athomson@asb.gov.au), or Evelyn Ling (eling@asb.gov.au).

Yours sincerely

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach
Chair and CEO

APPENDIX: AASB Comments on 2015 Agenda Consultation

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?

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 the reporting of performance – see our response to Question 2).

The AASB considers that in the period referred to in the agenda consultation (2016-2020), the standards-level projects will generally be an output of the research programme (including the Disclosure Initiative), or maintenance and implementation projects (including post-implementation reviews (PIR)). With regard to maintenance and implementation projects, the AASB suggests the IASB extend the scope and role of the Annual Improvements project beyond minor clarifying amendments, to also incorporate 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?**

The AASB considers that the research programme should include a mix of both shorter-term (for example, shorter than three years) and longer-term projects, reflecting both the need to develop responses to forward-thinking and problem-solving issues that affect a broad audience, and core accounting principles that will inform future financial reporting. In weighing-up projects to be included/retained on the research programme, and to stay relevant, the IASB should develop accounting thought in areas where there are gaps in external reporting that require thought 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 because the areas, are not generally areas of concern for IASB stakeholders when considered on their own. If these projects were to be addressed, the AASB considers they should be included in other broader projects, for example, high inflation might be incorporated as an aspect of a broader project on measurement.

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 *Employee Benefits* and IFRS 2 *Share-based Payment*; 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 for 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 reporting of performance, as the AASB does not consider the proposals in ED/2015/3 *Conceptual Framework for Financial Reporting* to be fully developed in this regard. As expressed in the AASB’s submission on ED/2015/3 *Conceptual Framework for Financial Reporting*, the AASB:
- (i) does not support a mixed measurement approach and considers that further work into measurement is necessary so that the Chapter is not simply a codification of current practice;
 - (ii) considers that a single income statement, appropriately disaggregated, to be a better approach to the reporting of performance. However, if the current ED proposals on reporting of performance are pursued, the AASB notes further work on developing a definition of profit is necessary as a step to developing better principles on when income and expenses are presented in other comprehensive income. It may be possible for this aspect, and reporting of performance more broadly, to be considered within the IASB’s current Primary Financial Statements project.

Progressing the thinking in these areas concurrently with existing projects on Financial Instruments with Characteristics of Equity and Primary Financial Statements should assist the IASB in resolving some longstanding issues;

- (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 that build on the principles in IFRS 15.¹ 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 drafting of IFRS 5 should be reviewed given the scope of the IFRS has been extended 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 useful. Consistent interpretation of terms of likelihood, and limiting variation in the terms used in IFRS, would improve consistent application of IFRS and therefore comparability between entities, both within and across jurisdictions.

IFRS 13 *Fair Value Measurement*

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.

The AASB observes that, based on the IASB's current policies, a PIR of IFRS 13 would fall within the period covered by the agenda consultation. Accordingly, the AASB has not specifically identified any new projects pertaining to fair value measurement as part of its response above. The AASB encourages the IASB to continue working closely with other standard-setters in fields that are important to supporting the successful implementation of IFRS, in particular, in the area of measurement/valuation; for example, by actively contributing to work by the International Valuations Standards Council on the valuation of financial instruments or non-financial assets and liabilities.

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 is likely to be informed by a final Conceptual Framework pronouncement.

In addition, of the existing and possible projects, the AASB considers the following to be the key forward-thinking and problem-solving projects that should be 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:

Forward-thinking projects:

- 1 Financial Instruments with Characteristics of Equity
- 2 Primary Financial Statements
- 3 Conceptual Framework – measurement, and the reporting of performance (which may include developing a definition of profit)
- 4 Intangible Assets (focussing on disclosures, as a first step)

Problem-solving projects:

- 1 Review of IFRS 5
- 2 Business combinations under common control
- 3 Goodwill and impairment (focussing on the IAS 36 *Impairment of Assets* impairment model, as a first step)

Table 1: Existing research projects

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
Assessment	Definition of a Business	The AASB has not commented on this project as it has been moved to the IASB standard-setting work plan.		

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
stage	Discount Rates	Medium	Medium	The AASB considers it would be useful for a sound basis for determining discount rate requirements/guidance in future IFRS to be developed, because this would improve consistency between IFRS. The AASB thinks that this project will need to be appropriately scoped, so as to be manageable.
	Goodwill and Impairment	Goodwill: Low	Goodwill: Low	The AASB considers this research project should be separated into two projects: a project addressing a review of goodwill, and a separate project targeted at improving, more generally, application of the IAS 36 value-in-use model. The AASB considers a review of goodwill to be of a low priority at this time. However, the AASB would place a high priority on any work on improving the application of IAS 36. The AASB is aware the application of IAS 36 requirements has been an issue for a number of Australian entities. It may also be useful for the IASB to liaise with the International Organization of Securities Commissions on this topic.
		Impairment: High	Impairment: High	
	Income Taxes	Low	Low	The AASB considers it important that a fundamental review of the Standard be undertaken, but thinks this project should take a lower priority relative to other research projects.
Pollutant Pricing	Medium	Low	The AASB supports this project and agrees it would be useful to develop consistency in the	

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
	Mechanisms			accounting for varied emission trading scheme models. However, the AASB would prefer this project take a lower priority relative to projects related to the Conceptual Framework.
	Post-employment Benefits	Low	Low	The AASB thinks 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. (See also the response to Q2)
	Primary Financial Statements	High	High	The AASB thinks this project has the potential to be useful in progressing accounting thought pertaining to profit and other comprehensive income. Accordingly, the AASB considers this project to be both highly important and urgent.
	Provisions, Contingent Liabilities and Contingent Assets	High	Medium	The AASB supports the development of this project but considers it should be deferred until the current Conceptual Framework proposals are finalised.
	Share-based Payment	Low	Low	The AASB thinks a lower priority should be ascribed to this project given its narrow-scope nature. (See also the response to Q2)
Development stage	Business Combinations under Common Control	Medium	Medium	The AASB thinks 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

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
				sufficiently broad, and the accounting is supportable conceptually. This project has the potential to contribute to further development of the reporting entity chapter of the Conceptual Framework.
	Disclosure Initiative – Principles of Disclosure	High	Medium	The AASB considers this project is of high importance as it relates to an area of clear user need. However, the AASB does not think this project has to be completed as a matter of urgency and, accordingly, encourages the IASB to take the time needed to develop sound principles that are operable in future IFRS.
	Dynamic Risk Management	Low	Low	The AASB considers the IASB should defer this project until after IFRS 9 has been implemented to help gauge how this project should be progressed. (See also the response to Q2)
	Equity Method	Current project: Low	Current project: Low	The AASB does not support the current project given its limited scope. Rather, the AASB considers there to be a need for a fundamental review of the role of the equity method of accounting and its possible alternatives. The AASB would place a high priority on this alternative project. (See also the response to Q2)
		Fundamental review: High	Fundamental review: High	
	Financial Instruments with Characteristics of Equity	High	High	The AASB thinks this project is both highly important and urgent, because this project should inform whether the proposed revision of the definition of a liability (as part of the Conceptual Framework project)

Project Stage	Project	Importance	Urgency	Basis of ranking for importance and urgency
				is appropriate.
In-active	Extractive Activities, intangible assets, R&D	Extractive activities: Medium	Extractive activities: Medium	The AASB considers it would be useful to have consistent accounting globally for extractive activities, and notes that this would place Australian mining entities on a more level playing field globally. However, the AASB would prefer that IASB resources be directed towards improving the accounting for intangible assets in general. The AASB thinks a review of the accounting for intangible assets is timely and important due to their relative increasing significance to the value of many entities. The needs of users of general purpose financial statements for information about such elements may extend beyond that available in existing financial reporting. As a first step, so that a project in this regard is manageable, the AASB thinks the IASB should consider developing better disclosures about intangible assets in advance of considering recognition and measurement approaches.
		Intangible assets/R&D: High	Intangible assets/R&D: Medium	
	Foreign Currency Translation	Low	Low	The AASB supports the proposed deletion of the research project.
	High Inflation	Low	Low	The AASB supports the 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 reporting of performance (focussing on developing a definition of profit)	High	Medium	The AASB thinks this project is a key forward-thinking project of the IASB. The AASB assesses the urgency of the project as ‘medium’ as the project may be necessarily longer-term in nature. Further, the AASB considers the Financial Instruments with Characteristics of Equity project should take priority over measurement and defining profit.
Review of IAS 20	Medium	Medium	The AASB thinks this project could be considered in the context of extending the remit of the IASB to also set standards for private sector not-for-profit entities.
Equity method – fundamental review	High	Medium	As noted in Q2 and in Table 1, the AASB thinks 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	The AASB thinks it would be more useful for a fundamental review of IFRS 5 to be conducted, rather than further narrow-scope projects addressing varied implementation issues.
Terms of likelihood	Medium	Low	The AASB thinks this project should be added to the IASB’s research work plan because the outcomes 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?

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 a final IFRS than by targeted deadlines for completion of a project. The AASB thinks that time spent in this regard should 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 the AASB submission to 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 IFRS.

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)?

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 PIRs are likely to 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. In forming an appropriate balance between competing research and other projects and within resource constraints, the AASB recommends the IASB have regard to whether there is demand for a post-implementation review for certain IFRS before committing resources to that project; for example, through conducting targeted outreach. Further, where possible, the AASB recommends that PIR activity be included as part of, or linked to, an active research project.

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. As observed in the AASB submission to the Request for Comment on *Trustees' Review of Structure and Effectiveness: Issues for the Review*, the AASB considers

the key to shortening the time taken would be to have done sufficient thinking on a project to avoid the need for more than one exposure draft. However, the AASB is conscious a lengthier period of development may be appropriate and necessary to ensure that proposals reflect sound accounting principles, rather than being rules or exceptions-based or partly developed in nature.

In addition, the AASB thinks it would be useful for the timing (and effective dates) of related projects to be coordinated, especially where the proposals or outcomes of a project are expected to inform thinking on another project.

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

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, thereby making the pronouncement available for early adoption by entities, rather than jurisdictions with lengthy endorsement processes. In addition, the issue of pronouncements as legal instruments involves considerable additional work for a national standard-setter, for example, the forthcoming amendments to IFRS 15 will require the AASB to amend its equivalent pronouncement which is already on issue and available for early adoption by entities.

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?

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's work remains relevant to its stakeholders.