



Australian Government

**Australian Accounting
Standards Board**

Level 7, 600 Bourke Street
MELBOURNE VIC 3000

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

9 December 2011

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

Dear Hans

IASB Request for Views *Agenda Consultation 2011*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to comment on the Request for Views *Agenda Consultation 2011*. 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 (<http://www.aasb.gov.au>).

The AASB agrees with the two categories the IASB has identified and the five strategic areas within them.

Global focus

The AASB considers it is timely for the IASB to focus more firmly on the broad global adoption of IFRSs and to focus less on convergence with US GAAP.

The AASB is concerned that continuing to devote significant IASB resources to convergence with US GAAP would detract from the broader global goal; particularly as many jurisdictions in Asia and Latin America are planning for transition to IFRSs, including identifying when to adopt IFRSs.

The AASB considers that, as a matter of priority, the IASB needs to provide a global focus for the development of a single set of accounting standards for all sectors that facilitates a common pool of professional talent being applied to standard setting and the preparation, audit and regulation of general purpose financial reporting.

The AASB notes that the IASB has entered into a memorandum of understanding with the International Public Sector Accounting Standards Board (IPSASB) and considers it is timely for the IASB to go beyond liaison and better integrate its efforts with those of the IPSASB.

World capital markets are impacted by the activities of both private and public sector entities and a co-ordinated approach to standard-setting across sectors is well overdue. This is particularly evident from the fact that, following the Global Financial Crisis, many governments now control banks and other previously private enterprises, and both investors and taxpayers need the same types of information about these entities.

Balance between development and maintenance

The AASB suggests that a balance between new IFRS developments and IFRS maintenance can be struck by confining new developments to more fundamental research



that will lay the groundwork for new and revised IFRSs, after a period of calm that will facilitate many jurisdictions in adopting IFRSs.

Accordingly, the AASB considers the IASB should deal with most of its projects at a broad and comprehensive level to help avoid inconsistent outcomes for similar items and as a way of making IFRSs more cohesive and less complex. In responding to the specific questions (in the attached Appendix) the AASB has outlined some illustrations of how such an approach could be implemented, based on the projects listed on page 14 of the Request for Views.

Consistent with this view, of the five strategic areas identified, the AASB considers that four should be pursued over the next three years:

- * updating and refining the Conceptual Framework;
- * researching strategic issues;
- * post-implementation reviews; and
- * responding to implementation needs.

The AASB considers the fifth strategic area identified (standards-level projects) should not be a major focus in the next three years, other than in the context of research.

The AASB strongly supports completing the revisions to the Conceptual Framework. This is because the AASB views the revised Framework as a means of underpinning greater consistency of accounting treatments across IFRSs, as they are revised and as new IFRSs are created.

The AASB believes there is a need to review the relative roles of the IASB and the IFRS Interpretations Committee in responding to implementation needs. The AASB considers that, in the interests of achieving principle-based outcomes, there should be far greater emphasis on the IASB addressing issues at the Board level through amendments to IFRSs, rather than through interpretations. We also support the IASB's plans to better integrate education, interpretation, improvements and standard-setting.

The AASB considers that each broad topic should be the subject of considerable research and would not necessarily advocate that any of those listed on page 14 of the Request for Views be dealt with in a three-year timeframe.

The AASB considers that the IASB's research should address cross-cutting issues, the resolution of which might help simplify IFRSs and make them more internally consistent.

The AASB has identified present valuing future cash flows (discounting) as an issue that it intends to research in collaboration with its Hong Kong colleagues and others within the Asian-Oceanian Standard-Setters Group as a contribution to work the IASB might use in revising IFRSs that involve applying present value techniques.

The AASB is using the IASB's work on 'revenue recognition from contracts with customers' as the foundation for requirements on income of not-for-profit entities. The AASB believes its work might be useful as a basis for dealing with all income recognition in one IFRS and facilitating the removal of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, with its many optional treatments, and the removal of the government grant requirements from IAS 41 *Agriculture*.

The AASB is revising its domestic standard on retirement benefit plans and largely bringing plans' accounting policies much closer to those in 'core' IFRSs, and will have far



fewer exceptions from other IFRSs than are available in IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. The AASB regards IAS 26 as an inadequate standard and would be happy to share its work with the IASB in any effort it makes to update IAS 26.

Communication

Finally, the AASB considers that, if the IASB believes it needs to make piecemeal changes to IFRSs, its communication should be more focused on a meaningful explanation of why those changes are needed. This is because both minor and major changes can impose significant costs on all of those involved in using standards, including preparers and users and standard-setters.

The attached Appendix elaborates on the comments in this letter. If you require further information on the AASB's comments, please contact me or Angus Thomson [athomson@asb.gov.au].

Yours sincerely

Kevin M Stevenson
Chairman



Appendix – Responses to specific questions in the Request for Views *Agenda Consultation 2011*

Q1 – What do you think should be the IASB’s strategic priorities, and how should it balance them over the next three years?

Q1 (a) – Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Q1 (b) – How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB’s agenda, please include these in your answer.

The AASB agrees with the two categories the IASB has identified and the five strategic areas within them. The following comments relate to the question of balance.

Global focus

The AASB considers it is timely for the IASB to more firmly focus on the broad global adoption of IFRSs and to focus less on convergence with US GAAP.

The AASB is concerned that continuing to devote significant IASB resources to convergence with US GAAP would detract from the broader global goal, particularly as many jurisdictions in Asia and Latin America are planning for transition to IFRSs, including identifying when to adopt IFRSs.

The AASB believes it would be counterproductive if convergence with US GAAP came at the expense of helping to secure IFRS adoption by key jurisdictions in other parts of the world.

Some jurisdictions are awaiting the completion of current major projects before setting a time for adopting IFRSs, to avoid the need for their constituents to effectively undergo two major adoption exercises. There is a need for greater certainty regarding when the next ‘stable platform’ of IFRSs will be available.

Not-for-profit public and private sector entities

The AASB is very pleased that the IASB has entered into a memorandum of understanding with the International Public Sector Accounting Standards Board (IPSASB) and considers it is essential for the IASB to start better integrating its efforts with those of the IPSASB. However, we believe this will require that the IASB goes beyond liaison. If the IASB and IPSASB do not integrate their work, we will be building up another convergence problem that will become increasingly difficult to solve. We do not believe that it is appropriate for the IASB to take comfort from the fact that existing International Public Sector Standards are largely based on IFRS. This will not continue, especially as the IPSASB pushes ahead with its own conceptual framework.



World capital markets are impacted by the activities of both private and public sector entities and a co-ordinated approach to standard-setting across sectors is well-overdue. This is particularly evident from the fact that, following the Global Financial Crisis, many governments now control banks and other previously private enterprises and both investors and taxpayers need the same types of information about these entities.

Private sector for-profit entities and governments are often on either side of the same transactions, including government grants, emission trading schemes and service concession arrangements. Users interested in economy-wide information need to have consistent high-quality general purpose financial statements that deal with these transactions to meet their information needs.

The AASB considers that, as a matter of priority, the IASB needs to provide a global focus for the development of a single set of accounting standards for all sectors that facilitates a common pool of professional talent being applied to standard-setting, and the preparation, audit and regulation of general purpose financial reporting.

The longer the delay in addressing all sectors comprehensively, the more likely it is that individual national standard setters will commit resources to separate for-profit entity and not-for-profit entity standard setting activities. This leads to the fragmentation of the accounting profession and the duplication of effort.

Balancing new IFRS developments and IFRS maintenance

The AASB considers a period of stability, once the current major projects are completed, would be welcome because it would help facilitate the adoption of IFRSs by many jurisdictions, particularly in Asia. The AASB also considers that transition to IFRSs in new jurisdictions and implementation of the new IFRSs in new and existing jurisdictions will give rise to implementation issues that need to be resolved.

Accordingly, the AASB suggests that a balance between new IFRS developments and IFRS maintenance can be struck by confining new IFRS developments to more fundamental research that will lay the groundwork for new and revised IFRSs after a period of calm.

Consistent with this view, of the five strategic areas identified, the AASB considers that four should be pursued over the next three years:

- * updating and refining the *Conceptual Framework*;
- * researching strategic issues;
- * post-implementation reviews; and
- * responding to implementation needs.

The AASB considers the fifth strategic area identified (standards-level projects) should not be a major focus in the next three years, other than in the context of research.



The AASB also considers the IASB should make clear the relationship between (1) IFRSs and general purpose financial reporting; and (2) the notion of ‘integrated reporting’; to help manage expectations and define the limits of the IASB’s work.

Conceptual Framework

The AASB strongly supports maintaining the momentum to complete the revisions to the Conceptual Framework. This is particularly because the AASB views the revised Framework as a means of underpinning greater consistency of accounting treatments across IFRSs as they are revised and as new IFRSs are created.

The AASB considers that the current lack of consistency across IFRSs has contributed to the rise of alternative information provided by entities concerned that their financial statements presented in compliance with IFRSs are not well understood by their users.

Consistent with its comments about not-for-profit private and public sector entities above, the AASB considers the completion of Phase G of the project on not-for-profit entities to be essential in meeting the need for a single global set of accounting standards.

The AASB notes that work on financial instruments with characteristics of equity remains to be done in completing the financial instruments project, and believes that the revised Framework should provide a sound basis for distinguishing equity amounts from liabilities.

Research

The AASB supports the IASB being prepared for the future development of financial reporting by conducting research in this area and, in particular, so that the IASB can know the markets in which its standards might be adopted in future.

The AASB believes the IASB needs to be mindful of catering for the different perspectives of different jurisdictions with an emphasis on the use of generic and principle-based language so that IFRSs are available and usable for a wide constituency. For example, the AASB considers the IASB’s research should include identifying how to best facilitate the application of IFRSs in the context of Islamic finance and in a not-for-profit context – on the basis that this is essential to achieving one global set of standards.

Post-implementation reviews

As more jurisdictions adopt IFRSs across more types of entities, issues will arise that need to be dealt with in post-implementation reviews.



The AASB considers such reviews should also involve determining if all the existing IFRSs are required – for example, a case could be made for not having IAS 33 *Earnings per Share* on the basis that it relates more to the analysis of information that is included in general purpose financial statements. Perhaps the IASB’s research into the future development of financial reporting will provide a basis for making such a decision.

Responding to implementation needs

The AASB believes there is a need to review the relative roles of the IASB and the IFRS Interpretations Committee in responding to implementation needs. The AASB considers that, in the interests of achieving principle-based outcomes, there should be far greater emphasis on the IASB addressing issues at the Board level through amendments to IFRSs, rather than through interpretations.

In addition, the AASB considers that the IFRS Interpretations Committee has an important role to play in helping to facilitate the consistent global application of IFRS. The AASB believes that the experience of the IFRS Interpretations Committee would be valuable in identifying the tools for dealing with (and preventing) those inconsistencies that undermine the IFRS brand, rather than necessarily through more interpretations.

Standards-level projects

The AASB advocates that the IASB take a broad perspective when identifying the scope of each of its active agenda topics and the level of principle at which each of them are addressed.

The AASB also considers the IASB should make greater efforts to harness the resources of national standards setters and their regional groupings in undertaking preliminary research.

Q2 – what do you see as the most pressing financial reporting needs for standard-setting action by the IASB?

Q2 (a) – considering the various constraints, to which projects should the IASB give priority and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Q2 (b) – Adding new projects to the IASB’s agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB’s agenda but deferred would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB’s agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).



Broaden project scopes

The AASB considers the IASB should deal with most of its projects at a broad and comprehensive level to help avoid inconsistent outcomes for similar items, and as a way of making IFRSs more cohesive and less complex. For example, whilst the need for a specific project on emissions trading schemes seems initially attractive, the AASB believes it highlights that existing IFRSs are deficient in the sense that they are too narrowly focused. If IFRSs on topics such as intangible assets, financial instruments [and others, including future IFRSs] were sufficiently broad in scope and sufficiently principle-based, accounting for new topics such as emissions trading schemes could be determined within the context of those standards. Writing rule-based solutions for each new topic as they arise will add to the complexity of IFRSs and the inconsistencies between them.

The AASB also considers that narrow project scopes and resulting inconsistencies have contributed to voluminous and diverse disclosures being required in IFRSs because different decisions are often made on disclosure requirements on each topic.

By way of illustration of the AASB's view on broadening the scope of projects, the AASB considers many of the projects listed on page 14 of the Request for Views could be dealt with under the following broad topics. The AASB believes that, by tackling the broad topics such as the following, the IASB would not need to separately tackle each individual topic listed.

Broad topic – Presentation and Disclosure

- * Financial statement presentation
- * Other comprehensive income
- * Presentation and disclosure standard

Broad topic – Intangible Assets

- * Emissions trading schemes
- * Extractive activities
- * Intangible assets
- * Rate-regulated activities

Broad topic – Liabilities

- * Liabilities – amendments to IAS 37
- * Post-employment benefits (including pensions)
- * Discount rate (present value of future cash flows)

Post-implementation reviews

The AASB considers some of the projects listed on page 14 of the Request for Views should be dealt with as post-implementation reviews, including:



- * Agriculture, particularly bearer biological assets
- * Business combinations
- * Share-based payment.

Furthermore, the AASB notes that a post-implementation review of IFRS 3 *Business Combinations* and IAS 27 *Separate Financial Statements* could also be the vehicle for gathering input on ‘common control’ issues, which are the subject of many technical questions in practice in Australia and Asia.

Research emphasis

The AASB also considers that each broad topic should be the subject of considerable research and would not necessarily advocate that any of those listed on page 14 of the Request for Views be dealt with in a three-year timeframe.

Accordingly, the AASB has not identified any particular projects that have previously been added to the IASB’s agenda but which are deferred that it thinks should not be on the IASB’s agenda (in order to make room for new projects). Nor has it identified any particular projects that have previously been added to the IASB’s agenda but which are deferred that it thinks should be reactivated in a three-year timeframe.

Cross-cutting issues

The AASB considers there is a need to address cross-cutting issues, the resolution of which might help simplify IFRSs and make them more internally consistent.

The AASB has identified present valuing future cash flows (discounting) as an area that is handled inconsistently between standards and an issue that it intends to research in collaboration with its Hong Kong colleagues and others within the Asian-Oceanian Standard-Setters Group. We see this as a contribution to work the IASB might use in revising IFRSs that involve applying present value techniques.

Government grants

The AASB notes that it is using the IASB’s work on ‘revenue recognition from contracts with customers’ as the foundation for requirements on income of not-for-profit entities. 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 *Accounting for Government Grants and Disclosure of Government Assistance*, with its many optional treatments, and the removal of the government grant requirements from IAS 41 *Agriculture*.

Retirement benefits plans

The AASB is revising its domestic standard on this topic and largely bringing the accounting policies for retirement benefit plans closer to those in ‘core’ IFRSs. Accordingly, the AASB’s revised standard will have far fewer exceptions from ‘core’ IFRSs than are available in IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.



The AASB regards IAS 26 as an inadequate standard and would be happy to share its work with the IASB in any effort it makes, in due course, to update IAS 26.

Communication

The AASB considers that, if the IASB believes it needs to make piecemeal changes to IFRSs, its communication should be more focused on a meaningful explanation of why those changes are needed. This is because both minor and major changes can impose significant costs on all of those involved in using standards, including preparers and users and standard setters. For example, many Australian constituents have questioned why IAS 1 *Presentation of Financial Statements* has been amended many times over the last four years without any apparent fundamental change to the presentation requirements.