



Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

5 December 2011

Dear Kevin

**Re: Invitation to Comment ITC 25**

We are responding to your request for comment on the IASB's *Request for Views on Agenda Consultation 2011* (ITC 25).

The letter reflects the views of the PwC network of firms and as such includes our own comments on the matters raised in the exposure draft.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Brunner', is written over a light blue horizontal line.

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**Private & Confidential**  
International Accounting Standards Board  
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29 November 2011

**Request for views: Agenda Consultation 2011**

Dear Sirs,

We are responding to your invitation to comment on the Request for Views on the Agenda Consultation 2011 (the 'Agenda Consultation') on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who 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). Our detailed responses to the questions included in the Agenda Consultation are included in Attachment A to this letter. This letter considers some of the broader issues that we believe the Trustees and the IASB should consider when establishing the agenda of the IASB.

We believe that there are four areas that the Trustees and the IASB should consider when establishing priorities for the next period. These are: a) complete the major convergence projects currently underway; b) resolve certain threshold questions in financial reporting ; c) consider the long term future of financial reporting and the role of the IASB in that future and; d) provide maintenance and implementation support, which are as important an activity as the conceptual and strategic work. We consider each of these in the following paragraphs.

Completion of the four major convergence projects currently underway will consume significant IASB and senior staff time well into 2012. The time commitment that these projects will require needs to be considered when setting priorities for the next period of activity. We recognise the significant efforts that the IASB and the Financial Accounting Standards Board (FASB) are making to respond to the accounting concerns raised by constituents following the recent financial crisis. The financial crisis has highlighted the importance of having a consistent approach to the accounting for financial instruments. We therefore strongly support the development of a single converged model for accounting for financial instruments under IFRS and US GAAP. We encourage the IASB and the FASB to continue to work together to achieve a converged solution for financial instruments and the other major convergence projects.

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We urge the IASB to identify and address certain threshold questions in financial reporting; we believe this is a different type of dialogue than that taking place on the conceptual framework. We believe that discussion and resolution of these key threshold questions would create a shared understanding and wider acceptance of IFRS across the stakeholder community. Answering these questions could potentially make a number of the specific projects in the Agenda Consultation easier to resolve. We identified two such questions. They are: a) develop a definition of performance that will provide for a meaningful earnings number as well as appropriate use of other comprehensive income; and b) identify principles for presentation and disclosure to guide the development of standards in those areas.

The IASB should be part of the debate on the future of financial reporting which is itself part of the current broader debate on corporate reporting. Consideration of the future of financial reporting is likely to require a significant time commitment from some Board members and senior staff. If not carefully planned, this commitment of senior staff time may compromise the IASB's ability to make progress on other important standard setting projects. As you are aware, we have previously commented that we do not believe that the IASB should have a dedicated research capacity unless separate funding for this is secured. We continue to hold this view, although we believe that the IASB should use its network of national standard setters as support on research matters and the discussions on the development of financial reporting.

Maintenance of the existing standards, including post-implementation reviews, implementation assistance for the major new standards and the work of the IFRS IC are equally important to the overall soundness and credibility of IFRS. Repairs and maintenance are an integral and expected part of the standard setting process and are vital to achieving consistent application.

The Agenda Consultation specifically seeks input to guide the activity of the IASB for a three year period. Many of the projects and recommendations in this response to the Agenda Consultation will require longer than three years to complete. However we believe that the intent of the Agenda Consultation was not to limit responses to projects that could be completed within a three year period but rather to help establish the Board's priorities for this period.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

**PricewaterhouseCoopersLLP**

cc Leslie Seidman, FASB



## **Appendix A – Agenda Consultation 2011 - Responses to Specific Questions**

### **Question 1: What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?**

We believe that there are four areas that the Trustees and the IASB should consider when establishing priorities for the next period. These are: a) complete the major convergence projects currently underway; b) resolve certain threshold questions in financial reporting ; c) consider the long term future of financial reporting and the role of the IASB in that future and; d) provide maintenance and implementation support, which are as important an activity as the conceptual and strategic work. We comment on each of these in our covering letter and expand below on the importance of the threshold questions.

We encourage the IASB to address the key threshold questions in financial reporting; we believe this is a different type of dialogue from the planned work on the conceptual framework. We believe that discussion and resolution of these key questions would create a shared understanding and wider acceptance of IFRS across the stakeholder community. We have identified two key areas: a) development of a definition of performance to allow for a meaningful earnings number as well as appropriate use of 'other comprehensive income'; and (b) identification of principles for presentation and disclosure to guide the development of standards in these areas.

Many companies and users of financial statements believe that a measure of profit or loss and earnings per share are important metrics that provide useful information about the performance of a business. There is also relevant and useful information about the remeasurement of certain assets and liabilities that should be presented in other comprehensive income. The existing standards do not, however, provide a consistent methodology for distinguishing between profit or loss and other comprehensive income or for determining the basis on which items should be recycled from other comprehensive income to profit or loss. This results in other comprehensive income being used as a compromise answer to troublesome remeasurement issues and an inconsistent approach to recycling.

We encourage the IASB to develop principles based definitions of performance and other comprehensive income. This would allow entities to report a meaningful measure of earnings that meets the needs of stakeholders. It would also allow the board to apply a consistent approach to the items recorded initially in other comprehensive income and to recycling, rather than considering individual issues on a piecemeal basis.

The development of principles for presentation and disclosure is identified as a strategic priority in the Agenda Consultation. We agree that this is an area of priority for the IASB as it works to answer the key questions that will then drive a framework and standards for presentation and disclosure.

Robust presentation guidance could serve to improve the overall communication of company performance to users. Presentation guidance could also assist in balancing the requests of users for disaggregated information with the current model of consolidated financial reporting with limited disaggregation of specific line items provided in the notes to the financial statements.

We also believe that the IASB should develop a principle for disclosure. A number of organisations including national standard setters and professional accountancy bodies have undertaken projects to consider how to reduce the disclosure burden in financial reporting whilst improving the information that is available to investors. The current principle in the Conceptual Framework, in simple terms, calls for preparers to disclose that which might interest users and have predictive or confirmative

value. This does not provide much in the way of guidance, as users seldom reject any information that is offered. Disclosure seems to serve three practical purposes in consolidated financial statements today; it disaggregates reported amounts, it provides some information at a point in time about the risk that recorded assets and liabilities might be realised or settled at a different amount than that recorded and it is how some controversial proposals are settled via a compromise of disclosure of information.

**Question 1(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?**

We agree that the two categories identified provide an appropriate distinction between the types of standard setting activity the IASB might engage in. We also found the five strategic areas to be valuable in framing the discussion of the agenda. However, we do not believe that a rigid categorisation into 'development of financial reporting' and 'maintenance of existing IFRS' is helpful if the distinction results in a higher profile and more resources being devoted to one category at the expense of the other. We believe that maintenance activity is equally important to the overall development of financial reporting as a robust and coherent set of accounting standards is the foundation of financial reporting. Both areas of activity are of equal importance to the IASB and the credibility of IFRS as the global financial reporting framework.

The two categories and five strategic areas are useful for framing the dialogue on the agenda but should not limit the flexibility of the IASB to commit resources to the most important projects.

We believe that there are three specific areas where the IASB or the IFRS IC might be more active to the overall benefit of the preparers and users of IFRS. These areas are the development of a process to be more agile on high profile issues, an improved process to resolve conflicts or fill gaps in the existing body of standards and more activity by the IASB to monitor and respond to the actions of preparers, national standard setters and regulators as they interpret IFRS. We expand on each of these in our response to Question 1(b) below.

**Questions 1(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.**

It is not possible to quantify or provide guidelines on how much time and resource could be devoted to each category and area. It implies a precision in planning that would result in rigidity and would not allow the IASB to respond to breaking issues or changes in priorities. The amount of time that is spent on development activities or maintenance activities will vary depending on the life cycle of various projects and other factors, including external factors to the IASB.

We stress that the maintenance of the existing standards, including post-implementation reviews, implementation assistance for the major new standards and the work of the IFRS IC are equally important to the overall soundness and credibility of IFRS. Repairs and maintenance are an integral part of the standard setting process and vital to encouraging and achieving consistent application. It is not an acknowledgement of failure to clarify standards and provide implementation guidance and support; it is part of the normal cycle of standard setting activity.

We discuss in the following paragraphs those three areas of standard setting activity where we believe the IASB could be more active.



We support principle based standards and we are not in favour of a proliferation of rules. The due process requirements of the IASB can impede rapid action. However, the IASB has demonstrated that it can act quickly on selected issues. Action from the IASB, within the constraints of the due process requirements, could provide leadership on high profile issues to help preparers, regulators and auditors work to achieve consistency.

Conflicts in existing standards or gaps in the standards do not fall within the definition of 'improvements' or may be related to other projects contemplated or underway at the IASB. However, these do allow diversity to develop when not addressed. We believe that identifying a more effective process for the IFRS IC or the IASB to deal with these issues would reduce diversity and add to the credibility of IFRS. We suggest that a more active role by the IASB or the IFRS IC in resolving these issues through improving the existing standards, rather than by publishing multiple interpretations, may reduce the likelihood that other bodies might interpret IFRS as described in the following paragraph.

We continue to support the efforts of the IASB to work with others to identify divergence in practice from IFRS. We are also concerned to see recent instances where national standard setters and regulators are providing guidance or interpretations of IFRS for use by domestic companies. Some of this guidance may be at variance with IFRS as issued by the IASB. We suggest there would be benefit in having an international forum whereby regulators, the IASB and others can compare notes; discuss matters of application and implementation and consider what additional actions the IASB can take within the requirements of due process.

**Question 2: What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?**

Please refer to our cover letter and the detailed responses to Questions 2(a) & 2 (b).

**Question 2(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?**

We have identified four key projects from the existing project list that we suggest the IASB prioritise. These are other comprehensive income, presentation and disclosure, accounting for income taxes and financial instruments with the characteristics of equity. However, we believe that the first two projects should build on work on the threshold questions described in our answer to Question 1.

A new standard on accounting for financial instruments with the characteristics of equity could resolve the myriad of issues encountered in this area. Classification as debt or equity is also a major area of difference between IFRS and US GAAP.

Accounting for income taxes today is very complex and is not well understood by users. A project on income taxes should take a fresh look at the topic from first principles and seek a solution that is less complex while remaining conceptually sound.



**Question 2(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).**

We have identified the key standards level projects that we believe the IASB should prioritise. We also stress that the IASB should reserve sufficient Board, staff and agenda time to complete the major convergence projects and for maintenance activities for both the package of significant new standards and existing IFRS. This should include some contingency for urgent issues that might emerge before the next cycle of agenda consultation.

All of the projects identified in the agenda consultation have been added to the IASB agenda or suggested for inclusion because there are users, preparers or others who believe standard setting activity is required. The IASB does not have the resources to do all of the projects suggested. The IASB might consider if national standard setters can take up projects that it does not have the resources to take forward at the current time.