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25 January 2016

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

RE: Request for Views: 2015 Agenda Consultation

Our Reference: 2016/JE/C1/IASB/5

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Request for Views: Agenda Consultation 2015 (Agenda Consultation).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

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## Overall Priorities

C1 members believe great strides have been reached in IFRS standard setting since the 2011 Agenda Consultation. We are pleased to see that the Board has once again solicited input from stakeholders about what projects and priorities should be on the future agenda of the IASB.

In terms of overall priorities, we note that the Agenda Consultation did not pose questions about the future role of convergence in setting the IASB's future agenda. Although there may be instances where the Board has decided that convergence was not appropriate (for example, convergence may create inconsistencies within IFRS), members believe that as the Board continues its efforts towards developing high-quality globally-accepted accounting standards for the benefit of investors, convergence should be considered in setting its agenda and achieving its objectives. As noted in the Agenda Consultation ED, the IASB is currently liaising with the FASB on the research project related to goodwill and impairment as well as the definition of a business. We encourage this type of collaboration. We also believe the IASB and the FASB should be cognizant of those areas that are similar in IFRS and U.S. GAAP, such as stock compensation, segment reporting, and business combinations, and try to coordinate any amendments to existing guidance in collaboration so as to not disrupt currently relatively converged standards.

There are a number of areas where C1 members noted a need for new or additional standard setting. Below are those areas that members felt were the highest priority:

- *Business combinations between entities under common control* — As we stated in our 28 April 2011 letter to Mr. Michael Stewart, we have concerns about divergent accounting treatments under IFRS related to common control transactions. We note that questions related to this issue have been submitted to the IFRS Interpretations Committee on various occasions. We support the IASB's work on the Discussion Paper expected to be published in 2016 and look forward to progression to a standard-level project on a timely basis. We believe there is a pressing need for the Board to establish requirements in this area.
- *Definition of a Business* — The current definition of a business is difficult to apply in practice and results in different entities accounting for the same or similar set of facts differently, one as a business and another as a set of



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assets, not a business.

- *Disclosure Initiative-Principles of Disclosure* — There is a need for an IFRS disclosure framework that provides a clear, coherent and comprehensive but concise package of relevant disclosure requirements.
- *Financial instruments with characteristics of equity* — This guidance is important in accounting for many financing transactions and we encounter inconsistencies in practice (e.g.; consideration of economic compulsion, such as in arrangements with accelerating-rate dividends or dividend stoppers, and applying the "fixed for fixed" guidance, among other issues).

Consistent with our letter on the 2011 Agenda Consultation, we note the projects on Business Combination under Common Control and Financial Instruments with Characteristics of Equity as priorities as we continue to think these need to be addressed in a timely fashion.

In addition to the points raised above, we have provided additional comments below about certain projects that we believe should be priorities of the IASB, and we have responded to the specific questions raised in the Agenda Consultation, Request for Views.

#### ***The balance of the IASB's projects***

1. *The IASB's workplan 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?*



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The IASB should focus its resources on those topics that are most pressing and move those topics through the research phase and into the standards-level phase so that stakeholders' needs can be satisfied in a timely fashion. This may mean placing a pause on some projects further along in the standard setting process in order to free up resources to work on more pressing issues that are not as far along in the standard setting process. Members believe this will result in more effective utilization of resources on the most important standard setting that could have the most impact. Please see our comments elsewhere in this letter as to what projects should be priorities.

### **Research projects**

2. *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 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?*

3. *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).*

Members believe that the IASB should focus its resources on those areas where existing guidance is not sufficient. Members feel it will be necessary for the Board to shift priorities from existing research projects in order to focus on those areas with the greatest need for standard setting. Given that there is diversity among the greatest needs of the jurisdictions that are members of Committee 1, we do not have unanimity as to all of the projects that the Board should have on its agenda or the priority of those projects on the agenda. However, our comments identify projects cited by members as addressing areas of pressing need for new or additional standard setting.



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The following projects could be deemed lower priorities in order to make room for more pressing areas where current guidance is insufficient:

- Post-employment Benefits (including Pensions),
- Share-based Payment,
- Income Taxes,
- Discount Rates,
- Equity method,
- Pollutant Pricing Mechanisms (formerly Emission Trading Schemes),
- Dynamic Risk Management.

By reducing the priority of these projects and also limiting the addition of new projects to the research agenda, we believe the IASB could make more resources available to accomplish the following priorities in a timely manner. We believe these topics represent the most pressing areas in need of standard setting:

<u>Project</u>	<u>Priority</u>
Business Combinations under Common Control	High
Definition of a Business	High
Disclosure Initiatives—Principles of Disclosure	High
Financial Instrument with Characteristics of Equity	High
Extractive Activities	Medium
Goodwill and Impairment	Medium
Primary Financial Statements	Medium
Provisions, Contingent Liabilities and Contingent Assets	Medium
Non-current Assets Held for Sale and Discontinued Operations	Low <sup>1</sup>

C1 members' overall priorities for standard setting have been noted in our response on page two, and encompass the following projects: Business Combinations under Common Control, Definition of a Business, Disclosure Initiatives and Financial Instruments with Characteristics of Equity. With regard to the other projects noted above, our comments follow below.

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<sup>1</sup> This is a topic that should be added to the research agenda.



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### Extractive

Members believe accounting in the extractive industry is an area that currently impacts select jurisdictions significantly. We recognize that this may not be a significant industry in all jurisdictions. However, in those jurisdictions where it is significant, the lack of IFRS guidance leads to potential comparability and enforcement issues. IOSCO C1 members recommend prioritizing the development of guidance for these activities.

### Goodwill and Impairment

Members believe that the accounting for and impairment of long-term assets, including goodwill, is an area where there is diversity in the application of current IFRSs and stakeholders would benefit from a reconsideration of the guidance. Members believe it could be beneficial to address these areas simultaneously due to the similarities and differences in the nature of these assets and their current impairment models.

### Primary Financial Statements

The IASB workplan (as at December 18, 2015) notes that this project is closely linked with the work being undertaken in the Disclosure Initiative, and the IASB staff will assess the interaction with the Disclosure Initiative project before proposing a scope for this project. Members support this approach.

### Provisions, Contingent Liabilities and Contingent Assets

Members believe it is appropriate to include on the agenda a research project on Provisions, Contingent Liabilities and Contingent Assets due to potential changes needed in response to the revised Conceptual Framework.

### Non-current Assets Held for Sale and Discontinued Operations

Due to a number of practice questions raised over the past several years, some members would like a research project added about Non-current Assets Held for Sale and Discontinued Operations. However, other members thought this accounting could be determined from the existing literature and that the impact of errors in the application of the current guidance are not so large as to make them want to place more priority on improving the accounting in this area.



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### *Major projects*

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

Members agree that the projects that are currently identified as major projects on the Board's agenda should continue toward completion. However, some members believe the Dynamic Risk Management project could be a lower priority in order to make resources available for higher priority projects.

### Conceptual Framework and Financial Instruments with Characteristics of Equity

Although we highlighted earlier in this letter that the Financial Instruments with Characteristics of Equity project should be a priority, we believe the current complexities around determining whether a financial instrument is a liability or equity warrants further consideration in the context of the Conceptual Framework project. The current guidance on Financial Instruments with Characteristics of Equity can result in entities reaching different conclusions in what appear to be the same or similar fact patterns. The analysis required to assess the classification of financial instruments is complex and time intensive. The Conceptual Framework has not fully or clearly established how stakeholders should assess features in a financial instrument in determining whether it is appropriate to present the instrument for financial reporting purposes as a liability or equity. Therefore, members think the Board should make it a priority to complete the research phase of this project on Financial Instruments with Characteristics of Equity so that it can move to a Major Project stage as soon as possible. In doing so, the IASB would be able to bring much needed accounting guidance to completion in a timely manner and resolve questions left unanswered by the Conceptual Framework. If the Board does not make the research phase of this project a priority, constituents will continue to operate with ambiguity about the accounting for these instruments. Members would like to avoid inconsistency of application and believe standard setting may be necessary to achieve this goal.

### Segment Reporting

Members recognize that the IASB recently completed its post implementation review of IFRS 8, *Operating Segments*. However, significant changes were not made to the segment reporting model as a result of this review. As such, identified weaknesses in the model continue to exist and lead to reporting comparability and compliance issues. Members are concerned that a narrow-scope amendment to IFRS 8 may not resolve members' concerns with the overall model for segment

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reporting, and compliance therewith. We will consider the exposure draft to be issued but are not sure this will solve our concerns. Members continue to believe broader changes to the model are necessary and therefore believe Operating Segments should be deemed a higher priority and moved to a Major Project phase.

### Rate Regulated Activities

We recognize that this may not be a significant activity in all jurisdictions. However, in those jurisdictions where it is significant, the lack of IFRS guidance leads to potential comparability and enforcement issues. C1 members recommend prioritizing the development of a standard for these activities.

We support the work the IASB has underway on the major projects. Specifically, the newly issued guidance on Insurance Contracts and Leases, as well as work done on the Conceptual Framework and the recently issued proposal for a Materiality Practice Statement. In all of these examples, guidance has been developed or proposed that we believe will or when finalized will contribute to improved compliance and comparability of financial reporting across entities.

### *Maintenance and implementation projects*

5. *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)?*

Members believe the mix of standard setting options was enhanced with the decision to allow the Interpretations Committee to perform preliminary work on topics that potentially require amendments to current IFRS. This provides for an avenue to resolve more narrow standard setting needs. However, members note that there are some topics that both the IASB and the Interpretations Committee have considered addressing and both have determined for different reasons that they cannot take on the project. This leaves stakeholders without a solution to a current application issue or a perceived shortfall in current guidance.

An example is the disclosure requirements related to the assessment of going concern (as reflected in the July 2014 Interpretations Committee agenda decision). The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties about events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to update the disclosure requirements in IAS 1 in response to this





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issue. At its meeting in November 2013, the IASB discussed the issue and considered amendments proposed by the staff, but ultimately decided not to proceed with these amendments . Consequently, the Interpretations Committee removed the topic from its agenda.

Members believe this type of scenario should be avoided. We recommend that the Board develop a way to resolve narrow application and standard setting issues so that these types of issues do not get lost or left unresolved.

#### ***Level of change***

6. *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?*

Other than as noted in our response above (Question No. 5), members believe the pace and level of change is appropriate.

#### ***Any other comments***

7. *Do you have any other comments on the IASB’s work plan?*

We have no further comments at this time.

#### ***Frequency of Agenda Consultations***

8. *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?*

Members believe that three years is an appropriate timeframe for the IASB to work and respond to Agenda Consultation input before the IASB checks with its constituency on new developments in the marketplace. A longer time period may not be sufficiently responsive to evolution in the securities markets and general changes in standard-setting needs.

Members also realize that it can take several years for major projects to be completed. As such, members think a more reasonable interval between Agenda Consultations is in the range of 3 to 4



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years, but it should not be longer than five years. Members believe it is important that the Board stays abreast of changes in the securities markets and financial reporting trends so that they can adjust their workplan accordingly to marketplace and financial reporting needs that arise between Agenda Consultations.

\* \* \* \*

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt  
Chair  
Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions