



IFRS Foundation
Chairman of the Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

22 December 2015

Dear Sir,

Re: Request for Views: 2015 Agenda Consultation

BUSINESSEUROPE is pleased to have the opportunity to respond to the IASB's 2015 Agenda Consultation (the Consultation). We stated in our response to the 2011 consultation that it was important to have a period of stability in the body of IFRS in order to allow constituents to consolidate their understanding and application of IFRS. A major factor which would help create this "stable platform" would be the recognition of the need to amend or develop standards and the establishment of an "evidence-based" approach to the identification of areas where change was needed. We therefore welcome the IASB's statement that it has adopted a new approach to standard setting informed by evidence.

We think that the need for a stable platform remains unchanged. Preparers (and users?) expect to continue to spend a considerable amount of time and resources on preparing for the application of major new standards, including Leases, Revenue from Contracts with Customers and Financial Instruments, over the next few years. Future developments should therefore be restricted to the essential projects currently in progress, that is, the Conceptual Framework, including the principles of performance reporting in the income statement, and the Disclosure Initiative, and any other matters identified by constituents as fundamental and pressing. In this respect, we think that the findings of Post-Implementation Reviews will be the main source of evidence of any amendments that are required, and that any other projects, such as those identified during the research work, should be tested objectively and individually for their need by consultation before being transferred to the active standard-setting programme.

Responses to the individual questions of the Consultation are included in the appendix.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General



APPENDIX

The balance of the IASB's projects

1 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 would reiterate that our first priority is to achieve and maintain a stable platform of robust, principles-based standards of high quality.

Having said that, the Conceptual Framework and the Disclosure Initiative are both essential projects, the former since we expect that it will help the Board resolve a number of problems currently encountered with certain standards or areas of accounting, and the latter because it will facilitate the transparency of financial statements and lead to better communication between entities and investors. Performance reporting, and in particular, the definition of the distinction between net profit or loss and Other Comprehensive Income, is a key area of the framework which should inform future projects. We think these two remain priorities to which the Board should devote sufficient resources to ensure that they are satisfactorily completed as soon as possible.

Two major projects, Leases and Insurance Contracts, must also be completed. The new Leases standard will affect a large range of entities and application may well require entities to expend a great deal of effort, but time spent by the Board and staff on ensuring that the text is clear and unambiguous will facilitate this. The insurance contract standard will affect only a small number of entities and so should not be disruptive for the majority of IFRS reporting entities.

In the area of maintenance and implementation, we do not see many standards where there is a compelling need for amendment. We think that work in this area should be informed by Post-Implementation Reviews (PIR), and the Board should therefore devote a significant part of its resources to ensuring that the impact of new standards is well understood and as many problems as possible identified before any standard-setting work is undertaken. We would therefore support the Board's working on the various key issues identified in relation to IFRS 3 Business Combinations.

We note from paragraph 15 of the Consultation that there is a relatively low hurdle for adding research projects to the research programme. A low threshold may well lead to a high demand on the Board's and staff's resources and overload of the standard-setting programme. On the first issue, we suggest that the Board make extensive use of existing results of research already performed by other bodies, such as national standard-setters, EFRAG or academics resources, or work in close cooperation with them on new research.



On the second issue, while the factors listed in the Consultation to filter out problems to be transferred to the standard-setting programme are appropriate, we think that the Board should always consult widely in order to confirm that its judgement of the importance of the issue is well-founded. It would be helpful for there to be a clear pause in the process once a discussion paper has been commented upon for the Board to consider whether the project should continue to the standard-setting phase or be abandoned. One factor to which weight should be given would be the realistic likelihood of reaching a successful conclusion, that is, of finalising a widely welcomed standard within a reasonable length of time. The process for deciding which projects pass to the standard-setting agenda and what the product of research should be, should be made more transparent so that constituents can contribute more effectively to the process.

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?

We note that currently an IFRIC draft interpretation is being exposed for comment on the topic of when the exchange rate should be fixed. The underlying issue of the treatment of monetary and non-monetary items might be clarified by being dealt with in the Conceptual Framework in relation to performance reporting.

We consider that insufficient consideration has been given to the *interaction* between IAS 29 and IAS 21 in certain circumstances, which can lead to distortion of information presented in the financial statements that cannot be corrected solely by disclosure. This specific problem has not been adequately discussed in the two disconnected projects mentioned in paragraphs 39-43, and should be addressed before removing these topics from the agenda, particularly since "*the Interpretations Committee observed that **a longer-term lack of exchangeability** is not addressed by the guidance in IAS 21, and so it is not entirely clear how IAS 21 applies in such situations (IFRIC Update July 2014).*"

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). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.



We do not think it is practical to carry out a poll of Business Europe members to identify the importance and the degrees of urgency of the various projects. However, the following areas are frequently cited in our discussions as being sources of difficulty or lacking in clarity, and are therefore candidates for projects.

- IFRS 3: the issues identified by the PIR should be resolved in the near term and as far as possible in coordination with the FASB. The definition of a business is important because of the difference in treatment between an asset acquisition and a business combination. As part of the consideration of the issue the reason for these differences should be examined. The initial identification of, and subsequent accounting for, goodwill needs to be addressed. The requirements of users for information in this area are unclear to us as preparers, and it would be very helpful to identify whether it is a change to the accounting model or an expansion of information about business combinations which is really required. This should be a standard-setting project rather than a research project.
- Equity accounting: The validity and utility of this method of accounting for certain investments appear to be well established and need not be re-examined. However, there is a number of issues which have been identified and warrant resolution on a consistent basis across standards. Given the number of questions of interpretation that has been raised, we think that a PIR of IFRS 11 is now pressing. This matter warrants treatment as a standard-setting activity.
- In parallel to the work on equity accounting, there is a need to resolve the various questions addressed by IFRIC on the accounting for variations in ownership interest in different kinds of structures.
- IFRS 5: There are several issues that have been raised with this standard. A fundamental review of users' needs should aim to identify the purpose and scope of the standard and the type of information required.
- Income and Other Taxes: The demand is not for a complete and fundamental revision of the concepts involved but rather work aimed at resolving the application issues identified by IFRIC, including the question of levies and similar items which are essentially taxes.
- The Debt/Equity distinction (cited mainly by financial institutions): If possible this should be resolved by the revision of the Framework. The current principle of the definition of equity as a residual is not contested, and we agree with focusing the project on exploring whether the existing classification requirements in IAS 32 could be improved.



- **Discount rates:** We agree that a review of the use of discount rates across the whole set of IFRSs is necessary. The purpose of the project should be to gain an understanding of whether the use of different rates is justified in some cases, and in others to determine whether rates should be harmonised. We note that a research project is underway and think the Board ought to pursue this in order to collate the data necessary to enable constituents to form an opinion on whether it should be taken further.
- **Macro Hedging:** Although many entities find the general hedging model suitable for their circumstances, a number of entities other than financial institutions think that it is inadequate to reflect their hedging strategies and activities. We think that the IASB should focus its work on a model which deals with hedging activities, including commodity hedging, rather than imposing accounting for net risk positions on entities. Any model which is developed should be applicable on a voluntary basis, since it is a complex area and mandatory application would be very onerous for most entities.
- **Variable and contingent consideration:** This is an issue that the IFRIC has been trying to resolve for a while in respect of asset purchases and business combinations. We think that the Conceptual Framework should provide the principles to deal with this by addressing the question of what the opposite side of the entry should be when there is a variation in a liability or an asset. This is a fundamental question, the answer to which could also provide a route to resolving other matters, such as variations in non-controlling interests.

Major projects

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

The major projects currently under way (Leases, Insurance, Conceptual Framework and the Disclosure Initiative) should remain the priority. We would support macro-hedging as a major project as long as the objectives are to enhance the usefulness of the financial information and to reflect faithfully the activities actually undertaken to manage dynamic risk in financial reporting. Otherwise, we do not see any topic which should be added as a further major project in the near future.

In relation to the Conceptual Framework, we would recommend that the new definitions of assets and liabilities and the recognition criteria should be extensively field-tested to ensure that they are fully operational and understood by all constituents. Once the Framework has been finalised, the Board should consider whether and to what extent current standards should be made to conform to the Framework.



Maintenance and implementation projects

5 Are the IASB and the IFRS Interpretations Committee (the IFRIC) providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)? 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? Any other comments 7 Do you have any other comments on the IASB's work plan?

We note that in the last 3-4 years the Interpretations Committee has issued 15 annual improvements, Interpretations relating to 21 standards and 54 decisions not to take issues onto its agenda. While we acknowledge that the IFRIC has determined that a large proportion of issues raised did not merit standard-setting or interpretative work, the number of issues raised appears to us to be too high. We wonder whether this is an indication that the standards have been published prematurely, i.e. without sufficient field-testing or external review, or whether the perceived diversity of interpretation or application is not as prevalent or as unacceptable as those who raised the issues appear to believe.

The figures quoted in the Consultation lead us to concern about the workload of the IFRIC, which may be such that it cannot treat the issues thoroughly enough in the time available. It may be advisable to provide the IFRIC with tools to enable it to analyse issues quickly in order to filter topics out, or decide whether it is a topic it can deal with in a reasonable period or whether it needs to be passed to the IASB.

Finally, we would emphasise that we fully support the underlying principle of IFRS as a principle-based body of accounting literature relying on judgement to ensure that it is appropriately applied. We would oppose any move towards the development of detailed guidance which could lead to hard and fast rules.

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

We understand that convergence with US GAAP is no longer a declared objective of the Board's work. We note however that there are still a number of standards which are converged to a greater or lesser extent. The FASB recently decided to move quickly on the results of their PIR on business combinations by proposing some amendments to their standard, and the IASB followed suit to some extent. Although we do not oppose the IASB's decision to develop an exposure draft on these topics, we think it would be helpful for the IASB to state what its policy is in respect of the maintenance of converged standards in order to allow constituents to understand and anticipate developments in IFRS.

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?

A stable platform of five years would allow constituents to implement current major new standards without the disruption of preparing for further impending changes. However, many significant changes can occur in the business world in such a period, and it may therefore be more reasonable to continue to consult constituents over the current shorter term in order to confirm that priorities have not changed substantially.

* * *