

IFRS Foundation  
30 Cannon Street  
London  
EC4M 6XH

27 November 2015

Dear Sirs

**Request for Views 2015 Agenda Consultation**

This letter sets out the comments of the UK Financial Reporting Council (FRC) on the above Request for Views.

We welcome this consultation as, in our view, it is important to consult regularly with stakeholders on the content and priority of projects on the IASB's work plan. This is particularly relevant at this point in time because the IASB is in the process of issuing its revised *Conceptual Framework* and finalising other key projects and therefore will enter a new phase of work.

However, it seems odd, in our view, that the Trustees are also undertaking a consultation on strategic direction in parallel with the agenda consultation. In our response to the Trustees' consultation we set out our belief that the Trustees should agree a strategic direction for standard-setting before an agenda consultation is commenced. We suggest this should include consideration of how economic growth might be better supported. For example, in the UK and the EU there is a focus on minimising regulatory change and on effective embedding of recent change. We believe that the Trustees need to consider the pace of development of standards and the level of detail the standards should include, to ensure that the IASB remains focused on a principles-based approach, before the IASB undertakes an agenda consultation. Consideration of such strategic direction will consequently help the IASB to determine its future agenda.

Despite our concerns on the order of these consultations and the absence of a strategic direction for standard-setting we have responded to this consultation on the current priorities of the IASB's agenda. The key points we make are:

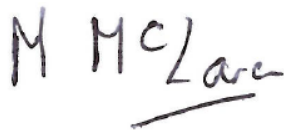
- a. *Conceptual Framework*: Once the revised *Conceptual Framework* is issued, we strongly urge the IASB to continue to develop specific areas after that date, such as measurement, performance reporting (including the distinction between profit or loss and other comprehensive income) as well as the distinction between liabilities and equity.
- b. *Disclosure Initiative*: We support this initiative and consider that the main focus should be on the upcoming Discussion Paper on *Principles of Disclosure* and the other projects under this initiative should be based on these principles to reduce the risk of fragmentation.

- c. Research projects: We believe that priority should be given to the performance reporting project (now included in the “Primary financial statements” project). In particular, research and analysis should be undertaken on the reporting of financial performance to meet both users’ needs when making investment decisions *and* for holding management to account for their decisions.
- d. Maintenance and implementation projects: We note that a large number of changes can be burdensome for both preparers and users. Therefore, when assessing the merits of a proposal the IASB should also give consideration to the capacity of stakeholders to implement and understand the changes.

Our responses to the questions in the Request for Views are included in the Appendix to this letter.

If you would like to discuss these comments, please contact me or Anthony Appleton on 020 7492 2432.

Yours sincerely

A handwritten signature in black ink that reads "M McLaren". The signature is written in a cursive style, with the first letter of each word being capitalized and larger than the others. A horizontal line is drawn under the name.

**Melanie McLaren**  
**Executive Director**  
DDI: 020 7492 2406  
Email: [m.mclaren@frc.org.uk](mailto:m.mclaren@frc.org.uk)

## Appendix: Questions on the IASB's work plan for 2016–2019

### The balance of the IASB's projects

#### Question 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?

- A1 The FRC believes that the issue of the revised *Conceptual Framework* and completion of the *Disclosure Initiative* should be given priority and sufficient resources need to be allocated to complete them on a timely basis.
- A2 The FRC welcomes the move to a more evidence-based approach when determining which projects should be added to its work plan. We believe a commitment to this approach is the appropriate way to minimise the risk of unnecessary and/or excessive change.
- A3 We agree in general that the factors listed in paragraph 55 of the Request for Views are appropriate to help the IASB determine priorities. However, it would be helpful to constituents if some explanation was provided on how these factors have been applied when adding items to the agenda or when items progress through the research programme or are elevated to the standards-level programme. We consider that when prioritising projects due to "the importance of the matter to those who use financial reports" it would be appropriate to consider and explain how common the issue is. For example, improvements in the quality and relevance of disclosures will usually impact all financial statements whilst the potential recognition of rate-regulation assets and liabilities will affect relatively few.
- A4 The FRC notes that introducing many small changes to standards creates a burden on the IASB's stakeholders in implementing changes and understanding new reporting requirements. We believe that when assessing the capacity of stakeholders to respond to proposals, consideration should also be given to the capacity of stakeholders to practically implement and understand what is sometimes seen as almost continuous change to the standards. This is where it is important that the cost-benefit balance of any proposed change needs to be carefully assessed, not only for major projects but also for maintenance and implementation projects such as narrow-scope amendments.
- A5 Furthermore there have been instances where the evidence-based approach has not worked as efficiently as hoped. If there are a series of separate but related issues brought to the IASB's attention on the operation of a particular standard, this may be evidence of a deeper flaw in the standard requiring research rather than disparate maintenance-level responses. We consider that before a narrow-scope amendment project is added to the work plan, the IASB needs to ensure that there are no broader issues that need to be addressed before the issue can be resolved.

- A6 The FRC considers that as long as the IASB continues to use an evidence-based approach for its decisions on whether to add or remove projects from its work plan then the allocation of resources should remain flexible. However, we encourage the IASB to ensure there is sufficient resources allocated to the research programme such that indicative impact assessments of potential solutions and the practical operability of solutions are considered before progressing to the standards-level programme. That said, resources should not be allocated to maintenance and implementation projects when such action would delay major projects.
- A7 The FRC also encourages the IASB to expand the use of field testing. Improving the quality of new standards and amendments before their finalisation should reduce the resources needed to make subsequent changes through maintenance and implementation projects.

<p><b>Research projects</b></p>
<p><b>Question 2</b></p> <p>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.</p> <p>Should the IASB:</p> <p>(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.</p> <p>(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?</p> <p>(c) remove any other projects from its research programme?</p>
<p><b>Question 3</b></p> <p>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).</p> <p>Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.</p>

***Projects linked to the Conceptual Framework***

- A8 The FRC believes that the IASB should prioritise the research projects that will be helpful in completing the *Conceptual Framework*. Therefore we consider that the project on *Financial Instruments with Characteristics of Equity* should be high priority. A project to revise IAS 38 *Intangible Assets* should be added to the work plan so that consideration can be given as to whether to amend it to reflect the revised definition of an asset. This work could be linked to the currently inactive wider research project on extractive activities, intangible assets (including internally-generated intangible assets) and R&D. However, we do not believe that standards which are working well in practice, such as IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, should be revised solely due to the revision of the *Conceptual Framework*.
- A9 The FRC considers that the *Primary Financial Statements* project should also be high priority, which should include in its scope, the revision of IAS 7 *Statement of Cash Flows*.

In particular, research and analysis on reporting financial performance to meet users' needs when making investment decisions *and* for holding management to account for their decisions should be prioritised. This includes, but should also go beyond, the distinction between the profit or loss and other comprehensive income. This work can then supplement or expand the revised *Conceptual Framework*.

### **Project to add**

- A10 The FRC encourages the IASB to consider a research project on non-exchange transactions to address issues in respect of levies, government grants and income taxes. We believe this project should be of high priority because it seems unlikely that the issues surrounding these topics will be resolved without considering the non-exchange non-voluntary nature of levies and income taxes, and the non-exchange nature of government grants. Consequently, we consider that the research project on *Income Taxes* is of low priority.

### **Projects to remove**

- A11 The FRC considers that the research project on *Share-based Payment* is of low priority and should be removed from the work plan. This is because we believe that there is little realistic chance of progressing this project until the project on *Financial Instruments with Characteristics of Equity* is substantially complete.
- A12 The FRC agrees with the IASB's proposal to remove the projects on foreign currency translation and high inflation from its work plan.

### **General comments**

- A13 The FRC considers that the categorisation of research projects into assessment and development stages is helpful in highlighting the progress on a project. However, in some instances, as discussed in the response to Question 1 above, it has been unclear as to the process for a project moving from the assessment stage to the development stage.

<b>Standards-level and other major projects</b>
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<b>Question 4</b>
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Do you have any comments on the IASB's current work plan for major projects?
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- A14 The FRC agrees with the list of major projects on the work plan. We urge the IASB to finalise the insurance contracts project as soon as possible<sup>1</sup>.
- A15 We also agree with the expected time line for issue of the revised *Conceptual Framework* which we understand is due to be issued in late 2016–early 2017. However, we strongly urge the IASB to continue to develop specific areas after that date, such as measurement (as set out in our response to the Exposure Draft of the *Conceptual Framework*), performance reporting, including the distinction between profit or loss and

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<sup>1</sup> We assume that the new leases standard will be issued before the close of the consultation period for the *2015 Agenda Consultation*.

other comprehensive income, as well as the distinction between liabilities and equity where we consider further analysis and development will still be necessary.

- A16 The FRC is a strong supporter of the *Disclosure Initiative* and therefore agrees that it should be a major project and expect it will also lead to consequential amendments to the *Conceptual Framework* to set out the principles underlying presentation and disclosure. The FRC currently has two initiatives which focus on presentation and disclosure: Clear & Concise and the activities of the Financial Reporting Lab: both of which aim to improve the effectiveness of financial reporting.
- A17 We have been concerned by the fragmentation of the *Disclosure Initiative* into disparate projects which has appeared to shift focus from the original stimulus for the project, which was the perception of too many disclosures of insufficient quality and relevance. We therefore welcome the upcoming Discussion Paper on the Principles of Disclosure and encourage the IASB to prioritise this particular element of the Initiative. It would also be helpful if the linkages between the various projects could be clarified so constituents may more easily monitor progress, and to ensure there is no duplication of effort.

<b>Maintenance and implementation projects</b>
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<b>Question 5</b>
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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)?
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- A18 The FRC agrees that the range of activities that the IASB carries out to address maintenance and implementation issues is appropriate as they provide flexibility and enables the IASB to deliver improvements in financial reporting in a timely way.
- A19 However, we encourage the IASB to issue Interpretations, narrow-scope amendments and annual improvements only after careful consideration of the factors in paragraph 55, with the objective of developing principles-based standards that require the application of professional judgement. There is a difference between uniformity, which requires numerous rigid rules, and comparability, which may often be secured by clear understandable principles. Uniformity should not be a driver for a proposed amendment. Where there is uncertainty in the application of a standard, it may be useful to consider whether the development of educational material would suffice instead of undertaking standard-setting activity.
- A20 We also encourage the future use of Transition Resource Groups following the issuance of major new standards, as the public discussion can aid common understanding and consistent implementation internationally without the need for changes to standards or issues being referred to the IFRS Interpretations Committee.
- A21 As noted above, a high incidence of issues relating to the same standard may be evidence of a deeper flaw in the standard. We welcome the decision of the IASB to defer further amendments to IAS 28 *Investments in Associates and Joint Ventures* whilst research is carried out on the equity method generally.

- A22 A large number of changes can be burdensome for both preparers and users; this burden could be reduced by: limiting the total number of amendments; bundling those that remain together; and endeavouring, where possible, to align implementation dates.
- A23 Whilst we understand that undertaking post-implementation reviews is a fairly recent activity, we consider that the mechanisms and processes for responding to issues identified through these reviews needs to be streamlined so that once a review is completed the issues are addressed in a timely manner. For example, it is disappointing that delays in elevating issues identified in the post-implementation review of IFRS 3 *Business Combinations* through the research stages and onto the standard-setting phase have resulted in the FASB being more advanced in its re-deliberations of the standard, which is currently converged. We encourage the IASB to work together with the FASB in to reduce the likelihood of divergence in this area. On the wider issue of standards that are converged with the FASB, we believe that the IASB need to establish a mechanism to ensure that issues arising in a converged standard are discussed by both Boards' at the same time to minimise the risk of introducing divergence.
- A24 We understand that there are proposals to reduce the number of face-to-face meetings of the IFRS Interpretations Committee. We would be concerned that this could result in less effective dialogue between members; less detailed consideration of issues brought to the Committee's attention; and less timely conclusion of issues.

<b>Level of change</b>
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<b>Question 6</b>
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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?
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- A25 As set out in our response to the IFRS Foundation *Trustees' Review of Structure and Effectiveness*, we consider it odd that the Trustees are also undertaking a consultation on strategic direction in parallel with the agenda consultation. We encourage the Trustees to agree a strategic direction for standard-setting, after consultation with stakeholders, before the IASB commences a more granular agenda consultation. We go on to suggest that the strategic direction should include consideration of how economic growth might be better supported. For example, in the UK and the EU there is a focus on minimising regulatory change and on effective embedding of recent change. We believe that the Trustees need to consider the pace of development of standards and the level of detail the standards should include, to ensure that the IASB remains focused on a principles-based approach before the IASB undertakes an agenda consultation. Consideration of such strategic direction will, consequently, help the IASB to determine its future agenda.
- A26 On the IASB's work plan, the FRC would have preferred that the major projects identified in the last agenda consultation had been progressed more quickly. We acknowledge that these have required the resolution of complex issues and that this can take time. We welcome the IASB's outreach activities, including the creation of ASAF and the steps taken to understand users' views more fully, and also acknowledge that addressing the diversity of views received can slow the standard-setting process whilst improving the quality of the final standards.
- A27 However, we also note the lessons to be learnt from the revenue, financial instruments and leases projects where, in each case, significant practical barriers to applying the

proposals in the first Exposure Drafts led to further extended re-deliberation and ultimately second Exposure Drafts. More time spent during the research development phase on assessing the practical operability of proposals could save time overall.

A28 As noted above, a high number of separate narrow-scope amendments can be burdensome and may threaten the principles-based approach to standard-setting.

<b>Any other comments</b>
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<b>Question 7</b>
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Do you have any other comments on the IASB's work plan?
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A29 No.

<b>Frequency of Agenda Consultations</b>
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<b>Question 8</b>
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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?
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If not, what interval do you suggest? Why?
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A30 The FRC agrees with the IASB's proposal to introduce a five-year interval between agenda consultations if such an interval is strictly applied. We note that the previous agenda consultation was issued in July 2011, more than four years before this one. As noted above, we believe that future agenda consultations should follow consideration by the Trustees on the future strategic direction of standard-setting.