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11 January 2016

Dear Sir

Request for Views: 2015 Agenda Consultation

We are pleased to comment on the above Request for Views (the RfV). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the RfV.

An immediate priority should be the completion of the major projects for leases (for which we note a final standard will be issued shortly), insurance, the conceptual framework and the disclosure initiative. Linked to these (and other recently issued major new Standards, such as IFRS 15 *Revenue from Contracts with Customers*), consideration needs to be given to how best to support preparers and others in the implementation of new requirements. In addition to the IFRS Interpretations Committee, we support the continuation of existing, and where appropriate (which we believe would be in limited circumstances only) the formation of new, Transition Resource Groups (TRGs). We note that TRGs not only provide a public discussion forum, but also enable the IASB to access resources from the accounting profession and other organisations.

We also support continued liaison between the IASB and the FASB where the two standard setters have issued converged (or near converged) standards, including continued involvement with the TRG for revenue recognition. This should extend to cover liaison between the IFRS Interpretations Committee and the Emerging Issues task Force, when issues relating to converged (or near converged) standards are submitted to those groups.

One of the critical stages in the development of a new standard is its completion, including late changes arising from a 'fatal flaw' review of a relatively final draft standard. We believe that when significant points arise from the 'fatal flaw' review, consideration should be given to a further 'fatal flaw' review in order to ensure that drafting changes are clear and address the issues that have been raised. This might assist in avoiding implementation issues that have arisen after the issue of certain new standards, such as IFRS 11 *Joint Arrangements* and IFRS 15 *Revenue from Contracts with Customers*. We also note comments made in our letter in response to the Trustees' Review of Structure and Effectiveness: Issues for the Review,

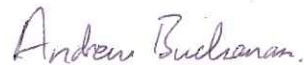
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including in particular that although it would be helpful and appropriate for there to be more transparency around the private 'fatal flaw' process we do not support a public fatal flaw review.

Our responses to the questions in the RfV are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

A handwritten signature in cursive script that reads "Andrew Buchanan".

Andrew Buchanan

Global Head of IFRS

Appendix

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*
- 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 agree with the factors set out in paragraph 55 of the RfV as a starting point in prioritising projects and allocating resources. While they might be judged to be included at a high level within those factors, additional more detailed criteria which it would be appropriate to consider include:

- whether the issue is covered by existing IFRSs (either in whole or in part);
- where the IASB has issued existing guidance, whether that guidance operates satisfactorily, or whether it has become out of date and has not kept up with the developments in transactions and events; and
- the extent to which there is diversity in practice;
- how pervasive the issue is, with highest priority being given to those which apply across industry sectors and jurisdictions, and proportionately less to those which apply to a single industry in multiple jurisdictions and to those applicable to a single industry in a single jurisdiction.

The inclusion of these more detailed criteria would assist in the IASB identifying which of its potential projects would result in the most significant improvements to accounting requirements for the largest group of entities affected, and would therefore assist in obtaining the best value from the IASB's resources. However, it is also important that the IASB takes into account whether the guidance in existing IFRSs, which might not necessarily be technically pure, works satisfactorily in practice. For example it is possible that some might argue that the asset derecognition guidance in IAS 39 and IFRS 9 is conceptually flawed, as it combines both a control and a risks and rewards assessment. However in practice, even when put under considerable pressure (such as at the onset of the financial crisis some years

ago), that guidance was demonstrably effective in arriving at an appropriate accounting treatment.

Of the five main areas of technical projects noted above, assuming that the leases standard is published in early January 2016, significant emphasis then needs to be given to the completion of the new Standard for Insurance Contracts (together with resolution of issues arising from the different effective dates of that Standard and IFRS 9 *Financial Instruments*). We also believe that significant efforts should be made to progress and complete the revised Conceptual Framework and the Disclosure Initiative project, given their wide scope and cross cutting nature which will affect future standard setting activities. Linked to this, there may be significant differences between some of the concepts and definitions in the revised Conceptual Framework and certain existing IFRSs for which it would be appropriate to plan standards level projects to eliminate.

Research projects

Question 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 support the addition of a project relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as suggested in paragraph 33 of the RfV. This is consistent with our view that, where a significant number of practical application issues are identified in respect of an existing IFRS, this indicates that it may be appropriate to commence a wider project rather than initiating a series of narrow scope amendments. This is because the issues raised may indicate that there are wider questions arising from the underlying principles of the IFRS which cannot satisfactorily be resolved by making minor amendments.

We also believe that, once the revised Conceptual Framework has been finalised, the IASB needs to undertake a review of existing IFRSs in order to identify where significant inconsistencies have arisen. For example, if the proposed definition of a liability is taken

forward largely as set out in the Exposure Draft of the revised Conceptual Framework, significant differences would arise with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. As noted in our comment letter in response to the Exposure Draft of the revised Conceptual Framework, we believe that it would not be appropriate for these inconsistencies to remain in place, with them instead being addressed in the short to medium term.

We also encourage the IASB to ensure that projects remain on the research agenda for no longer than is necessary. For example, we believe that there is a compelling need for issues arising from the distinction between liabilities and equity to be addressed in the short term and that this project should move quickly to become a standards-level project.

We agree with the proposal to remove the inactive projects for foreign currency translation and high inflation from the IASB's agenda. Relatively few issues are raised about these topics within the international BDO network, and we see little evidence of a need for amendments to be made to, or a more comprehensive review to be carried out of, either IAS 21 *The Effects of Changes in Foreign Exchange Rates* or IAS 29 *Financial Reporting in Hyperinflationary Economies*.

Question 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 the items you ranked as high or low.

In considering the level of prioritisation set out in the table below, we have considered factors that have been outlined above, in particular that the focus should be on topics:

- where the maximum number of entities will benefit from improved accounting requirements;
- for which there is either no existing guidance, or where existing guidance has not kept up satisfactorily with developments in transactions and events; or
- where significant diversity in practice has been identified

	Project	Importance	Urgency
	<i>Assessment stage</i>		
1	<p>Definition of a business</p> <p>The distinction between a business combination and an asset purchase has been raised by many constituents as part of the PIR of IFRS 3. In addition, we note that although the related text in IFRS and US GAAP is converged, there are differences in the application of existing guidance between those two GAAPs. We note that the IASB is likely to issue an Exposure Draft shortly of amendments that, if taken forward as drafted, would be consistent with concurrent amendments to US GAAP. This would be an appropriate approach, provided that those amendments result in a clear and appropriate distinction being made between what constitutes a business and an asset purchase.</p>	Medium	Medium
2	<p>Discount rates</p> <p>The rationale for the use of particular discount rates has assumed greater importance in recent years, due to the current low interest rate environment. However, we do not believe that there are significant difficulties in identifying an appropriate rate to be applied through the application of existing guidance in IFRS. Consequently, although this may be a useful project, there appears to be little urgency in the context of other more pressing issues that the IASB might add to its agenda.</p>	Medium	Low
3	<p>Goodwill and impairment</p> <p>We agree that the three issues identified in paragraph A8 of the RfV need to be addressed. As an initial step, it would be appropriate for the IASB first to consider whether and how the existing impairment test can be simplified (including whether an impairment test should be carried out only when there are indicators of impairment rather than annually, with consideration being given to how the existing indicators of impairment might be</p>	High	High

	<p>enhanced and clarified).</p> <p>We note that, as a first step, this would have the potential significantly to reduce the cost and complexity surrounding goodwill and impairment, while at the same time not resulting in a reduction in the quality of reported financial information. This links to a number of current developments globally such as the European Capital Markets Union project which includes consideration of appropriate accounting standards for smaller and medium sized listed entities.</p> <p>This first step could then be followed by projects covering the more conceptual aspects of the separation of other intangible assets from goodwill, and whether goodwill should be amortised.</p>		
4	<p>Income taxes</p> <p>Although we acknowledge that there are complexities associated with the application of IAS 12 <i>Income Taxes</i>, we do not believe that these can be dealt with efficiently through a series of narrow scope amendments. Consequently, a more fundamental review of existing requirements would be needed. However, we anticipate that accounting for income taxes would be a difficult and complex area regardless of the approach that is ultimately followed and that there are more important topics that the IASB needs to address.</p>	Low	Low
5	<p>Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)</p> <p>We agree that there is significant diversity in practice in accounting for these arrangements. Given that there is clear potential for the number and scope of these arrangements to increase in future, additional guidance is needed.</p>	Medium	Medium
6	<p>Post-employment Benefits (including pensions)</p> <p>We agree that the application of IAS 19 <i>Employee Benefits</i> to arrangements with characteristics of both defined benefit and defined contribution</p>	Medium	Medium

	<p>schemes ('hybrids') can be difficult, and note that the IFRS Interpretations Committee has ultimately concluded that the issue is too broad for it to deal with satisfactorily. These hybrid schemes have become prevalent in more recent years, and were much less of a feature when IAS 19 was developed. It is therefore appropriate first to consider whether existing guidance can accommodate those schemes satisfactorily, with new guidance ultimately being developed if this is not possible.</p>		
7	<p>Primary Financial Statements (formerly Performance Reporting)</p> <p>The IASB's current project to revise the Conceptual Framework has highlighted difficulties in identifying a conceptual basis to support which items should be recognised in profit or loss, and which in Other Comprehensive Income. This, combined with the continued focus on Alternative Performance Measures by a range of parties, including by securities regulators, indicates that standard setting is required urgently.</p>	High	High
8	<p>Provisions, Contingent Liabilities and Contingent Assets</p> <p>Assuming the Exposure Draft of the revised Conceptual Framework is taken forward largely as drafted in its definition of a liability, significant inconsistencies will be created with IAS 37. As noted above, we do not believe that it would be appropriate for that inconsistency to remain other than in the short term. We also note that, although IFRIC 21 is an appropriate interpretation of the requirements of IAS 37, some constituents question whether the resultant accounting properly reflects the economics of the underlying transactions.</p>	Medium	High
9	<p>Share-based Payment</p> <p>We acknowledge that there are complexities associated with the application of IFRS 2 Share-based Payment. However, we note that the IASB has relatively recently issued amendments to IFRS 2</p>	Low	Low

	that are intended to assist in addressing certain of the difficulties in its application (the changes to definitions, that were released in December 2013 as part of the Annual Improvements 2010-2012 Cycle, which were effective on a prospective basis for grant dates on or after 1 July 2014). We suggest that it would be better at this stage to wait until it can be determined whether those changes have assisted in addressing underlying application difficulties, with this then being considered in combination with the results of the research activity referred to in paragraph A16 (Appendix A to the RfV).		
	<i>Development stage</i>		
10	<p>Business Combinations Under Common Control</p> <p>The lack of guidance in IFRS for these transactions has led to a degree of diversity in practice, meaning that the development of IFRS requirements would be helpful. Although practice has evolved over time and, for those transactions affected (often group reconstructions in advance of an IPO), the accounting approach(es) are relatively well understood by those in the accounting profession, others do not necessarily see the accounting approach achieving a 'fair presentation'.</p>	High	Medium
11	<p>Disclosure Initiative - Principles of Disclosure</p> <p>We agree that guidance is needed to assist in improving the disclosure requirements in IFRSs. This should in the short term primarily be aimed at improving the requirements of new standards to be issued; however, we also support a fundamental review of existing IFRSs.</p> <p>Although resolving the 'disclosure overload' issue will need the involvement of a number of key players, including preparers, auditors and regulators, the IASB should be proactive in developing guidance that can be used to drive the necessary changes.</p>	High	High

12	<p>Dynamic Risk Management</p> <p>Although this is a relatively narrow scope issue which primarily affects a small number of larger financial institutions, it remains the source of the one carve out in EU-endorsed IFRS. It would be helpful for this to be resolved in order that a clean transition from IAS 39 to IFRS 9 can be achieved.</p>	Medium	Medium
13	<p>Equity Method</p> <p>We note that the IFRS Interpretations Committee has received a number of submission about equity accounting, which have proved difficult to resolve satisfactorily. We do not believe that these can be dealt with by issuing narrow scope amendments to IAS 28, and note that a conflict in the guidance has resulted in one of these recently having been deferred by the IASB. We believe that a broader review of equity accounting is needed, in particular to answer the conceptual question of whether it represents a measurement approach or a one line consolidation.</p>	High	Medium
14	<p>Financial Instruments with Characteristics of Equity</p> <p>Although IAS 32 <i>Financial Instruments: Classification</i> deals satisfactorily with a number of issues arising from whether a financial instrument should be classified as a financial liability or as an equity instrument, it has been very difficult to deal with some more recently issued financial instruments such as contingently convertible bonds. Issues have arisen for some other instruments that contain contingent settlement features, in particular some that have been issued by entities in the financial sector including 'bail in' debt and instruments which have terms that include non-viability clauses.</p> <p>We believe that this indicates the guidance in IFRS needs to be revisited urgently, with the existing requirements having become out of date as they do not appear to deal satisfactorily with newer types of financial instruments.</p>	High	High

	<i>Inactive</i>		
15	<p>Extractive Activities / Intangible Assets / Research and Development (R&D)</p> <p>There is significant diversity in the recording of Exploration and Evaluation (E&E) assets in the extractives sector, and it would be appropriate to undertake a project which seeks to update or (more likely) replace IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> and to make this consistent with updated definitions and guidance for intangible assets in the context of the revised Conceptual Framework. However, we do not believe that this project needs to be undertaken as a matter of urgency.</p>	Medium	Low
16	<p>Foreign Currency Translation</p> <p>As noted above, we agree that this topic should be removed from the IASB's agenda.</p>	Low	Low
17	<p>High Inflation</p> <p>As noted above, we agree that this topic should be removed from the IASB's agenda.</p>	Low	Low
	<i>New</i>		
18	<p>Non-current Assets Held for Sale and Discontinued Operations</p> <p>As noted in our response to question 2, we support the addition of a project relating to IFRS 5. The relatively large number of issues raised by constituents, which the IFRS Interpretations Committee has experienced difficulty in resolving, indicates that there may be a need for a wider project rather than a series of narrow scope amendments.</p>	Medium	Medium

Major projects

Question 4

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

As noted in our response to question 1, it is important that the insurance project is taken forward to completion as soon as possible, together with resolution of issues arising from the different effective dates of that standard and IFRS 9. Other key priorities are the Conceptual Framework and Disclosure Initiative.

We also support continued progress with the project on rate-regulated activities, in order that guidance with wider application than IFRS 14 *Regulatory Deferral Accounts*, with that Standard being no more than a short term interim solution for first-time adopters of IFRS.

Maintenance and implementation projects

Question 5

Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' need and is that support sufficient (see paragraphs 19-23 and 50-53)?

As part of our response to the Request for Views: *Trustees' Review of Structure and Effectiveness: Issues for the Review*, we commented on what the IFRS Foundation is doing to encourage the consistent application of IFRS (question 6 of that consultation). Many of those comments are relevant here, and we have attached them in Appendix 2 to this comment letter.

In addition, in some cases a relatively large number of issues are raised in respect of a particular Standard (for example, IAS 28 *Investments in Associates and Joint Ventures*), whether directly with the IASB or via the IFRS Interpretations Committee. For these types of issue, it may be appropriate to give further consideration at an early stage to whether these are capable of being resolved through the issue of a number of narrow scope amendments, or whether instead issues arising can only satisfactorily be dealt with through a wider review of the accounting requirements. This might assist in more efficient use of the IASB's resources.

Similarly, the IFRS Interpretations Committee can spend a significant amount of time examining a particular issue and then, instead of issuing an Interpretation, may simply issue an agenda decision. In the interest of maximising efficiency, it would be appropriate for an analysis of whether the ultimate outcome will be an agenda decision to be carried out at the earliest stage possible. In addition, while we acknowledge that agenda decisions can be useful guidance, they are not the same as an IFRIC Interpretation and it is possible that for some issues, an Interpretation would be a more authoritative and more useful output.

Level of change

Question 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?

Overall, we believe that the IASB has struck the right balance between the need to continue to deliver improvements in financial reporting and the ability of constituents to provide sufficiently high quality responses to consultation documents and to implement new and amended IFRSs.

Any other comments

Question 7

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

Certain IFRSs are either fully or substantially converged with US GAAP. We encourage the IASB to continue working with the FASB (and the EITF) in order to keep up to date with issues that are raised with the US standard setter and the associated consideration that may be given to amending US GAAP. This liaison should be as proactive as possible, in order that the IASB can consider any related action that it might take at the same time as the FASB.

Frequency of Agenda Consultations

Question 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-yearly interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

We agree that a five year interval would be more appropriate. However, we encourage the IASB to retain flexibility such that, if an urgent issue is identified between agenda consultations, this is added to the IASB's active agenda as soon as practicable.