



COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

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Your references

Our references
COR 2015-117

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Dear Sir, Madam,

Invitation to comment – IASB Request for views 2015 Agenda Consultation

The Belgian Accounting Standards Board (BASB) is pleased to respond to the request for views: 2015 Agenda consultation issued by the IASB (the “Board”) on 11 August 2015.

Question 1 – The IASB’s work plan includes five main areas of technical projects:

- a) Its research programme;
- b) Its Standards-level programme;
- c) Its 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?

The IASB has completed several major standards in recent years (e.g., consolidation package, revenue recognition, financial instruments) and we expect other major standards to be finalised in the near future (leases, insurance). These projects have sometimes shown to be difficult to apply in practice. In order to achieve a consistent application, we recommend dedicating sufficient resources to maintenance and implementation projects as needed in the near future.

We believe the disclosure initiative is an important project to improve financial reporting. This project may lead to changes to individual standards. Some areas influence each other. For example the conceptual framework has a link with the

research project on ‘presentation of financial statements’, especially on performance reporting. We believe performance reporting should follow robust underlying principles, including when items are accounted for through other comprehensive income and whether or not these items ought to be recycled through the income statement and when. We think the Board should spend more time considering and defining performance reporting.

Next to the disclosure initiative, we urge the IASB to allocate sufficient resources to the further development of the conceptual framework.

We think that resources should follow the underlying project. So if an employee was involved in a research project that enters into the standards-level programme, the employee should stay involved during implementation through post implementation review phase.

We believe that given the priorities of each of the projects, the IASB itself is best placed to determine how much resources are needed. The need for resources will likely fluctuate during the upcoming years.

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 believe a project on risk sharing should be added. In recent years we have seen an increase in the number of risk sharing agreements (which are sometimes called *collaboration arrangements*) in certain industries, such as pharmaceuticals and aerospace and defence. A characteristic of such agreements is that an investor, which often is an entity in the same sector, e.g. a supplier, invests in a certain project (e.g., a new medicine, a new plane) without getting decision making rights.

The investor wants a return in case the project turns out to be successful. The return can take the form of a profit participation or through participation in future supplies. These arrangements are difficult to account for, as they do not fit within a current standard. The arrangement is based on risk sharing, and not about the sharing of control. As recent standards are primarily based on a control notion, these arrangements require significant judgment in practice with a risk of divergence in practice. We believe the project should cover areas on revenue and expense recognition and the recognition and measurement of assets and liabilities. In

practice it also shows to be complex to establish whether there is a current liability to be recognised or whether there is an executory contract of which expenses are recognised in the future.

We recommend adding a project on joint operation accounting under IFRS 11. Joint operation accounting is difficult to apply in certain situations. We believe these should be addressed in illustrative examples. There may be a link with the project on the equity method, although it is not specifically included in paragraphs A22 and A23 of the request for views. We believe this should also be specifically addressed in the post implementation review of IFRS 10-12.

We concur with removing the projects on foreign currency translation and high inflation from the research programme.

Regarding share-based payments we believe a more fundamental review of IFRS 2 is required to address the concerns raised. If this does not fit within the current work plan, we do not believe the project should be continued.

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 those items you ranked as high or low.

Project stage	Project	Importance	Urgency	Considerations
Assessment stage	Definition of a business	High	High	The impact of this assessment is often significant for financial statements. The definition of a business is not interpreted consistently globally. A more fundamental review would also assess why an asset acquisition is different from a business acquisition. Current standards have differences on amongst others contingent consideration, transaction costs and income taxes.
	Discount rates	High	High	Discount rates vary widely across different standards. In order to be high quality standards, internal consistency and a consistent underlying principle are essential.
	Goodwill and Impairment	Medium	Medium	
	Income taxes	Medium	Medium	IAS 12 has different measurement basis (nominal) compared to most other standards. We also believe the interaction between IFRS 3, IFRS 13 and IAS 12 and the interaction between the initial recognition exception and IFRS 13 need to be assessed in detail.
	Pollutant Pricing Mechanisms	Medium	Low	We are aware of divergence in the accounting for such mechanisms. Because

				not all companies nor all jurisdictions are subject to such mechanisms, we believe the urgency is low.
	Post-employment benefits	Medium	Medium	Market transactions (such as 'buy-outs', 'buy-ins' and longevity swaps) as well as on-going funding requirements have shown that in many instances the actual funding obligation is higher than the recognised IAS 19 defined benefit obligation. As reflected in the examples in IFRIC 14, this raises questions of how to assess the recoverability of any asset recognised for an accounting surplus when the practical reality is that there is no surplus, but only cash outflows to make good a funding deficit. In our view, the long-term solution to these issues lies in addressing the measurement of the defined benefit obligation (DBO), rather than extending the guidance for a hypothetical recovery of an accounting asset. We would therefore encourage the IASB to take on a more fundamental review of post-employment benefits accounting. This project should also have a link with the project on discount rates.
	Primary Financial Statements	Low	Low	We believe this project may be more relevant once the Conceptual Framework project is finalised.
	Provisions, Contingent liabilities and Contingent assets	Medium	Low	Although we believe financial reporting may be improved in this area, this has not led to divergence in practice. We therefore believe the urgency is low.
	Share-based Payment	Low	Low	We either believe a fundamental review of IFRS 2 is needed, or no work should be performed at all (see also our response to Question 2).
Development stage	Business Combinations under Common Control	High	Medium	We believe a project on transactions with related parties would be relevant. The IASB should address whether and when accounting at fair value would be required (with an equity contribution or dividend distribution). The definition of 'cost' is difficult to apply in certain related party transactions and may significantly influence the financial performance of the companies involved.
	Disclosure Initiative – Principles of Disclosure	High	High	
	Dynamic Risk Management	Medium	Medium	
	Equity Method	High	High	The recent submissions to the Interpretations Committee show the

				complexity of the equity method. These issues are widespread and should be addressed in order to achieve a consistent application in practice.
	Financial Instruments with Characteristics of Equity	Medium	Medium	The financial crisis has resulted in new ways to attract financing. Some of these arrangements are difficult to classify under the current standards which also is apparent from submissions to the IFRS Interpretations Committee in recent years.
Inactive	Extractive Activities / Intangible Assets / R&D	Medium	Low	We believe significant improvements can be made to the accounting for extractive industries, as we believe IFRS 6 does not reduce divergence in practice. On the other hand most users are able to understand the accounting policies applied and this is only applicable to a limited number of companies. Furthermore we believe standards should not deal with specific industries, but should cover topics from similar underlying concepts. Therefore we would encourage a broader analysis of intangibles. Therefore the urgency is low in our view.
	Foreign Currency Translation	Low	Low	See our response to the previous question.
	High Inflation	Low	Low	See our response to the previous question.

Question 4 – Do you have any comments on the IASB’s current work plan for major projects?

The current work plan is challenging to be completed in the next couple of years. We urge the IASB to finalize the project on insurance contracts, given the current diversity in the accounting of these contracts. Considering the significant projects completed in recent years (e.g., consolidation package, revenue recognition, financial instruments) and in the near future (leases, insurance contracts) we would encourage the IASB not to add major new projects to the current work plan in order to give constituents sufficient time to adopt these new standards and work through any potential implementation issues.

Question 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)?

We believe the extent of implementation support is heavily influenced by the quality and operability of Standards and Interpretations. We do believe the IASB should spend more time in the final drafting stages of a standard, i.e., between the moment

redeliberations are finalized and when the standard is issued. Recent major standards have taken many years to be developed, whereas the period between the last redeliberations and issuance of the standard usually was less than a year and the period between the external review draft and issuance of the standard was less than six months.

We believe it would be beneficial to discuss the overall comments of the external review draft process in a Board meeting, together with any sweep issues, to see whether this will influence the Board's decisions. The quality of the standards would be improved if there were greater focus on the operability of a standard during the drafting phase. We believe the benefits outweigh the additional time needed to draft a standard.

In addition, we believe the IASB should provide more support in the early phases of a new standard's application, specifically with an effective and timely interpretative process. Transition Resource Groups could be an effective means of achieving a smooth implementation, although we believe it is worthwhile to consider the right role of such group. We believe it would be beneficial if this body were to have actual 'power' in the standard setting process, rather than being a pre-screening function for the IASB and the IFRS Interpretations Committee. Another possibility would be for the IASB to 'endorse' the output provided by a Transition Resource Group, e.g. by discussing the output in a public meeting and concluding the IASB does not object to the results of the TRG.

Another way of 'endorsing' would be to include the output of the TRG in a 'Guidance on Implementing' section accompanying a standard. The roles and responsibilities of a TRG should be included in the due process handbook.

If the Foundation does not take on the role of ensuring consistent application during the early phases of implementing a standard, other parties (e.g., regulators, industry groups) may fill this space potentially undermining the role of the IASB. This also increases the risk that IFRS would not be applied consistently worldwide.

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?

We believe the IASB should carefully consider the scope of a new standard before starting the project. Several projects have taken a long time to completion. Perhaps this could have been prevented if the scope would have been more narrowly defined in the early stages of the project. For example in the leases project considerable time was spent on lessor accounting, whereas lessor accounting will likely remain

unchanged. If the scope of the leases project would have been more narrowly defined, this time could have been spent more efficiently. We believe the IASB should carefully consider the main issues in a particular standard or area of financial reporting prior to starting to draft a new standard. In case there are urgent issues to be addressed, these should be addressed in isolation. A major overhaul or new development of a standard may lead to delays in the project, thereby not solving the current issue. We believe such a situation would warrant a split in two projects; one to solve the current issue and one to address the other areas of a standard. The right pace can only be determined on a case-by-case basis and depends on the urgency and importance of a particular issue for the constituents of financial reporting.

Question 7 – Do you have any other comments on the IASB’s work plan?

We have no further comments to make.

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 year interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

We believe it would be beneficial if the reviews of structure and effectiveness and the agenda consultation are aligned. We believe a review of the Foundation’s structure and effectiveness should be done every five or six years. We believe the agenda consultation should also be determined at the same time, with a possibility for an ‘interim consultation’ after two or three years if deemed necessary. Such an ‘interim consultation’ would create the flexibility to add items to the agenda or delete items from the agenda based on external developments. As noted in our response to the previous question, we believe the final stages of the drafting process should get more time in order to increase the operability and quality of the new standard.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,

Jan Verhoeve
Chairman BASB

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