

24 December 2015

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

Dear Sir

### **Request for Views: 2015 Agenda Consultation**

Thank you for the opportunity to comment on the Request for Views (RfV) "2015 Agenda Consultation".

While the IPA welcomes the opportunity to comment on the RfV, the information provided in the document, even when considering the information available on the IASB website, does not provide sufficient detail to understand the priorities, resources and often the key deliverables of the agenda. This is particularly the case for the research programme.

In the interests of meaningful feedback, the IASB should have provided in the RfV information on the key deliverables, the expected timing and the resources (person hours/days) required to meet the deliverables. The absence of this information, together with the resource capabilities limits any informed assessment of and comment on the proposed programme.

Notwithstanding the above comment, the IPA supports many of the programme items. However, in a number of cases the IPA proposed scope changes (both expansion and narrowing of scope). The IPA has also suggested a number of areas where the IASB provide new or enhanced guidance including:

- Reverse acquisitions
- Digital economy transactions, and
- Crowd funding.

The IPA would like to see priority given to the finalisation of the Conceptual Framework (CP). The IPA sees the CP as more than internal IASB guidelines for the development of standards, but as part of the hierarchy of IAS 8 "Accounting Policies, Change in Accounting Estimates and Errors" through acknowledgement in IAS 8.10-12. Therefore, the CP would be available to provide guidance to preparers and auditors in circumstances not covered by the extant IFRS literature.

The IPA also believes the IASB needs to address the increased prevalence of Alternative Performance Measures (APM). The status of IFRS as a measure of financials is undermined by prominence many entities give APM. The IPA is of a view the proposed project on "Primary Financial Statements" reverts to performance reporting to address preparers divergence from IFRS to report performance. The IPA acknowledges responsibility also lies with regulators and market operators for the increased prominence of APMs.

The IPA would like to see a move away from ad hoc and annual improvements cycle changes to standards and towards a programmed review of standards on regular cycle with "omnibus" revisions to individual standards. As such, the IPA also supports a more active IFRIC process to deal with major changes arising from emerging issues.

Finally, the IPA would see the three year agenda consultation period remain, as it allows the IASB constituents a more frequent and responsive input to the agenda planning process, than the five year alternative proposed on the RfV.

Our comments and responses to the questions in the Request for View are set out in the Appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca ([stephenlagreca@aol.com](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) (a former member of the AASB), GAAP Consulting.

Yours faithfully



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Cc Ms Kris Peach, Chairperson, Australian Accounting Standards Board

### About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## Appendix A Exposure Draft 2015/3

### Question 1 – The balance of the IASB’s projects

*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 are listed above?*

### IPA Response

The IPA agrees with the seven factors identified in the Request for View (RfV) paragraph 55 as relevant in prioritising the IASB work plan. However, based on the information available in the RfV, and even after considering materials on the IASB website, it is unclear how these factors have been applied in determining the work programme.

In particular, the results of post-implementation reviews on the work programme are not articulated. Neither are the inputs used to assess the factors clearly identified.

In terms of priorities, they should be:

1. Conceptual Framework (CF) – the IPA is of the opinion this is crucial and should underpin all developments. In addition, the IPA would like to see the CF acknowledged as part of the accounting hierarchy. The IPA believes a robust CF should be available to not only the Board but as a frame of reference for preparers. The emphasis on the CF would also result in higher priorities to research projects such as the Definition of a Business, Discount Rates, and Financial Instruments with the Characteristics of Equity
2. The Disclosure Initiative
3. The Research Programme – the IPA believes there are a number of topics, including Primary Financial Statements that need to be addressed urgently
4. Standards-level programme, and
5. Maintenance and Implementation projects.

### Question 2 – Research Projects

*The IASB’s project 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 lower priority to create 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?*

## IPA Response

The IPA would like to see the following issues be addressed in the research programme:

1. Alternative Performance Measures (APM) – the validity of IFRS as a financial performance reporting measure has been undermined by the increasing use of APM which purports to a “truer” measure of financial performance than “official” or “regulatory” numbers. While this is not solely in the remit of the IASB (the IPA is of the view that increased prominence is also a failure of regulators and market operators), the IASB needs to consider whether the existing concepts of comprehensive income and other comprehensive income are meeting the needs of users and adequately measuring the financial performance of entities. As such, the IPA believes the IASB needs to refocus the scope of the Primary Statements project back to performance reporting.
2. Reverse Acquisitions – the IPA believes the current guidance on reverse acquisitions is fragmented, confusing and, in particular, the illustrative example in IFRS 3 “Business Combinations” is not very useful. The IPA believes the IASB needs to consolidate the guidance (including agenda decisions) in IFRS 3, and produce a more comprehensive multi-period illustrative examples.
3. Intangibles – the IPA is of the view the Goodwill and Impairment project needs to consider the impact of Intangibles, in particular the financial reporting arbitrage between limited life intangibles and goodwill and intangibles with indefinite useful lives. In addition, the IPA believes the amortisation methods of intangibles allowed does not necessarily reflect the nature of the assets which do not necessarily “depreciate” on a systematic basis. Finally, the ability to defer certain customer acquisition costs under IFRS 15 “Revenue from Contracts with Customers” warrants a revision of the circumstances when costs can be deferred and considered an asset.
4. Digital Economy Transactions – the IPA believes the guidance in IFRS 15 is inadequate in relation to digital transactions and would like to see specific guidance in relation to such transactions including:
  - a. the provision of a digital product with the right to receive subsequent updates e.g. downloadable content (DLC) either priced separately or bundled, or
  - b. the ability to “purchase” non-refundable currency for the customer to use on the acquisition of further digital content
  - c. the provision of identical digital and physical content e.g. music or other media content, and
  - d. the specific nature of principal and agent in terms of digital distribution platforms for digital content.
5. Crowd Funding – from the enquires made by the IPA the accounting for money received as a result of crowd funding is often resolved by reference to the tax treatment rather than any underlying accounting basis. The IPA would like to see the IASB issue some guidance on the considerations applicable to consider whether crowd funding is equity or revenue from contracts with customers.
6. Tax Base Erosion and Profit Shifting (BEPS) – The IPA believes the IASB should revisit the current disclosures in IAS 12 “Income Taxes”. Given the continuing public interest concern with BEPS the IASB, should establish a project to increase the transparency of tax arrangements in the financial statements including clearly addressing the risks, impacts and uncertainties arising from such arrangements.

The IPA supports the removal of the projects for foreign currency translation and high inflation from the research programme.

The IPA would like to see the curtailment of the scope of Dynamic Risk Management (DRM) project. The IPA is unconvinced the project is warranted. However, the IPA does acknowledge the macro-hedging does not appropriately reflect the actual hedging activities undertaken by financial institutions in managing the interest rate risk in their banking books. Rather than a broad project, the IPA would prefer the IASB address this issue and defer any further consideration of broader application of DRM.

### Question 3 – Research Projects

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

*Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?*

### IPA Response

Project	Relative Importance	Urgency	Comments
Definition of a Business	Medium	Medium	
Discount Rates	High	High	
Goodwill and Impairment	Medium	Medium	To include intangibles as outlined in response to Question 2
Income Taxes	Medium	High	Should be expanded to address BEPS related issues as outlined in response to Question 2
Pollutant Pricing Mechanisms	Medium	Low	
Post-employment benefits	Low	Low	
Primary Financial Statements	High	High	To be confined to the income statement and be expanded to cover alternative performance measures as outlined in response to Question 2
Provisions, Contingent Liabilities and Contingent Assets	Medium	Medium	Need to address the anomaly arising from IFRIC 21 “Levies”
Share Based Payments	Low	Low	
Business Combinations under Common Control	Medium	High	Need to address the gap in guidance and the diversity in practice as a result
Disclosure Initiative – Principles of Disclosure	High	High	
Dynamic Risk Management	Medium	Low	To be reduced in scope to address hedging of net interest exposures in the banking book as

			outlined in response to Question 2
Equity Method	High	High	Equity accounting is a blight on financial reporting and has remained unchanged for over 40 years
Financial Instruments with the Characteristics of Equity	High	High	The issues to be addressed here need to go to the fundamental characteristics of equity which are currently not dealt with adequately in the CP
IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”	Low	Low	Optional resource topic RfV.33
Reverse Acquisitions	Medium	Medium	See response to Question 2
Digital Economy Transactions	Medium	Medium	See response to Question 2
Crowd Funding	Medium	Medium	See response to Question 2

#### Question 4 – Major Projects

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

#### IPA Response

Please refer to the responses to Questions 1-3.

#### Question 5 – Maintenance and implementation projects

*Are the IASB and the Interpretation Committee providing the right mix of implementation support to meet stakeholders’ need and is the support sufficient (see paragraphs 19-23 and (50-53)*

#### IPA Response

The IPA is unconvinced as to the usefulness of the current annual improvements cycle.

The IPA has a view that incremental improvements to accounting standards are better dealt with as part of a regular review of standards (say on a 3-5 year basis) as a whole rather than ad hoc changes on annual basis. Changes relating to emerging developments and urgent interpretive issues should be dealt with through the IFRIC process. Such an approach would reduce the pressure on preparers and auditors to track minor changes to standards on an annual basis and substantive changes would be readily identifiable as separate IFRICs.

The IPA is also disappointed in the IFRIC process. Agenda decisions do not appear timely and are unclear. The IPA would like to see a more responsive and timely IFRIC process.

The IPA would also like to see agenda decisions included in the Base of Conclusions of the relevant standards. While agenda decisions are not authoritative, they still represent guidance to preparers and auditors. While they are located on the IASB website, it would be useful to have them included with the related standard.

Finally, as previously mentioned, the IPA would like to see a movement away from the annual improvements cycle and ad hoc amendments to standards. The IPA would like to see the IASB have

a set agenda to review and issue “omnibus” updates to standards as well as set the agenda to deal with post-implementation reviews of new standards.

#### **Question 6 – Level of Change**

*Does the IASB’s work plan as a whole deliver change at the right pace and at level of detail that is appropriate to principle-based standard-setting? Why or why not?*

#### **IPA Response**

The IPA has been disappointed in the ability of the IASB to produce quality standards in a timely manner.

IFRS 10 “Consolidated Standards” was amended shortly after release for the “investment entities” exemption and then amended again to clarify that exemption.

The issue of IFRS 15 “Revenue for Contracts with Customers” has been poorly handled, not only was the standard deferred for 12 months but “clarifications” were issued, that while some may be considered useful, were hardly substantial enough to warrant the delay.

IFRS 9 “Financial Instruments” which includes amendments to address issues identified arising from the GFC will be operative a decade after the events that gave rise to some of the changes.

The IPA has also observed changes introduced in IFRS 10 to more effectively deal with “structured entities” have facilitated structuring that results in the non-consolidation of entities where the majority of the economic benefit and risk has not been transferred.

#### **Question 7 – Any other comments**

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

#### **IPA Response**

The IPA has no further comments.

#### **Question 8 – Frequency of Agenda Consultations**

*Because of the time 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?*

#### **IPA Response**

The IPA does not support a move to a five year agenda cycle.

The IPA believes the current three year cycle better serves the needs of the IASB constituents by allowing a reasonable period to influence the IASB direction and addressing emerging issues on a timelier basis. A longer period may require the IASB to change priorities without proper due process. The IPA is also concerned that a five year horizon is deemed appropriate because of the time to complete projects and this may reflect issues with the current resources of the IASB or project management.

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