



## Accounting Standards Board

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Dear Michael

### IASB Agenda Consultation 2011

I am writing to set out the views of the UK Accounting Standards Board on the IASB's Request for Views 'Agenda Consultation 2011'.

We agree with the overall objective of developing, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles.

We set out below the most significant matters that we would like to bring to your attention. Responses to the questions set out in the Request for Views are attached.

#### *The standard-setting model*

The last ten years have seen some challenging times in standard setting. With the requirement for quoted groups to apply EU-adopted IFRS in their consolidated financial statements from 2005, the IASB set out on a challenging improvements programme issuing many new and revised IFRS before that deadline. This has been followed by the focus on convergence with US GAAP and work in response to the financial crisis.

We believe that, as a strategic priority, the IASB should review the standard-setting model and what it is trying to achieve in terms of meeting user needs. The process in recent years has often seemed protracted and, despite the substantial time and effort put into standard-setting, criticisms remain about the usefulness of some of the resulting financial reporting. For example, better use might be made of existing literature and research, with a comparison to users' needs in scoping projects. Similarly there have been periods of successive consultation on individual topics that might have been shortened and more focused through better use of Discussion Papers to highlight issues, possible solutions and gaps in the thinking to date.



We think there ought to be scope to streamline the process, for example, relatively straight-forward targeted improvements requested by stakeholders are not progressed because they are not minor enough for the annual improvements process, and so must wait for a suitable main project which could take years to complete. There needs to be an effective option for narrow-scope projects that can deliver improvements in financial reporting in a timely way.

Concerns are often raised about the volume of disclosure that is required by IFRS, in that it is excessive in absolute terms, and that it diverges from the information used by management to run their businesses. We discuss below, our support for the IASB considering the disclosure framework, but there may also be strategic considerations here; standard-setting should be principles based and not be significantly influenced by anti-abuse considerations. Some recent standards do appear to have given too much regard to anti-abuse considerations. As part of a review of the standard-setting model we suggest the IASB considers the role of the standard-setter in relation to facilitating enforcement and therefore the implications for the disclosure requirements of standards.

### *A 'period of calm'*

As the IASB acknowledges the level of standard-setting activity in the last 10 years has placed pressure on preparers, users and other stakeholders in considering and responding to many consultation documents and as well as implementing changes in accounting and reporting and understanding new reporting information.

We believe that a 'period of calm' is required, not only in respect of the effective dates of new pronouncements, but also in respect of the volume of consultations. This will allow stakeholders time to implement and consolidate the changes in reporting that have taken place over the last few years and the major changes expected from the current main projects, bedding them into their systems and processes, without the distraction of responding to a forward agenda.

We believe that the IASB can still achieve some significant strategic priorities whilst still providing a 'period of calm'. In addition to reviewing the standard-setting process, we think the IASB should progress the conceptual framework, including presentation and disclosure principles; review its processes for developing standards and deliver some key post-implementation reviews. There may also be narrow-scope improvements that could be targeted.

In suggesting these areas we are aware that users and preparers may have different views over the need for a 'period of calm', and many users may feel there is much still to be done to enable the most useful and relevant information to be provided by companies in financial statements. However, we are persuaded that at present the need to allow companies time to implement and bed down the changes in financial reporting is paramount.

### *Evidence-based agenda setting*

We believe that projects should be taken onto the IASB's agenda where there are good reasons for believing that capital markets will benefit from changes in accounting or reporting and there is reasonable evidence that the project will either:

- At a principles level, fix an gap in existing accounting literature, for example because changes in underlying transactions or economics mean that accounting standards no longer reflect the economic substance of transactions or the detailed requirements of standards result in similar transactions being accounting for in dissimilar ways; or
- Result in a significant improvement in the transparency of financial reporting for particular transactions.

There are a number of ways in which the IASB might gather the required evidence, and test support for its agenda proposals. To inform this, the IASB might also give consideration to how it interprets the 'public interest', which through its objective is fundamental to determining the content of accounting standards.

We believe that, consistently with the ideas presented in the EFRAG and UK ASB Discussion Paper 'Considering the Effects of Accounting Standards', the IASB should explain the intended effects of its agenda proposal and encourage feedback. The process may need to be tailored to the significance and urgency of the proposal under consideration.

### *Post-implementation reviews*

We are supportive of the IASB's intention to carry out Post-implementation reviews. We note the IASB's intention that "Post-implementation reviews will focus on important issues identified as contentious during the development of the IFRS and include consideration of any unexpected costs or implementation problems that have been encountered." We are concerned that this focus is too narrow. A post-implementation review should consider whether the project achieved its overall objectives and the benefits anticipated have been realised. Therefore the post-implementation review should, in our view, consider whether the standard:

- has resulted in more effective financial reporting;
- provides information that actually meets users information needs;
- is cost-effective to apply.

### *Convergence*

We believe agenda decisions should be evidence-based, and as a result the agenda should not be driven predominantly by convergence. Consistency of application is an important attribute of globally accepted financial reporting standards, but it does not mean absolute convergence. It could be argued that a number of the new standards brought in in recent years in the interests of convergence have not resulted in any improvement in quality, but have imposed substantial costs on preparers.

### *Integrated reporting and XBRL*

We are supportive of the concept of integrated reporting, but are not certain that developing integrated reporting should be a significant component of the IASB's activities. We do not believe the development of XBRL should be a part of the standard-setting process.

### *Specific projects for the IASB's agenda*

As we have noted above, we believe the IASB's agenda decisions should be evidence-based, and will need to balance views from around the world on areas where financial reporting requires improvements. Some projects may have more resonance in some geographical areas than others. We do not intend to comment in detail on the projects previously added to the agenda, but deferred, and new project suggestions; the IASB will need to weigh up the relevant evidence of need for a project. However, we comment below on our preference that the IASB focuses on some of the key principles underpinning financial reporting.

### *Conceptual framework*

We agree that completion of the conceptual framework project should strengthen the consistency of IFRS, and we support work on this continuing, as a focused and IASB specific project.

We agree with the IASB that the scope of this project should be widened to include the principles for presentation and disclosure. The conceptual framework project needs to focus on the important building blocks that should be in place to deliver effective high quality financial reporting. This includes not only recognition and measurement criteria, but also the principles underlying presentation and disclosure.

The ASB has long supported a project on financial statement presentation, working with the IASB on a research project (the forerunner of the currently deferred Financial Statement Presentation project), and is currently working with EFRAG on its disclosure framework project, as well as UK initiatives, such as Cutting clutter and the Financial Reporting Lab, which aim to improve the effectiveness of financial reporting. We believe there is evidence supporting projects in these areas, for example, the use of non-GAAP measures to explain performance and criticisms that disclosures are too voluminous and not always focused on understanding the economics of transactions. Areas of focus for the disclosure framework might include the application of materiality to disclosures, but it will also be important to decide whether information that is required should be in the notes to the financial statements, somewhere else in the Annual Report and Accounts, or need only be available to users somewhere (for example, on a website).

Another area that might be considered for the conceptual framework is the business model. The idea of using an entity's business model as a framework for explaining its performance has been gaining currency, but so far is developing in an ad hoc way. We are participating in the EFRAG pro-active project in this area.


The ASB believes that, as well as considering the scope of the conceptual framework, the IASB should review its processes for delivering the project. To date this has been a long-running project that has failed to deliver any significant improvement. As noted above we believe the IASB's conceptual framework should be an IASB specific project, not a convergence project, and this may help in delivering results on a more timely basis.

*Number of projects on the agenda*

The ASB notes that the IASB's current main projects may not be complete for some time, and over the last 10 years, although the IASB has completed many projects, there are also many projects that have been deferred. We believe stakeholders like as much clarity and certainty as possible over the projects that are in progress and their likely timing. As a result the IASB needs to be careful about the number of projects, or the scope, or level of detail in each project, that it adds to its active agenda, to improve the likelihood of delivering them in a reasonable timeframe.

If you would like to discuss our comments further please contact Jenny Carter (ASB Project Director on 020 7942 2421) or me.

Yours sincerely



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## **Response to specific questions set out in the Request for Views**

### **Question 1**

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

#### **Question 1(a)**

Do you agree with the categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

#### **Question 1(b)**

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

As set out in the covering letter, we believe the IASB's agenda decisions should be evidence-based, driven by those areas where there is evidence of a gap in existing accounting literature, or where there is scope to make a significant step forward in the quality of accounting for particular transactions.

We agree with the prioritisation of the conceptual framework, including development of presentation and disclosure frameworks.

We also agree that investing in research activities is important, helping to provide evidence about the need for changes to financial reporting. The IASB will need to balance the extent to which it carries out its own research or works with others to deliver targeted research.

We are supportive of the concept of integrated reporting, but are not certain that developing integrated reporting should be a significant component of the IASB's activities. We do not believe the development of XBRL should be a part of the standard-setting process.

**Question 2**

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

**Question 2(a)**

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

**Question 2(b)**

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to question 2(a).

As set out in our covering letter we support a 'period of calm' in standard setting. We agree that opportunities still remain to enhance IFRS consistently with the IASB's objective of high quality global accounting standards, but we believe the time is right for a pause in the intensive accounting standard-setting activities of the last ten years.

This breathing space would allow the IASB to focus on the conceptual framework, including presentation and disclosure frameworks, and post-implementation reviews. We believe that the scope of post-implementation reviews may need to be reconsidered to ensure that it focuses on whether the standards provide more effective financial reporting that meets users' information needs.

As set out in the covering letter, and above, we believe the IASB's agenda decisions should be evidence-based, driven by those areas where there is evidence of a gap in existing accounting literature, or where there is scope to make a significant step forward in the quality of accounting for particular transactions.