



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

6 December 2011

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Our Reference: 2011/JE/TCSC1/IASB/143

RE: Request for Views: Agenda Consultation 2011

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Request for Views: Agenda Consultation 2011 (Agenda Consultation).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Responses to the Board's Questions

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 two 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.

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Strategic Priorities

We commend the IASB for seeking input from constituents on the overall strategic direction and balance of its future agenda. We generally agree with the two main categories of future work: developing financial reporting and maintaining existing IFRSs. Among the five strategic areas, our members highlighted three as being of greatest priority: (1) improving the consistency and quality of the application of IFRSs by responding to implementation needs; (2) strengthening the consistency of IFRSs by completing the update of the conceptual framework; and (3) filling gaps in IFRS literature by undertaking standards-level projects.

Once the existing priority projects being conducted with the FASB are completed, and considering the number of jurisdictions that have moved to adopting IFRSs in recent years, we see a need for the IASB to focus more of its efforts on addressing application and implementation questions that arise in practice. As we had noted in our 25 July 2011 response to the IFRS Foundation Trustees' Report of the Trustees' Strategy Review, making institutional the arrangements for the IASB to respond to requests for implementation help and guidance would appear to be a next frontier in the evolution and use of IFRS. Principles-based standards supported by implementation and application guidance help to achieve enhanced comparability and consistency in financial reporting, which is important for investors. We believe the Board's consideration of requests for implementation help will lead to additional items to be included for clarification or amendments in the Annual Improvements project.

As noted above, we believe the update of the conceptual framework is an important project for the Board to complete. The Agenda Consultation notes that the conceptual framework assists the Board in setting standards that are principles-based, internally consistent and internationally convergent, and also provides guidance to preparers, auditors, regulators and others when there is no specific guidance in IFRS for a particular transaction or circumstance. We also believe that updates to the Framework will assist with, or may be necessary because of, work on certain standards-level projects, including financial instruments with characteristics of equity. In addition, phases of the Framework project that the Board has already started to address, such as Reporting Entity and Measurement, are fundamental to financial reporting and are important to complete.

We believe that the IASB should aim for a general period of calm for investors and preparers in changes to accounting standards beyond those already envisaged, and give greater focus on post-implementation matters and promoting consistent application and interpretation of IFRS. That said, we believe there are some areas that the IASB could address to enhance



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comparability in financial reporting. We comment below on particular areas where we believe there is a more pressing need for guidance.

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 (see table page 14) 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 your answer to question 2(a).

Highest Priority Projects

Standing Committee No. 1 members agree on two areas for which there is a pressing financial reporting need for action (whether through standard-setting or interpretation) by the IASB:

- ***Business combinations between entities under common control*** – As we stated in our 28 April 2011 letter to Mr. Michael Stewart, we have concerns about divergent accounting treatments under IFRS related to common control transactions. We note that this issue has been submitted to the IFRS Interpretations Committee on various occasions, most recently in this past year. According to the July 2011 IFRIC Update, “The Committee noted that the issues raised by the submitter are widespread and that diversity in practice exists. However, the Committee thinks that the accounting for business combinations under common control is too broad to be addressed through an interpretation and that the Board has planned to address the accounting for business combinations under common control at a later stage. Consequently, the Committee [decided] not to add this issue to its agenda.” We believe there is a pressing need for the Board to provide guidance in this area.



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- **Other Comprehensive Income** – We note that Other Comprehensive Income is a project that was previously added to the IASB’s agenda but was deferred, with little or no work performed to date. We believe it is important for the Board to address the issue of what constitutes performance in determining which items of income and expense and gains and losses should be included in profit or loss or which should be included in other comprehensive income. It is also important to address whether items included in other comprehensive income should subsequently be recycled to profit or loss, and, if so, on what basis. We believe investors could benefit from more clarity from the Board as to the reasons for including certain items in other comprehensive income and other items in profit or loss.

Given that there is diversity among the greatest needs of the jurisdictions that are Standing Committee No. 1 members, we do not have unanimity as to all of the projects that the Board should reactivate or add to its agenda. However, the following projects are some (though not all) of the projects cited by members as addressing areas of pressing need for either guidance or improvement in financial reporting:

- **Presentation and disclosure** – Many members see a need for a single IFRS that provides disclosure guidance to replace the piecemeal disclosure requirements of other IFRSs. The Board may also want to consider working with the FASB on its disclosure framework project.
- **Financial instruments with characteristics of equity** – Several members believe the Board should reactivate this project, given the importance of this guidance in accounting for many financing transactions and given inconsistencies in practice (e.g. consideration of economic compulsion, such as in arrangements with accelerating-rate dividends or dividend stoppers, and applying the “fixed for fixed” guidance, among other issues).
- **Rate-regulated activities** – Although these activities do not affect all jurisdictions, they are very significant in certain jurisdictions. Several members believe the Board should resolve concerns about how to account under IFRS for the effects of rate regulation. This area of accounting also may lead to additional consideration under the Framework as to the definition of an asset.
- **Share-based payment** – A few members believe this is an important area for further work, considering the number of requests to the IFRS Interpretations Committee for clarification and the views by many that the guidance is unclear and not sufficiently principles-based.
- **Discount rate** – A few members believe there is a need for a Board project to provide more consistent guidance on how to determine discount rates, given the variation in standards currently. Those members believe the Board could develop guidance to



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define and describe how to determine discount rates, similar to the Board's work on fair value measurement. Some members also see a need for additional guidance on measurement (e.g., when to use probability-weighted vs. single best estimate approaches), which could be done in conjunction with work to update the Framework.

- ***Agriculture, particularly bearer biological assets*** – A few members believe that the current standard leads to an accounting outcome that does not always appropriately reflect the underlying economics of the entity and that the Board should therefore address this deficiency.

Role of convergence

We note that the Agenda Consultation did not pose questions about the future role of convergence in setting the IASB's future agenda, and we can understand the Board's shift away from convergence as a sole or prime objective. However, as we noted in our 25 July 2011 response to the IFRS Foundation Trustees' Report of the Trustees' Strategy Review, we believe the IASB should not lose sight of the potential benefits of convergence in making progress toward global accounting standards. As the Board continues its efforts towards developing high-quality globally-accepted accounting standards for the benefit of investors, it may find convergence to be a useful tool in achieving its objectives.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Yours sincerely,

Julie A. Erhardt
Chair, Standing Committee No. 1
International Organization of Securities Commissions