

Mr Hans Hoogervorst, *Chairman*
International Accounting Standards Board
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Email: commentletters@ifrs.org

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Dear Mr. Hoogervost,

Agenda Consultation 2011

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB' or 'the Board') Request for Views on its Agenda Consultation 2011 ('the Agenda Consultation').

We welcome this first formal public agenda consultation by the IASB. We see this consultation as a demonstration of enhanced interaction by the Board with the diverse constituencies to whom it is accountable. We believe that this consultation and future consultation by the IASB on its Agenda will contribute to further respect for and acceptance of the due process of the IASB and for IFRSs themselves.

We agree that developing financial reporting and maintaining existing IFRSs should be the two principal categories of the Board's work and support the basic components identified by the Board. We would, however, make the following high level points on the Board's strategic direction in the coming years.

- The overall strategic priority of the IASB as it determines its agenda and assigns priorities to the various topics should be the development of a comprehensive set of high-quality financial reporting standards based on clear principles and in the context of a comprehensive, open due process.
- We agree with the Board that, as an immediate priority, it must dedicate all necessary resources to completion of the projects on revenue from contracts with customers, leases, insurance contracts and financial instruments. Given the scale of these four projects, a realistic allocation of significant resources to other projects can be made only once these priority projects have been substantially completed.
- The continued development and refinement of the *Conceptual Framework for Financial Reporting (2010)* is critical to provide a clear set of principles to underpin individual standards. The Framework should, however, remain a 'living document' to be assessed as new standards are developed. In this way, the Framework can evolve as the global financial reporting environment changes.
- The development of a clear framework for disclosures in financial statements is critical and urgent. This should be undertaken separately from, and with more urgency than, any project on presentation.

- Urgency, importance and prevalence are useful factors in the assessment of a possible project, but these need to be defined better and the Board should set clear criteria for selecting projects for its agenda and assigning relative priorities to them.

In addition to assessing the strategic merits of individual potential projects, the Board should ensure that its portfolio of projects remains balanced and manageable, comprising a blend of standard-level projects, narrow-scope amendments and research activities in progress at any given time. It is important that the IASB restricts the number of projects in progress at any point in time, ensures availability of adequate resources and also utilises resources available to it through national and regional standard-setters so that it maintains the capacity to deal with urgent and emerging issues as they arise. This balance is important not only from the Board's perspective but also from that of the Board's constituents including preparers and users.

The proper allocation of time and resource to each project is necessary to ensure the quality of the eventual output. The quality of IFRSs is of paramount importance and can only be achieved by devoting adequate time and resource to each stage of the process, including initial research to understand thoroughly the nature and scope of the issue being addressed and thorough effects studies at each stage.

We expand upon these issues and on the individual projects we would envisage making up a balanced portfolio of urgent, important and prevalent issues in our detailed responses to the invitation to comment questions, which are included in the Appendix to this letter.

In addition, we believe that consideration should be given to the implications of the agenda consultation on the Board's due process. For this (and any future) agenda consultation to be an effective step in the IASB's due process, the IASB must, for its part, communicate effectively how it has used the input it receives from constituents as it sets priorities and allocates resources. We encourage the IASB to review the results of this consultation with the Trustees' Due Process Oversight Committee. We see this oversight as a critical component of enhancing the credibility of the IASB's agenda decisions and making this consultation a success.

The experience gained from this agenda consultation should also assist the IASB to elaborate how it applies the requirements of its Due Process Handbook (especially paragraphs 54-63). In particular, there needs to be explicit mention of ensuring space in the agenda for emerging issues (although this could be read into paragraph 56 on 'urgency', it is not explicit). We recommend therefore that the IFRS Foundation Trustees and IASB update the Due Process Handbook for the agenda consultation process as well as other recent enhancements to the IASB's due process and the Trustees' oversight activities.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884 or Joel Osness in New York at +1 212 492 3910.

Yours sincerely,



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Appendix: Responses to 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 years?

The overall strategic priority of the IASB as it determines its agenda and assigns priorities to the various topics should be the development of a comprehensive set of high-quality financial reporting standards. We continue to support the development of financial reporting standards that are based on 'clear principles.' As we explained in our comments to the IFRS Foundation Trustees dated 31 March 2009, our view is that:

Financial reporting standards based on clear principles result in financial reporting information that is a faithful presentation of economic reality and is responsive to users' needs for clarity and transparency. In addition, such standards will be consistent with a clear Conceptual Framework; will be based on an appropriately-defined scope that addresses a broad area of accounting; are written in clear, concise and plain language; and allow for the reasonable and appropriate use of professional judgement.

We acknowledge that any IFRS based on clear principles will be accompanied by application guidance, but we would expect that this would be kept to a minimum and illustrate the principles rather than detailed examples of particular facts and circumstances. Extensive application guidance is often an indicator that the principle in the standard is not as clear as it should be.

We agree with the IASB's analysis that an immediate strategic priority must be for the Board to dedicate all necessary resources to completing the four major projects outstanding on revenue from contracts with customers, leases, insurance contracts and financial instruments. These projects address areas that are complex, will have a pervasive effect requiring systems and reporting changes to be made by nearly all entities, and are likely to have profound and long-lasting impacts on both accounting and business practices. We encourage the Board to make every effort and take the necessary time to ensure that the standards in these four key areas are based on clear principles, while being understandable, operational, cost-effective to apply and able to provide investors and other financial statement users with better information for making rational investment and credit decisions. Following the Board's rigorous and open due process will contribute to achieving this goal. We encourage the Board and their FASB colleagues to make every effort to achieve converged solutions on these standards.

Furthermore, because of the scale of the four major projects, we are of the view that no realistic allocation of significant resources to other projects can be made until these priority projects have been substantially completed.

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.

We agree that developing financial reporting and maintaining existing IFRSs should be the two principal categories of the Board's work. Within the context of our understanding of the Board's overall strategic priorities, the basic components identified by the IASB as the drivers of its work are appropriate. We comment on these components below.

Conceptual Framework for Financial Reporting

We agree that the continued development and refinement of the *Conceptual Framework for Financial Reporting (2010)* is a strategic priority. We see this as critical to the acceptance of IFRSs as a comprehensive set of high-quality financial reporting standards, as this will only be achieved if those standards are underpinned by a clear set of principles. On this basis, we would encourage the Board to dedicate a significant amount of resources to particular phases of the Framework, as explained below.

In our view, the chapters of the Framework addressing elements of financial statements (and in particular, what are assets, liabilities and equity) and the determination of 'performance' are the most critical and should be seen as priority topics within the Framework project. Both topics are related to standards-level project priorities discussed later in this letter.

With respect to the chapter on Elements of Financial Statements, the issue of what may be recognised as an asset and the distinction between liabilities and equity are important. This chapter of the Framework will also enable progress to be made on contentious issues such as liabilities and equity and the effects of rate regulation, which are pervasive issues globally. With respect to the determination of performance, the Board needs to answer the fundamental question of 'what is performance?' and resolve the role of other comprehensive income, and why an item is reported there and not within profit or loss. These issues are pervasive and contentious. In our view, no long-term improvements in some critical areas of financial reporting will be achieved until such issues are resolved.

For the avoidance of doubt, we think that work on the Measurement chapter of the Framework must wait for the Board's conclusions with respect to Elements of Financial Statements. In our view, the Board must decide what qualifies as an element of the financial statements before it can decide what measurement attributes to attach to those elements.

However, that does not mean that we are asking the Board to stop work on standard-setting activities while it addresses the Framework. Rather, our view is that the Framework is, and should continue to be, a living document. As new standards are developed, they should be tested against the Framework but at the same time the Framework itself should be assessed to ensure that it remains a robust document which can evolve with sufficient flexibility to react to changes in the global financial reporting environment.

Presentation and disclosure framework

We agree that presentation and disclosure are significant issues. However, we consider them to be two distinct issues which should be addressed separately.

Presentation cannot, in our view, be addressed in a meaningful way until the conceptual basis of the elements of financial statements and the notion of performance (in particular, the conceptual basis for presentation of items within profit or loss or other comprehensive income) have been established. Because of this, we do not consider a project to develop a Presentation Framework to be a priority at this time.

On the other hand, we consider development of a Disclosure Framework to be both critical and urgent. Financial statements' disclosures have been the subject of much criticism during the current financial crisis. Poor disclosures, or excessive, immaterial or boiler-plate disclosures ('clutter') make it more difficult for users to assess an entity's performance as they can obscure relevant information. We agree that a framework is needed that would ensure that disclosures are made more relevant for users while at the same time ensuring that only useful information is provided, therefore making the workload for preparers proportionate. As such, we support the European Financial Reporting Advisory Group's 'pro-active activities' and the US Financial Accounting Standards Board's parallel efforts in this critical area. We note also the recent efforts of the New Zealand Institute of Chartered Accountants (NZICA) and the Institute of Chartered Accountants of Scotland (ICAS), and preliminary work undertaken by the Canadian Accounting Standards Board (AcSB) staff in this area. A framework would assist the IASB when determining the disclosure requirements to be included in new standards and provide additional guidance for preparers to consider in determining which disclosures to include in their financial statements. Existing disclosure requirements could also be measured against this framework to identify disclosures which should be either amended or eliminated. We do not consider that consolidating all disclosure guidance into a single IFRS (as proposed in the Agenda Consultation) would in itself achieve the necessary improvements.

Standards-level projects and the criteria for their selection

We believe that the IASB should strive to have a manageable blend of standard-level projects, narrow-scope amendments and research activities on its agenda. To achieve this, it is important that the number of projects on the IASB's agenda is limited and as a consequence, the Board has capacity to address new and emerging financial reporting issues. Furthermore, we think the IASB should also consider whether a particular issue should be addressed comprehensively or more effectively by a limited-scope amendment in the short to medium term.

In order to ensure that the agenda-setting process contributes to the development of high-quality financial reporting standards, the Board needs a set of clear criteria for making that selection. We agree that the criteria identified in the Request for Views are appropriate, but the terms used need to be defined to ensure that they can be applied in a consistent manner and thus enhance the transparency of the agenda-setting process.

The Board has identified "the urgency, importance and prevalence of the financial reporting need" as constraining factors when deciding on projects for inclusion or removal from its agenda. Prevalence, or pervasiveness, will need to be assessed from both an 'industry' and 'jurisdiction' perspective. An issue would need to apply across jurisdictions (e.g., recognising intangible assets) or to an industry generally (e.g. insurance entities) before a standards-level project addressing that issue could be given priority over others. Thus, an issue that arises in a particular industry in a particular jurisdiction has an inherently higher hurdle to surmount before it should be considered for inclusion on the Board's agenda.

Urgency and importance are more challenging, for what might be 'urgent and important' in one jurisdiction or region might be irrelevant to others. The Board needs to be able to assess these attributes in a neutral manner. We think that the criteria in Appendix C of the Request for Views could be adapted for this purpose and suggest that urgency and importance could be assessed as follows:

A topic would be considered ‘urgent and important’ when it addresses:

- a topic for which there is no guidance or that needs significant additional guidance;
- a topic where the current standard is considered by some to need revising because there are inconsistencies either within the standards or between the standard and the Framework; or
- a topic where the current standard is considered not to produce a faithful representation, ~~by some to have operational difficulties~~.

We agree that resource constraints will necessarily play a part in the balance between short- and medium-term projects; balancing those topics best suited to a comprehensive project versus a more limited-scope amendment.

With respect to the IASB’s resource constraints, the Board needs to ensure that the agenda is realistic and that it has the resources necessary to be able to undertake the projects for which it has primary responsibility. We encourage the Board to examine ways to cooperate with and use the resources available in the national and regional standard-setters more effectively. In addition, the Board will need to make explicit provision for the triennial review of the IFRS for SMEs, due to begin during this agenda cycle.

Constituents also face resource constraints, in particular their ability to respond to due process documents and the cost, time and effort involved in implementing changes as a result of new or amended IFRSs. The pace of standard-setting should reflect consideration of this constraint.

These resource constraints underlie the IFRS Advisory Council’s advice that the Board should provide a ‘period of calm in issuing new standards to bed down the numerous new and revised standards coming into effect.’ As noted above, we do not think that this should be read to imply that the Board should cease standard-setting activities. Standard-setting activities must continue, however the Advisory Council’s recommendation could be achieved by judicious use of effective dates, restricting the number of projects on the Board’s agenda and achieving a balanced and manageable portfolio of projects.

Another important consideration is proportionality – that is, ensuring that the time and resources devoted to a topic are proportional to the issue being addressed. For standards-level projects, especially those which involve developing new financial reporting standards or a comprehensive revision of existing standards, we believe that it is of paramount importance that they result in high quality output. In our view, this can only be achieved by laying a solid foundation of research performed prior to or at the stage of development of new IFRSs and then allowing each stage of a project sufficient time to be completed properly and incorporating effects studies.

In our view, the IASB should ensure that, for any standard-setting project, overall there has been a systematic and thorough assessment of effects throughout the initiation, research, development and issuance phases of a project. In our comment letter of 26 August 2011 to the European Financial Reporting Advisory Group on the Discussion Paper: *Considering the Effects of Accounting Standards*, we supported the principle that effects analysis should be an element of the standard-setting process throughout the life cycle of a standard-setting project. The work done by EFRAG and the UK Accounting Standards Board in this area should be considered.

We believe that in setting its agenda the IASB has, and should take, the opportunity to adopt a more disciplined approach to research and allow longer lead times to develop and prepare final guidance. Comment periods generally should not be less than 120 days, allowing constituents to examine proposals in depth and providing the Board with a broader range of thoroughly considered views than can currently be gathered through relatively short comment periods and roundtables. Such comment periods would

also allow the Board to recognise in a tangible manner that the increased use of IFRSs around the world has increased the need and importance of translating IASB proposals into languages other than English, and for constituents' comments to be translated from local languages into English so that their voice may be heard effectively.

We also support the Board making more effective use of 'fatal flaw reviews'. Such reviews should be assigned enough time to permit a thorough review to ensure that a proposed standard (in its final form) is of high quality and should be able to be interpreted and implemented in a consistent manner. Fatal flaw reviews should also be an opportunity to review the proposed text of the IFRS to determine whether its requirements can be understood clearly in practice or whether further implementation guidance would be advisable. Clarity becomes more important as the global reach of IFRSs extends, requiring standards to be understood in a number of different languages and cultures.

Should this approach be adopted and implemented successfully, we would expect the time required for maintenance projects (including post-implementation reviews and submissions to the IFRS Interpretations Committee) to become a progressively smaller portion of the IASB's agenda over time.

Research activities

As we noted in our comments to the IFRS Foundation Trustees dated 22 July 2011, it is 'critical that the IASB should have access to current research as it develops IFRSs' and we supported 'establishing a liaison group within the IASB focused on research activities and responsible for coordinating a global research network.' In addition, we supported the IASB being responsible for coordinating a global research network of national and regional standard setters. We continue to think that it would be beneficial to the IASB if there was a truly global research network, capable of drawing on research from around the world wherever it was being undertaken and assessing changes in the current economic context and business reality around the world. Such research would assist the Board identifying where there is a standard-setting need and/or where a solution to a financial reporting issue is not clear and further research is necessary to determine the scope and complexity of the issue. At this stage, we would not wish the Board to dedicate significant research resources in areas such as integrated reporting, electronic reporting and the extended use of XBRL, although it is likely that resources will be needed in the future.

Post-implementation reviews and narrow-scope projects

As noted above, it is important that the Board restricts the number of projects in progress at any point in time and utilises resources available to it through national and regional standard-setters. This is critical if the Board is to ensure that it has room in the agenda sufficient to allow it the capacity and flexibility to address urgent and emerging issues and narrow-scope projects as they arise.

We support the Board undertaking post-implementation reviews of new IFRSs and any resulting major amendments with a focus on those issues identified as significant and/or contentious during the development of the IFRS and including consideration of any unexpected costs or other implementation problems (including inconsistent application of the IFRS). We are concerned that the post-implementation reviews proposed by the Board are too narrow in scope and believe that in addition to identifying implementation issues there should be consideration of whether the Board has provided sufficient application and implementation guidance to support consistent application of an IFRS.

We draw to the Board's attention our comments of 22 July 2011 to the IFRS Foundation Trustees, in which we proposed two possible approaches to undertaking post-implementation reviews. Under both approaches, the Board would not be directly involved in undertaking the reviews: in one approach the IFRS Interpretations Committee would act as a steering group. Our alternative approach advocated establishing a sub-committee of the Foundation 'composed of IFRS Foundation Trustees (with staff

independent of the IASB), this committee would be independent of the IASB and would report directly to the Foundation. In performing a post-implementation review, the committee might engage national standard-setters, the audit profession, users and/or securities supervisors to assist in collecting information. However, the findings of the post-implementation review should be the sole judgements of the committee. Findings of this committee would be of two types – (i) further implementation issues that the IASB may consider for adding to its or the Interpretation Committee’s agenda and (ii) ways to improve the setting of future standards.’ We think the independence of the post-implementation review from the IASB would strengthen the reviews’ credibility significantly and release IASB resources to focus on its agenda.

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?

As stated in our response to Question 1, we believe that in planning its work on the development of financial reporting, the IASB should prioritise work on developing the *Conceptual Framework for Financial Reporting (2010)* and beyond that should maintain a balanced portfolio of research, standard-level and narrow-scope projects.

Based on the criteria of urgency, importance and prevalence, we would consider the following projects of each type to be priorities over the coming years.

Conceptual Framework-related Projects

High priority topics

Elements of Financial Statements

As noted in our response to Question 1, the chapter on the Framework on elements of financial statements, and in particular what may be recognised as an asset, is important. This chapter of the Framework will also enable progress to be made on contentious issues such as the distinction between liabilities and equity and the effects of rate regulation, which are pervasive issues globally. As noted below, we would encourage the Board to undertake this project in conjunction with the research activities on intangible assets, such that the tentative conclusions on the Framework chapter can be tested against and inform the research activity, and *vice versa*.

Financial performance and the role of other comprehensive income

As noted in our response to Question 1, the chapter of the Framework on financial performance is critical. With respect to the determination of performance, the Board needs to answer the fundamental question of ‘what is performance?’ There is no conceptual basis or real consensus on what items of income and expenses, gains and losses should be recognised in profit or loss. The related questions of what is reported in other comprehensive income, why it is reported there and not within profit or loss, and whether an item can or should be recycled to profit or loss remain unresolved. These issues are pervasive and contentious.

Priority topics

Common control transactions

We agree that business combinations under common control is an important and widespread issue for which there is an apparent lack of guidance. However, we do not consider the business combinations aspect of common control transactions to be of sufficient urgency to be addressed by an immediate and narrow scope project. Rather, we think that the accounting concepts to be applied to transactions under common control generally be explored first, in order to allow any subsequent consideration of, for example, group reconstructions to result in robust and principle-based guidance.

Reporting entity concept and combined financial statements

Work on this phase of the Framework should be a priority and should address, or be followed by a standard-level project addressing, the issue of combined financial statements which we see as a test of the Reporting Entity concept. Most securities regulators require the preparation of combined financial statements at the time of, for example, an Initial Public Offering and for those statements to be prepared in accordance with IFRSs. A lack of guidance on how or whether this may be achieved makes this, in our view, an urgent and important issue.

Disclosure framework

High priority topic

As noted in our response to Question 1, we believe that the development of a disclosure framework is ‘critical and urgent.’ We see this as a separate and distinct project. A disclosure framework is needed if financial statements are to be clear and concise while of high quality, contain more meaningful information and less irrelevant detail, and thereby serve better the needs of users. A disclosure framework would also aid consistent and appropriate disclosure requirements being developed and maintained across all IFRSs.

As noted in our response to Question 1, we do not support committing Board resources to the development of a presentation framework until progress is made on the more fundamental issues of the notion of financial performance and the role of other comprehensive income.

Standards-level Projects

High priority topics

Debt and equity

The current requirements of IAS 32 *Financial Instruments: Presentation* on distinguishing between debt and equity instruments are highly complex, poorly understood and when applied to instruments commonly issued in several jurisdictions lead to classifications which are criticised for not reflecting the economic substance of the transaction.

We believe it is important to address this issue, but that the first step should be to research the nature of the instruments causing concern. The requirements of IAS 32 and the definitions of liabilities and equity in Chapter 4 of the Framework could then be thoroughly re-assessed in order to deal with this issue in a comprehensive manner.

Cross-cutting issues

High-priority topics

Variable consideration

We see this topic as high priority because of inconsistency among IFRSs that needs to be addressed. Contingent or variable consideration is a common feature in many jurisdictions of agreements to buy and sell a wide variety of assets. We believe that the treatment of such variability meets the criteria identified in our response to Question 1 as there is a lack of guidance (and, in some cases, inconsistent guidance) in the various standards dealing with assets (notably, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 2 *Inventories*), and in the absence of such guidance application of either IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* to the

liability to make variable payments may not produce a faithful representation of the economic substance of the transaction.

We note that the IFRS Interpretations Committee recently attempted to address this issue but has deferred further work pending completion of the Board's project on leasing. Whilst a finalised leasing standard may provide some guidance in this area, we believe that accounting for variable consideration is an issue that requires consideration on its own merits rather than by analogy to other standards.

Maintenance of IFRS 1 First-time Adoption of IFRSs

The Board should ensure that, when developing or amending an IFRS, there is a thorough process to identify all first-time adoption issues. An effective fatal flaw review, such as the one we proposed in our answer to Q1(a) and (b) above, would be an important part of such a process, as it would provide users, preparers, auditors and other constituents the opportunity to identify particular issues and notify these to the Board before the IFRS is issued. This should limit the necessity to amend a recently-issued IFRS because an IFRS 1 issue had not been identified.

Narrow-scope Projects

Priority topics

Emissions trading schemes

Emissions trading schemes are being implemented or considered in a variety of different jurisdictions and will function in a variety of different ways. Given the pervasiveness of the issue and the current lack of guidance in IFRSs on dealing with such schemes, there is a considerable risk of divergent practices emerging and of national or regional regulators introducing their own requirements to fill the gap in IFRSs, thus diluting the status of IFRSs as a comprehensive set of financial reporting standards without regional variation. Consequently, we think a narrow-scope project that would achieve consistency in the short-term is necessary.

In the longer term, we think that the intangibles project should include emission trading schemes within its scope, as noted below.

Government levies and similar charges

We are aware that many jurisdictions have introduced or are considering 'tax-like' charges, levied based on a component of the financial statements (revenue, capital, etc) or based on the participation in a particular market, and administered by the tax authorities. We believe that a pragmatic and sensible approach to government levies and similar charges (which are, in our view, of a tax-like nature, and common in banking, pharmaceutical, extractive and other sectors) could be achieved by exploring whether a limited-scope amendment of IAS 12 might be appropriate, or whether a methodology similar to the current tax requirements of IAS 12 could be developed.

Post-implementation reviews

We support the Board's commitment to undertake post-implementation reviews of IFRS 8 *Operating Segments* and IFRS 3 (2008) *Business Combinations* together with the related amendments to IAS 27 *Consolidated Financial Statements*.

Agriculture

We are aware of concerns over the application of IAS 41 *Agriculture* to, in particular, bearer assets but consider that this may be addressed most efficiently by means of a thorough post-implementation review of the standard as part of the IASB's maintenance of existing IFRS s work stream.

Clarity of IFRSs generally

A subset of post-implementation reviews or a distinct initiative could be a clarity project, i.e. a review of existing IFRSs to determine whether the requirements of a standard are being clearly understood in practice or whether further implementation guidance would be advisable. Clarity becomes more important as the global reach of IFRSs extends, requiring standards to be understood in a number of different languages and cultures.

Research Projects

High priority topics

Intangible assets (including rate-regulated activities)

Research in this area is vitally important if the value drivers of contemporary businesses are to be identified, recognised and measured. Research in this area will enable the Board to reconsider the boundaries of which sources of value are recognised in an entity's financial statements (and at what value) and which are not. These boundaries should be considered in the context of significant areas in which it is sometimes argued that the value of a business is not faithfully represented by its financial statements¹, notably extractive activities and rate-regulated industries, as the research could then be applied to separate projects addressing those areas in detail. Without a solid foundation of research, we do not believe that robust standards could be developed to deal with these diverse industries in a conceptually sound and consistent manner.

In addition to the narrow-scope project on emission trading schemes noted above, we would include within the Intangibles research project a comprehensive consideration of emission trading schemes.

The research and subsequent activities in this topic area would also inform the 'Elements' topic within the Board's Conceptual Framework project.

Priority topics

Equity method of accounting

The equity method of accounting continues to be an area of controversy and issues of application of IAS 28 arise almost daily. We note that the IFRS Interpretations Committee considered a limited-scope issue during its November 2011 meeting. Whilst such limited-scope projects may help in specific areas, the fundamental conceptual divide continues between those who see equity accounting as a valuation technique and those who see it is a 'one-line consolidation.' We therefore suggest that the Board undertake research to consider what role the equity method plays and whether it should be used and, if so, when and how (i.e., in consolidated financial statements, separate financial statements or both).

¹ See, for example, the International Integrated Reporting Committee's Discussion Paper: *Towards Integrated Reporting: Communicating value in the 21st Century*, which notes that in 2009, only 19% of S&P 500 entities' value was explained by physical and financial assets, as compared to 83% in 1975.

The following topic is one that we think it is important for the IASB to take a leadership role, but for which research activities to be undertaken in the near-term can be delegated to national standard-setters.

Inflation accounting

The issues surrounding accounting for the effects of inflation and deflation (and not limited to hyper-inflation) are complex, especially in relation to notions of capital maintenance. Although we do not see this topic as high priority at this time, we think that this is a topic that the IASB should place on its Research agenda, and ask national standard-setters and academia to undertake targeted research so that the IASB is in a strong position to develop IFRSs in a future agenda cycle.

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 to you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

Our response to Question 2(a) details the projects which we consider should be included on the IASB's agenda to provide a balanced portfolio of projects but also sufficient scope to address urgent issues as they emerge.

We would not devote IASB resources at present to the following topics for the reasons given.

Liabilities – amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

We reiterate the comments we made in response to the 2005 Exposure draft and the 2010 limited re-exposure that we are not convinced that current practice is flawed and we do not consider that the Board's proposals to date would not improve financial reporting.

Country-by-country reporting

While this could be addressed as part of the post-implementation review of IFRS 8 *Operating Segments*, we see country-by-country reporting to be more of a regulatory issue rather than a financial reporting one. We do not see it as a priority for the IASB at this time.

Derecognition

Pending work on the chapter of the Framework on elements of financial statements (which would likely define what would qualify for recognition), we think that developing an IFRS on derecognition generally would be premature at this time.

Discount rate

With the issuance of IFRS 13 *Fair Value Measurement*, we do not think that this issue is sufficiently important to be seen as a priority for the IASB at this time.

Earnings per share

On balance, the reporting requirements for earnings per share in IFRSs, in particular for basic earnings per share, are operational at present. We do not see amending IAS 33 as a priority for the IASB at this time.

Extractive activities

We think that the issues highlighted in the Discussion Paper issued in April 2010 should be treated as inputs to the proposed research project on Intangible Assets.

Financial statement presentation

We do not see the replacement of IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows* (as proposed in the IASB's Discussion Paper of October 2008) as a priority for the IASB at this time. Elsewhere in our response, we recommend that fundamental concepts related to elements of financial statements and other aspects of financial performance are addressed as priorities.

Foreign currency translation

While we acknowledge the issues highlighted in the Request for Views, we do not see the issue as pervasive. On the whole, IAS 21 is operating satisfactorily at present and amending it is not a priority.

Government grants

We do not see amending IAS 20 and IAS 41 (as it relates to government grants) as a priority for the IASB at this time. On balance, the accounting for government grants in IFRSs is operational at present.

Income Taxes

Although IAS 12 is a complicated standard in practice, and implementation issues arise on a regular basis, we do think that the standard is operational at present, and for that reason we do not see it as a priority at this time.

Interim reporting

We do not see amending IAS 34 as a priority for the IASB at this time. In our view the standard is operational at present.

Islamic (Shariah-compliant) transactions and instruments

We recognise that Shariah-compliant transactions and instruments are growing in importance for financial markets generally. However, we are not aware of particular difficulties of interpretation or application related to Shariah-compliant transactions and instruments in the financial statements of financial institutions reporting in accordance with IFRSs. This leads us to conclude that IFRSs are largely operational in this area and, therefore, that this topic is not an area of priority for the IASB at this time.

Post-employment benefits

Although IAS 19 is a complicated standard in practice, and many implementation issues have been identified as new types of post-employment benefits are identified or developed, we do think that the standard is operational at present, and for that reason we do not see further amendments as a priority at this time.

Share-based payment

Although IFRS 2 is a complicated standard in practice, and implementation issues arise on a regular basis, we do think that the standard is operational at present, and for that reason we do not see it as a priority at this time.