

# Rådet *för* **finansiell rapportering**

The Swedish Financial Reporting Board

RFR-rs 2011:11

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

Dear Sirs,

## **Re: IASB Agenda Consultation 2011**

The Swedish Financial Reporting Board is responding to your invitation to comment on the Agenda Consultation 2011.

In summary, we have the following views.

- The IASB should be restrictive to take on projects before the four major projects (Revenue Recognition, Leases, Financial Instruments and Insurance Contracts) on the current agenda have been finalized.
- There is a need for a period of calm after those four projects are made effective.
- The Framework should be completed.
- Disclosure requirements should be reduced.
- Priority should be given to projects regarding concrete financial reporting issues, while "research-type" projects not connected with concrete financial reporting problems should not be emphasized.
- More analysis supported by evidence is needed before items are put on the agenda.
- Regarding specific projects, we support that priority is given to:
  - post-employment benefits
  - discount rates
  - intangible assets
  - other comprehensive income
  - income taxes
  - earnings per share
- We do not support the idea to integrate XBRL into the standard-setting process.
- We do not support extending the scope of standard-setting to areas outside financial reporting, e.g. country-by-country reporting and integrated reporting.



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## **Make sure the current major projects are finalized before taking on other projects**

We believe that top priority should be given to the four major projects (Revenue Recognition, Leases, Financial Instruments and Insurance Contracts) that are currently on the agenda. The work plan indicates that those projects will run well into the period covered by the agenda consultation. We find no discussion in the agenda consultation paper on how this might affect the priorities for what other projects could be placed on the agenda by the IASB during the following years. We believe that the IASB should be restrictive to take on other projects until those four major projects have been finalized. As we have informed the IASB in a previous comment letter, these projects should be implemented at the same time, no earlier than 2015.

## **A period of calm is needed**

One very important feature of standard-setting for financial reporting is that it should provide a robust foundation for financial reporting. A number of material amendments of IFRS have been decided and more are likely to follow when the current major projects are finished. Users need time to understand how changes will affect financial reporting. Preparers need time to adopt and implement new requirements. In reality, it often takes some time for stakeholders and companies to understand new reporting requirements. Therefore, we believe that it is necessary that when the current major projects have been finalized, a period of calm is adopted.

We would also like to propose that the IASB considers setting coordinated target dates for when new standards are made effective. This would clarify what should be short-term, medium-term and long-term projects on the agenda.

## **Complete the Framework**

In our view, the Framework should be completed as soon as it is practical. The present work to revise the Framework has been delayed and at present the project is dormant. We suggest that steps should be taken to eliminate, or push into the future, subprojects (phases), or sections within the Framework project, which are not considered vital. The result would be a less comprehensive, but still useful, Framework than the one presently planned. Obviously, the work to complete the Framework should be carried out parallel with standard setting to address concrete financial reporting issues.

## **Reduce disclosure requirements**

We find the present disclosure requirements excessive. The requirements, set on a standard-by-standard basis, lead to a redundancy in information. The requirements also lead to an overload of information, which reduces the usefulness of disclosures. We therefore strongly recommend that a project for the reduction and simplification of disclosure requirements is given priority when setting the agenda.

## **Give priority to concrete financial reporting issues**

Our general view is that the IASB should only take on projects when there is documented and communicated evidence that a concrete problem in financial reporting



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needs to be solved. It is also important that there are realistic time plans for the finalization of projects.

The agenda paper discusses what choices could be made regarding the agenda from a strategic perspective. The IASB points to five main areas in two categories (developing financial reporting and maintaining existing IFRSs). We do not find this categorization meaningful, since the development of standards and maintaining existing IFRSs are not distinct from each other.

The description of the five strategic areas in the agenda paper covers what the IASB is already doing today or has decided to do in the future. The problem is that this description of what in reality are activities performed by the IASB is not connected to the concrete major problems in financial reporting. The reference to IFRS Foundation objectives and IASB agenda criteria is not very helpful when making priorities for the agenda, because the criteria and the objectives are too vague. Therefore, a more concrete description of the problems with financial reporting is needed in order to set priorities. Is it e.g. divergence in practice, lack of guidance, interpretational problems or changes in underlying business models that is the concrete problem? The answer could, of course, be different depending on what area of financial reporting we are dealing with. Such questions would provide a more concrete base for setting the agenda, than the discussion about strategic areas.

From this also follows that "research-type" projects not clearly connected to concrete financial reporting problems should be given low priority. The IASB should follow the development of financial reporting research, but the IASB should instead use its limited resources on concrete projects.

## **More analysis supported by evidence is needed before putting items on the agenda**

The agenda consultation paper emphasizes that post-implementation reviews are important in order to identify e.g. implementation problems and cost issues regarding standards. While such reviews are important, the IASB must put more emphasis on the analysis of issues before they are put on the agenda. This is necessary in order to clarify why it is necessary to take on a project, i.e. what is the evidence that there is a concrete problem, and what will the potential benefits of and costs for a change be. We propose that before the IASB takes on a specific project, constituents should have the possibility to comment on the proposal, which should include a cost-benefit analysis.

## **Priorities regarding specific projects**

The list of deferred and potential projects in Appendix C of the agenda consultation paper is extensive. We therefore, first of all give an indication of what the general guidelines should be for selecting projects.

As we have stated previously in this comment letter, projects aiming to solve concrete financial reporting problems should be given high priority while research-type projects not clearly connected to concrete financial reporting problems should be given low priority. We also are of the view that the presently dormant projects that have been started mainly to achieve convergence with US GAAP, should be given low priority.



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Convergence should not, according to our view, be a guideline for agenda-setting in the future. Also the amount of work that previously has been put into a project should not be taken into account when deciding on the agenda. With this in mind, we have the following views regarding future priorities of specific projects.

## **Projects we support**

We consider that priority should be given to the project on post-employment benefits. The IASB has itself identified this as a very complex area, to which we agree. The pension liability is calculated based on expected future salary increases and at rule based interest rates. On the other hand plan assets are measured at the present fair value, which does not reflect the expected return on these assets. This results in an asymmetric relationship, which should be addressed. For plans in which the benefit depends on the future returns, guaranteed by the employers, this asymmetry is particularly obvious.

Also, we would welcome a new project on discount rates. A number of discount rates are currently used in IFRS. It is important to analyze what discount rates that should be used. It is clear that in some cases, e.g. in IAS 19, the standard is rule-based (high quality corporate bonds in deep markets or government bonds). This decreases comparability, instead of enhancing it.

Another important project is financial reporting for intangible assets. One reason for this is the significant increase in amounts related to this type of assets. A reason for the increase is the importance of software for vendors and users/buyers. As it is stated in the consultation paper, one major concern with the current standard is the inconsistent treatment of intangible assets depending on whether they are purchased or internally generated. We believe that a project regarding intangible assets should focus on the recognition criteria that should apply to be purchased and internally generated intangible assets. IFRS needs to be simplified in order to make it more understandable, both for users and preparers. Such a project should also address related questions emerging from IFRS 3 Business Combinations regarding measurement of intangible assets and goodwill. The planned post-implementation review of IFRS 3 would provide a base for such an analysis. We have also observed that the distinction between PPE and intangible assets has become difficult to uphold. A reason for this is the increase of software components in sales of equipment etc. Therefore, a project regarding intangible assets would also address this.

We also support the project on other comprehensive income. In order to set down a robust standard it is very important to reach a conclusion on what should be reported in other comprehensive income and what items should be recycled, or not, from OCI. The current situation, where recycling is solved on an ad hoc-basis, is not satisfactory. Our view is that, in principle, all items in OCI should be recycled over time.

We question the conceptual merits of the current income tax accounting model because it does not measure taxes on a discounted or cash flow basis. We also believe the model is too complex and results in deferred tax liabilities that do not represent actual cash outflows. One example of this is the situation in which a company holds an investment property within a corporate entity and expects to ultimately recover the asset by selling the investment.. Such a sale will often give rise

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to no tax consequences, but still a liability is recognized. Another example is the requirement to use the undistributed rate, when the tax consequences are reduced or avoided by distributing the profits in the beginning of the subsequent year. We therefore believe that a project should be initiated to reassess income tax accounting.

Finally, we would like the IASB to review the standard on earnings per share. While this standard is viewed to be important by many users, its usefulness can be enhanced by simplifying the complex rules for calculation in the current standard.

## **Projects we do not support**

It follows from our views stated in the previous section that other projects in the agenda consultation paper should be given low priority when setting the agenda. We here give our comments regarding some of the projects that we strongly believe should not be included in the agenda.

We do not support an integration of XBRL into the standard-setting process. We believe that it is important how information is classified and presented. XBRL is a language supporting electronic communication of information in financial reports. But a distinct feature of XBRL is that how the financial information is presented is not important as long as it fits into the XBRL taxonomy. This means that there is a fundamental difference between standard-setting for financial reporting and XBRL. Furthermore, by bringing XBRL into the financial standard-setting process, this might make financial reporting standards more detailed, especially in the area of disclosures. This is a development that would be detrimental to the development of principle based standards.

We do not support extending the scope of standard-setting to areas outside financial reporting, e.g. country-by-country reporting and integrated reporting. The IASB should concentrate its work on core financial reporting issues and not extend the scope to areas of reporting, that are not covered by IFRS today. Adding to this, country-by-country reporting is a political and highly controversial issue. The IASB is not a political body and is therefore not suited to engage in such issues.

The project regarding liabilities should be taken off the agenda. Proposed amendments have encountered strong resistance. We believe that the revision of IAS 37 has turned into a project where there is a battle between "internal consistencies" (all liabilities should be measured the same way regardless of the character of the liability) vs. "reality" (all liabilities should not be measured the same way because they are not similar in character). Since our view is that nothing is broken in this area of financial reporting, the project should not be restarted..

As we have pointed out above, a project on other comprehensive income should have high priority. But, on the other hand, we are of the view that other parts of the project on financial statement presentation should not be continued in its current form. Although we agree that a distinction between operations and finance is relevant, we don't think that the IASB has been able to come up with a workable solution to that and that many of the other proposed changes are not justified from a cost/benefit point of view.

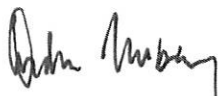


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If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: [carl-eric.bohlin@radetforfinansiellrapportering.se](mailto:carl-eric.bohlin@radetforfinansiellrapportering.se)

Stockholm, 25 November 2011

Yours sincerely



Anders Ullberg  
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