

# Agenda Consultation 2011

Comments to be received by [30 November 2011]



# Agenda Consultation 2011

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# Letter from Hans Hoogervorst, Chairman of the IASB

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This first formal agenda consultation comes at an important point in time. After a decade of work we have reached a natural break point.

It allows us to pause for breath and to take some time to ask 'what next?'

The IASB's past agenda has largely been shaped by three events:

- the need to upgrade the standards inherited by the International Accounting Standards Board (IASB) in time for European adoption of International Financial Reporting Standards (IFRSs) in 2005;
- our G20-endorsed programme of work with the US-national standard-setter, the Financial Accounting Standards Board (FASB), to improve IFRSs and US generally accepted accounting principles (GAAP) to bring about their convergence; and
- undertaking a comprehensive response to the financial crisis while supporting a second wave of jurisdictions that were preparing to adopt IFRSs.

As a result of this work, IFRSs have become the undisputed international financial reporting language. As the IFRS community continues to grow, it is also becoming more diverse. At the same time, financial markets are gaining in complexity and new aspects of financial reporting such as electronic filing are becoming more important. These and other developments create an array of new questions and challenges that may need to be addressed by the IASB.

As we enter this new phase in the life of the IASB we are conscious of the balance that we must achieve; we will be responsive to requests for new guidance from our global stakeholders and balance this with our awareness that in the past ten years preparers and users of financial statements have already had to deal with a great number of changes, and many may want a stable platform before further substantial projects are undertaken.

This agenda consultation asks deliberately open-ended questions in order to seek broad input. We urge all those that are directly and indirectly affected by financial reporting to get involved.

Your comments will contribute to shaping financial reporting for the future and to build on what has been a decade of remarkable success.

Yours sincerely,

Hans Hoogervorst

# Background and objective of the agenda consultation

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We undertake this agenda consultation to gather views from all those interested in financial reporting on the strategic direction and overall balance of our work plan as well on the priority of individual projects or agenda areas over the next three years.

The Trustees introduced the three-yearly agenda consultation in 2010 in response to comments received during the second Constitution Review of the IFRS Foundation.

The objective was to provide a channel for formal public input on the broad aspects of our agenda-setting process and to further enhance public accountability and legitimacy and thus to deepen the respect for and viability of IFRSs globally.

When setting the agenda, we need to consider the limited resources and time available (ours and those of our stakeholders); hence we need to make choices regarding:

- (a) the overall strategic direction and balance of our agenda – including how to balance the development of financial reporting and the maintenance of IFRSs;
- (b) the financial reporting needs around the world including considering which projects to add and their respective scope; many projects can be addressed either in the medium term by a narrow scope project or by a longer-term comprehensive project.

The views we receive through this agenda consultation will help to direct and shape our thinking when allocating resources and when discussing to which projects to give priority and in what form those projects should be added to our agenda over the next three years.

However, throughout our agenda-setting cycle, and between our three-yearly public consultations, we will continue to actively monitor financial reporting needs and may adjust our agenda, taking steps to add, revise, accelerate or remove projects in response to global financial reporting needs, the progress of our agenda projects and our resource availability. For example, the quickly-changing financial reporting needs arising from the financial crisis led us to reassess and reshape our agenda in recent years.

In assessing those global financial reporting needs and priorities, we consider views from interested parties and consult the Trustees of the IFRS Foundation and the IFRS Advisory Council. This approach allows us to respond to unexpected and urgent demands, such as those that arose from the financial crisis in recent years.

The consultation period on the agenda extends to 30 November 2011. During this time IASB members and staff will conduct a broad range of outreach activities to gather input from a wide range of stakeholders in addition to considering the formal letters that we receive in response to this request for views. We will also seek further input on the agenda from the Trustees, the IFRS Advisory Council and other national and international stakeholders.

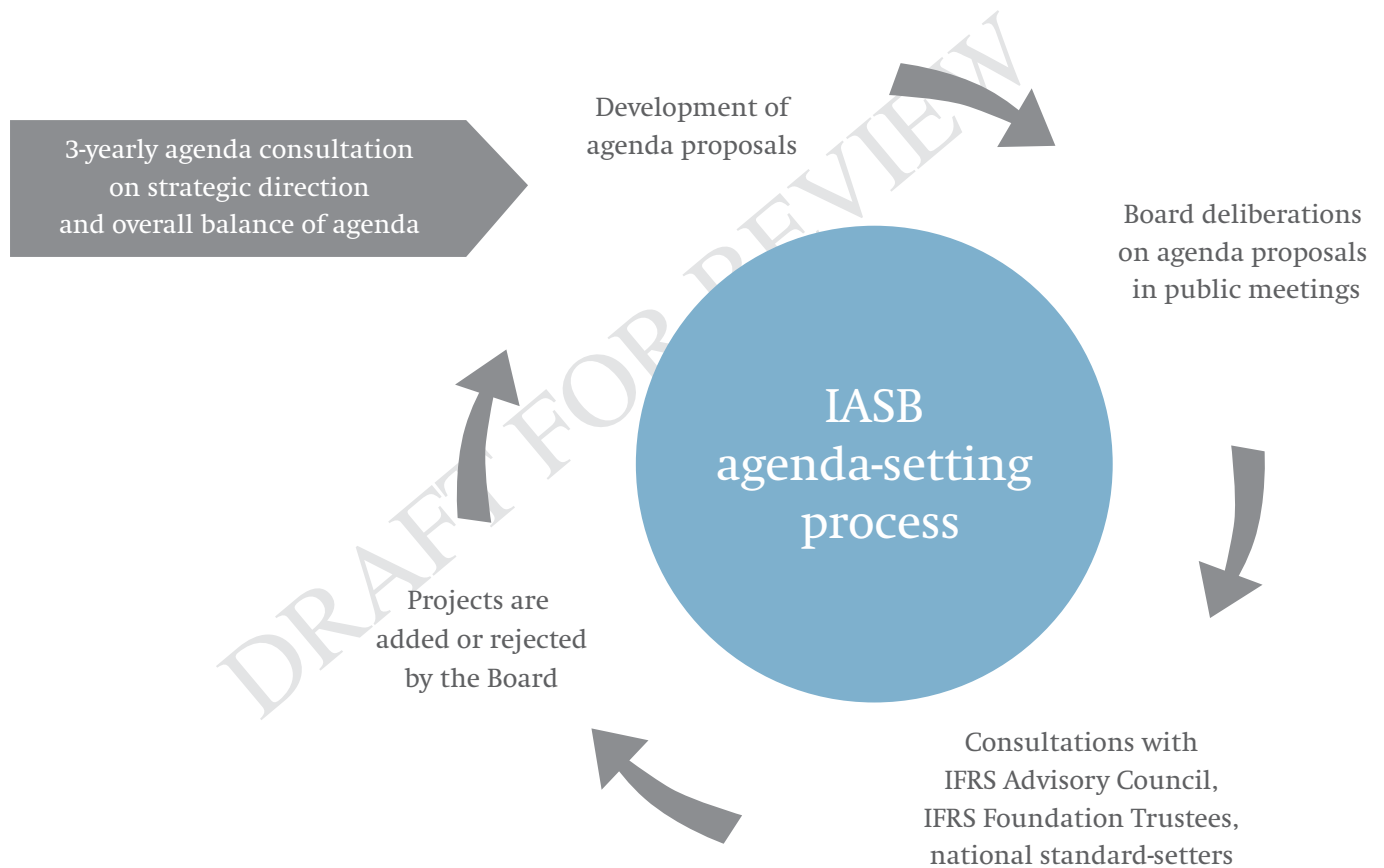
We have created a specific project page and email alert to keep informed all those who are interested. To subscribe to the alert visit the agenda consultation page on: [www.ifrs.org/tbc](http://www.ifrs.org/tbc)

The consultation does not address our three-year cycle of review of the *IFRS for Small and Medium-sized Entities*; that consultation will proceed separately from this review.

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# The agenda consultation and the IASB’s agenda-setting process, in context

The three-yearly agenda consultation on the strategic approach and the broad shape of the IASB’s work plan complements and further enhances the IASB’s independent agenda-setting process. The comments received will shape the IASB’s thinking when discussing individual agenda items.





# The overall strategic direction and balance of the agenda

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This agenda review is an opportunity for all those interested in financial reporting to contribute to the future shape of the IASB's agenda. We want to understand what you think our broad strategic priorities should be in allocating our resources and in balancing the different financial reporting needs over the next three years.

As the IASB enters its second decade much has changed.

1. Almost all major economies are using or have announced plans to converge with or adopt IFRSs; indeed, many more countries are about to join the IFRS community this year and next. As the IFRS community continues to grow it is also becoming more diverse and as a result, new financial reporting issues may need consideration by the IASB.
2. Over the past ten years financial markets have become increasingly complex and new issues and challenges have emerged that may need consideration.

3. While considering these issues we are also aware of the amount of work and the pressure on users and preparers alike. Our focus on convergence of US GAAP and IFRSs in accordance with our Memorandum of Understanding (MoU) with the FASB and the acceleration of projects in response to the financial crisis and the recommendations of the G20 group of countries has caused this level of work and pressure. We are also aware of the amount of effort that will be required in the implementation of the new standards over the next few years.

We are interested in understanding how you think these aspects should affect the future shape and balance of our work plan overall.

# The IASB's tentative view

To initiate the agenda consultation and in order to facilitate your input on what factors should shape our strategic approach we have, after consulting with the IFRS Advisory Council, developed a tentative view on a possible overall structure of our future agenda.

A summary of the advice we have received from the Advisory Council is included in Appendix B. In accordance with the constitutional objective of IFRSs, projects we add to our agenda should support the three goals of:

- strengthening the consistency of the standards;
- improving the accessibility of the information provided in financial statements; and
- filling gaps in the IFRS literature.

The Trustee's Strategy Review, published in April 2011, has identified two tensions in relation to the quality and implementation of the standards:

- the importance of demonstrating the quality and relevance of the standards
- the risk that practices related to implementation and adoption will diverge

Having reflected on the advice we have received so far, we think that there are five strategic areas driving the work of the IASB that fall into two main categories: the development of financial reporting and the maintenance of the existing IFRSs.

Much of the feedback advice we have received so far has highlighted the importance of our *Conceptual Framework* project to much of what we do.

## Developing financial reporting

1. strengthening the consistency of IFRSs by **completing the conceptual framework**, and improving the usability of financial reports through the development of a presentation and disclosure framework
2. **investing in research** and addressing the **strategic issues for financial reporting**, to aid future standard-setting and to develop further the IASB's vision of the future shape of financial reporting, including exploring the interaction of IFRSs with Integrated Reporting<sup>1</sup>
3. filling gaps in the IFRS literature by undertaking **standards-level projects**, ie developing new IFRSs or major amendments

## Maintaining existing IFRSs

1. obtaining a better understanding of operational issues of new IFRSs and major amendments through conducting **post-implementation reviews**
2. improving the consistency and quality of application of IFRSs by **responding to implementation needs** arising from the revised set of IFRSs, through the use of targeted, narrow-scope improvements to IFRSs, including consideration of the completeness and consistency of integration of XBRL<sup>2</sup> with IFRSs

### Question 1:

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

<sup>1</sup> Integrated reporting is a holistic and integrated account of a company's strategy and its financial and non-financial performance.

<sup>2</sup> XBRL (eXtensible Business Reporting Language) provides a common electronic format for business and financial reporting.

# Developing financial reporting

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This section provides more detail on our understanding of what these five strategic areas comprise. We want to know if you agree with our approach and how you would balance the two categories and the five strategic areas within them.

## Conceptual framework, including a presentation and disclosure framework

The conceptual framework assists us in setting standards that are principle-based, internally consistent and internationally convergent. The conceptual framework also provides guidance to preparers, auditors, regulators and others when there is no specific guidance in an IFRS for a particular transaction or circumstance. The updating of the conceptual framework does not, in itself, impose new financial reporting requirements on reporting entities.

Our current agenda includes a project to update and refine our conceptual framework. The first of its eight phases was completed in 2010. We have been working jointly on this project with the FASB.

One of the future phases of the conceptual framework project would develop principles for presentation and disclosure. This would help to address criticism that we have heard from some stakeholders that requirements in IFRSs are too voluminous and not always focused on the right disclosures. A further possibility would be the development of a separate IFRS on disclosure, to replace the disclosures in the existing standards.

## Researching strategic issues for financial reporting

Some stakeholders have suggested that part of our time and resources should be spent on considering broader research issues. We think that investing time and effort in research activities now could lead to more efficient standard setting in the future. We also think that undertaking a strategic review of the future shape of financial reporting would help us anticipate future standard-setting needs and help us prepare to meet those needs.

A strategic review would consider what will be meant by financial reporting 10 years from now, and what form financial reporting might take. Given the increasing interest in Integrated Reporting, the growing importance of electronic reporting and the extended use of XBRL, one question would be in what way should we and IFRSs interact with these and other areas of Integrated Reporting?

## Standards-level projects

In focusing on our four main projects in 2010 and 2011, we deferred some of the projects on our current agenda. Some of these projects are minor or narrow-scope amendments. Others, however, are broader scope projects on which we have already initiated work. We have also received numerous requests for additional potential future projects.

Appendix C includes information about the projects that we have on our present agenda and a summary of those additional potential projects that have been brought to our attention. All of these projects are potential candidates for our future agenda. We will reconsider those that have already been started in the light of what we learn about stakeholder views on priorities for other potential projects.



# Maintaining existing IFRSs

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## Post-implementation reviews

One objective of the IFRS Foundation and the IASB is to promote the use and rigorous application of IFRSs. This includes being responsive to implementation issues. Our due process commits us to undertake post-implementation reviews of new IFRSs and major amendments.

We will normally conduct these reviews after two years of implementation of the new requirements<sup>3</sup>. We first gave a commitment to undertake a post-implementation review when we issued IFRS 8 *Operating Segments* in November 2006. Since then we have also committed ourselves to undertake a post-implementation review of the Business Combinations Phase II project (the 2008 revision of IFRS 3 *Business Combinations* and amendment to IAS 27 *Consolidated and Separate Financial Statements*).

One outcome from these reviews could be proposals for revisions to those IFRSs.

The post-implementation review of IFRS 8 will begin in 2011, and the review of the 2008 revision of IFRS 3 and amendment to IAS 27 in 2012. The recent new IFRSs and those that will result from our current major projects will also be added to the list of post-implementation reviews. For those new IFRSs with an effective date of 2013, the post-implementation reviews will begin in 2016. The reviews of the other IFRSs with later effective dates will of course follow later.

Post-implementation reviews are intended to 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.

## Responding to implementation needs

Responding to implementation needs includes maintaining the revised set of IFRSs. Many major new or revised standards will come into effect in 2013, or later. Responding to early implementation issues will help ensure a more efficient and effective implementation of these new IFRSs. The IFRS Interpretations Committee has a role to play in the maintenance of IFRSs by developing interpretations and proposing amendments through annual improvements. The IASB's involvement can include making targeted, narrow-scope improvements to IFRSs in response to practice issues that have been identified.

### Question 1(a):

Do you agree with the two main classes identified above and the five areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

### Question 1(b):

How would you weight the two main classes and five areas?

If you have identified other areas for the IASB's agenda, please include these in your answer.

<sup>3</sup> See paragraphs 52 and 53 of the IASB Due Process Handbook

# Understanding financial reporting needs

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In addition to seeking your views on the overall strategic direction and balance of the IASB's agenda, we also want to learn about your views on how you think we should prioritise existing and potential new projects, taking account of the resource limitations that we and our stakeholders face.

When selecting projects for the agenda, we have to balance the competing financial reporting needs with the constraints faced by us and our stakeholders, within the context of our existing priorities.

## Financial reporting needs

Our focus on setting the agenda is on the investors, lenders and other creditors who use IFRS financial statements, but we also consider the differing interests of the other users of IFRSs: preparers of financial statements, auditors, securities regulators, prudential regulators, national standard-setters and others involved in incorporating IFRSs into laws and regulations. We will listen to the needs and priorities of our various stakeholders when considering projects to include on our agenda.

We will also consider regional needs in achieving balance in our agenda. Much of our focus over the last ten years has been on responding to the transition needs for Europe, Australia and New Zealand, the convergence goals with US GAAP, and our response to the global financial crisis.

As we set our agenda in response to this consultation, we will consider the needs of other regions and jurisdictions too, such as Asia, Latin America and Canada.

There are also several projects that have been suggested as important for addition to our agenda. Some of these may require a broad scope project, for example some suggest that we reconsider the basis on which foreign currency is dealt with in order to address some of the financial reporting needs of emerging economies. Other suggestions could be candidates for more limited scope projects, which may be possible to complete more quickly, such as proposals put forward by the Malaysian Accounting Standards Board to change the financial reporting for bearer biological assets. Details of the projects that have already been suggested to us are included in Appendix C.

We want to discover if there is broad support and widespread interest in these or other topics and whether you think that we should focus our attention on some of these issues when reviewing our current agenda, despite the preference of some for a general period of quiet, in standard-setting terms.

## Constraining factors

In setting our agenda we need to be mindful of several constraints on how much and how quickly we can respond to those needs.

We need to give consideration to the ability of our stakeholders to respond to due process requirements, such as the time needed to study and understand our proposals and to respond through comment letters, round tables and other feedback channels.

We are also aware that stakeholders need time to apply and adapt to the new IFRSs that we have recently completed or are in the process of completing. We are aware that the intensity of our standard-setting activity over recent years, including the enhanced level of stakeholder interaction, has left many hoping for a period of relief from this level of standard-setting activity. We will try to be sensitive to this, yet balancing the perceived urgency for us to take action in response to requests for standard-setting action.

Our agenda is also constrained by our own time and by our staff resources, although opportunities to collaborate with national standard-setters and other organisations can, in some cases, help to alleviate this constraint.

When deciding which and how many projects to add or to remove from our agenda, we must therefore balance:

- the urgency, importance and prevalence of the financial reporting need
- the scope and complexity of the issue to be addressed
- the ability of stakeholders to be able to respond to due process requirements and implement the changes
- our resource constraints balanced with the opportunity to collaborate with others

A consequence of the decisions we make about which projects to add to our agenda is the trade-off between the number and size of projects and the speed with which they can be completed. The more projects we add, and the broader their scope, the longer it will take us, on average, to complete each one.

## Existing priorities

The balancing of financial reporting needs and the constraining factors described above also need to be considered in the light of our existing priorities. We intend to continue to give the highest priority to progressing our work on the following projects during the comment period for this agenda consultation.

1. Revenue from contracts with customers
2. Leases
3. Insurance contracts
4. Financial instruments, including
  - (a) hedge accounting
  - (b) impairment of financial assets measured at amortised cost
  - (c) offsetting of financial assets and financial liabilities

There are some other activities and projects that we will undertake because we are already committed, or are required, to do so. These are:

1. Continuing our project on the conceptual framework
2. Performing post-implementation reviews
3. Undertaking our three-yearly review of the *IFRS for SMEs*
4. Investing in research in preparation for future standard-setting needs
5. Undertaking minor amendments to IFRSs through the Annual Improvements process

We also want to build capacity in to our agenda to undertake additional projects for narrow-scope issues that are too broad to be addressed by the IFRS Interpretations Committee.

There are several projects that we have previously added to our agenda but subsequently deferred as we reviewed our agenda, particularly in response to the global financial crisis and completion of the MoU projects. Through this consultation we want to hear your views on the priorities you think we should give the projects that we had previously added to the agenda in the light of other financial reporting needs. If we choose to continue working on these projects, this will leave less capacity for new ones to be added.

A summary of the agenda projects that we had previously added, along with new projects that have been suggested to us, is included in the following table.

## Projects previously added to the agenda but deferred and new project suggestions

	Items added to agenda but deferred		Project suggestion <sup>1</sup>
	Projects for which significant work performed	Projects for which little or no work performed <sup>1</sup>	
Agriculture, particularly bearer biological assets			✓
Business combinations between entities under common control		✓	
Country-by-country reporting			✓
Discount rate			✓
Earnings per share	✓		
Emissions trading schemes	✓		
Equity method of accounting			✓
Extractive activities			✓
Financial instruments with characteristics of equity	✓		
Financial statement presentation			
- excluding consideration of other comprehensive income	✓		
- consideration of other comprehensive income		✓	
Foreign currency translation			✓
Government grants		✓	
Income taxes	✓		
Inflation accounting (revisions to IAS 29)			✓
Intangible assets			✓
Interim reporting			✓
Islamic (Shariah-compliant) transactions and instruments			✓
Liabilities—amendments to IAS 37	✓		
Post-employment benefits (including pensions)		✓	
Presentation and disclosure standard			✓
Rate-regulated activities			✓
Share-based payment			✓

More details of the above projects are included – Appendix C.

<sup>1</sup> Some of the projects for which little or no work has so far been performed by the IASB have, however, been the subject of research projects by other standard setters. This research work may prove useful for a future IASB project.

# Achieving balance

Meeting the demands of our stakeholders to address the financial reporting challenges they face is our ambition. Our resources may be limited but we can, and will, seek to establish and complete an ambitious, yet realistic agenda.

The resources we allocate to projects on our agenda will differ according to a number of factors:

- 1 The breadth of scope of the project
  - Some projects may lend themselves to be addressed in more than one way, for example the possible project for extractive activities could be addressed through a narrow-scope project focused only on disclosure requirements, or a broader-scope project addressing recognition and measurement as well as disclosure
- 2 The complexity of the issues and the degree to which they are interrelated with other issues

- 3 The amount of work we have already completed
  - we may choose to continue some of the projects on our current agenda, because they address financial reporting issues that stakeholders tell us continue to be important. When assessing projects that were previously added to the agenda but deferred, we will consider how much work remains to complete them; a project for which a significant improvement to financial reporting can be achieved for relatively little remaining work could be an efficient use of resources.

- 4 The urgency of the issue
  - We could allocate more staff to one project that is more urgent, in order to complete it more quickly. Alternatively if issues are less urgent, the same staff could be allocated to two or three projects, accepting that they will take longer to complete.

- 5 The nature of the work
  - Some projects may lend themselves to collaboration with national standard-setters. This is particularly so of research projects which often need a broader consideration of issues, which can be facilitated by using a broader team.

When selecting projects, we will assess agenda proposals against the agenda criteria, including cost/benefit considerations (see Appendix A). We will also take into account the objectives of the IFRS Foundation to ensure appropriate overall balance.

Please consider the agenda criteria and the objectives when responding to the questions, and refer to these when explaining your answers.

## 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 on the IASB's current agenda would you remove in order to make room for new projects, and why? Please link your answer to your answer to question 2(a).



# Next steps

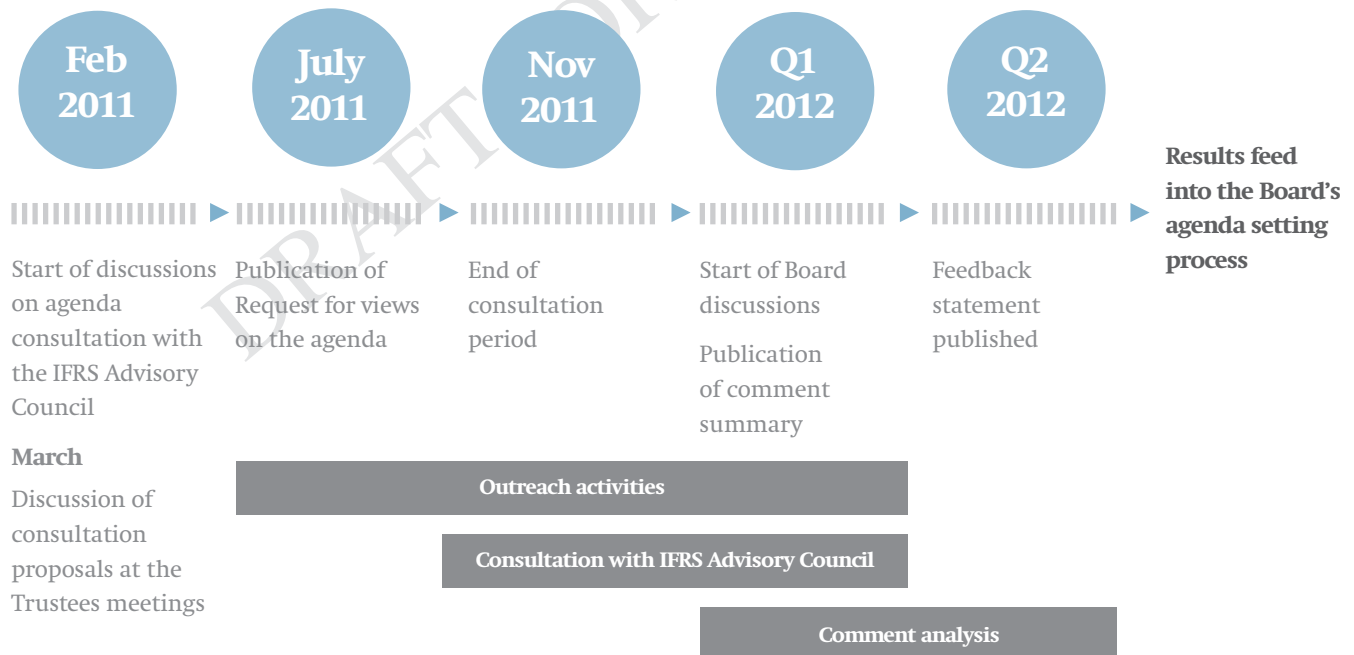
During the comment period IASB members and staff will undertake a broad range of outreach activities to seek input on the direction and shape of the agenda.

We will then discuss the results of the consultation and our outreach in public Board meetings and consult further the IFRS Advisory Council and the Trustees.

We will publish a feedback statement summarising what we have learnt from the agenda consultation.

The addition of projects to the agenda will follow the development and discussion of agenda proposals for individual projects. We will discuss these agenda proposals in our public Board meetings and with the IFRS Advisory Council and Trustees before deciding whether to add a particular project to our agenda.

## Timeline of the 2011 agenda consultation



# Appendix A: IFRS Foundation objectives and IASB agenda criteria

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The identification of projects to include in the IASB's agenda is made within the context of the objectives of the IFRS Foundation and the IASB's established agenda criteria. The objectives of the IFRS Foundation, as set out in the Constitution<sup>4</sup>, are:

- (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.
- (b) to promote the use and rigorous application of those standards.
- (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
- (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRSs), being the standards and interpretations issued by the IASB, through the convergence of national standards and IFRSs.

The established agenda-setting criteria, as set out in the IASB's *Due Process Handbook*<sup>5</sup>, are:

- The relevance to users of the information involved and the reliability of information that could be provided
- Existing guidance available
- The possibility of increasing convergence
- The quality of the IFRSs to be developed
- Resource constraints.

## The relevance to users of the information involved and the reliability of information that could be provided

The IASB considers whether the project would address the needs of users across different jurisdictions, taking into account the following factors:

- changes in the financial reporting and regulatory environment—whether the issue is internationally relevant, and has emerged as a result of changes in the financial reporting environment and regulatory requirements across jurisdictions.
- pervasiveness—whether the issue is one that (a) affects more than a few entities and more than a few jurisdictions, (b) gives rise to problems that are frequent and material and (c) will persist if not resolved.
- urgency—whether requests have been received from constituents, with reasonable justifications, that the IASB should address the issue as a matter of priority.
- consequences—whether the absence of an IFRS might cause users to make suboptimal decisions.

## Existing guidance available

After assessing the significance of an issue, the IASB considers whether the project will address an area on which existing guidance is insufficient. The following aspects are taken into account:

- No guidance exists.
- There is diversity in national standards, which results in a lack of comparability in financial reporting.
- There is diversity in practice, or IFRSs are difficult to apply because
- They are unclear or unnecessarily complex,
- The cost of complying outweighs benefits to users, or
- The IFRSs are out of date and the information they generate no longer appropriately reflects economic conditions or results.

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4 The IFRS Foundation's Constitution, paragraph 2

5 The IASB Due Process Handbook, paragraphs 55 to 60

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### The possibility of increasing convergence

As specified in the Constitution, the IASB is tasked with bringing about the convergence of national standards and IFRSs. Therefore, in parallel with the review of existing guidance on an issue, the IASB considers whether undertaking a project would increase the possibility of achieving the convergence of the accounting standards in different jurisdictions.

### The quality of the IFRSs to be developed

After evaluating the existing IFRSs including the prospects of further convergence, the IASB considers the qualitative aspects of the IFRSs that are proposed to be developed. The following factors are taken into account:

- availability of alternative solutions—whether when an issue is addressed, there are alternative solutions to improve relevance, faithful representation, application of fundamental qualitative characteristics, comparability, verifiability, timeliness and understandability in financial reporting, and it is likely that sufficient IASB support and approval will be attainable for IFRSs developed.
- cost/benefit considerations—whether it is likely that the expected benefits to users of the improved financial reporting will exceed the costs of implementation.
- feasibility—whether it is feasible to develop a technically sound solution within a reasonable time period without awaiting completion of other projects.

### Resource constraints

The IASB then considers whether there are sufficient resources to undertake a project in its agenda. The following factors are taken into account:

- availability of expertise outside the IASB—whether there is expertise available at the national level that the IASB can employ to address the issue; or certain accounting standard-setters have already committed resources to the project or have undertaken research to address the issue.
  - amount of additional research required—whether there is sufficient research about the topic to form a basis for beginning the project, although more may be needed.
  - availability of resources—whether there are adequate resources and expertise available to the IASB and its staff to complete the project and undertake the necessary due process activities.
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# Appendix B: Advice from the IFRS Advisory Council

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The IFRS Advisory Council has discussed the IASB's agenda from a strategic perspective at three of its meetings in 2009 and 2010. In August 2010 the Council provided a report<sup>6</sup> to the IASB, setting out its advice on the future agenda. The Council's discussions were undertaken before the revisions to the IASB's convergence work programme were announced in June 2010, and therefore its advice was given on the basis that the IASB would complete its current agenda by June 2011. In summary, the advice from the Council was:

## Basic policies

- (a) Focus on serving those who have adopted or wish to adopt IFRSs. Convergence is no longer a prime consideration.
- (b) Retain the current objective of serving the reporting needs of capital market participants for profit-oriented entities.

## Short-term to medium-term objectives

- (c) Provide a period of calm in issuing new standards to bed down the numerous new and revised standards coming into effect. Stand ready to assist in resolving implementation issues. Assess proposals for new standard-setting projects against strict selection criteria. Provide some capacity and flexibility to deal with unforeseen urgent issues without disrupting the work plan.
- (d) Allocate significant resources to ensuring that the standards are interpreted and applied with an appropriate degree of consistency, and that they are producing the intended results. Post-implementation reviews should become a significant activity.
- (e) Expedite completion of the conceptual framework project and developing a presentation and disclosure framework.
- (f) Monitor trends and developments that are likely to affect financial reporting in the future.

## Interaction with constituents

- (g) Manage the relationship between IFRSs and the *IFRS for SMEs*. The first periodic update of the *IFRS for SMEs* will be particularly challenging because of the recent spate of new or revised standards.
- (h) Continue and expand outreach activities with particular emphasis on users and emerging markets.

This approach would allow the new Board to become better oriented before making extensive longer-term commitments, and would ease the transition from the old to the new Board.

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<sup>6</sup> The letter from the Chairman of the IFRS Advisory Council is available at <http://www.ifrs.org/NR/rdonlyres/8DF58C71-DA7F-4019-AF84-2E455D8CC0A5/0/CovernotetoDavidTweedie.pdf> The report is available at: <http://www.ifrs.org/NR/rdonlyres/E1DDDBE72-2022-4211-BE83-CF39E193630F/0/Post2011WorkPlan.pdf>

# Appendix C: Projects previously added to the agenda and new project suggestions

This appendix provides an overview of the financial reporting topics that have previously been added to the IASB's agenda but for which work has been deferred, as well as those financial reporting topics that various stakeholders have brought to the IASB's attention as being either:

- an area that needs significant additional guidance;
- a topic where the current standard is considered by some to need revising; or
- a topic where the current standard is considered by some to have operational difficulties.

The table is followed by a summary of each of those items including, in the case of project suggestions, an indication of the general approach that some of those stakeholders have suggested to address the concerns.

	Items added to agenda but deferred		Project suggestion <sup>1</sup>
	Projects for which significant work performed	Projects for which little or no work performed <sup>1</sup>	
Agriculture, particularly bearer biological assets			✓
Business combinations between entities under common control		✓	
Country-by-country reporting			✓
Discount rate			✓
Earnings per share	✓		
Emissions trading schemes	✓		
Equity method of accounting			✓
Extractive activities			✓
Financial instruments with characteristics of equity	✓		
Financial statement presentation			
- excluding consideration of other comprehensive income	✓		
- consideration of other comprehensive income		✓	
Foreign currency translation			✓
Government grants		✓	
Income taxes	✓		
Inflation accounting (revisions to IAS 29)			✓
Intangible assets			✓
Interim reporting			✓
Islamic (Shariah-compliant) transactions and instruments			✓
Liabilities—amendments to IAS 37	✓		
Post-employment benefits (including pensions)		✓	
Presentation and disclosure standard			✓
Rate-regulated activities			✓
Share-based payment			✓

<sup>1</sup> Some of the projects for which little or no work has so far been performed by the IASB have, however, been the subject of research projects by other standard setters. This research work may prove useful for a future IASB project.



## Agriculture, particularly bearer biological assets

IAS 41 *Agriculture* provides guidance on the accounting for agricultural activity. From initial recognition up to the point of harvest, it requires the measurement of biological assets at fair value less costs to sell.

IAS 41 does not distinguish between bearer biological assets and consumable biological assets. Bearer biological assets include mature dairy cows, mature grape vines, mature olive trees, etc. Consumable biological assets include beef cattle, wheat, trees for wood pulp in a plantation forest, etc. The biological transformation that occurs with biological assets is considered by many to be reflected best by using fair value measurement, as is currently required by IAS 41.

However, the biological transformation associated with mature bearer biological assets occurs principally in the produce growing in/on the bearer biological asset. The operation of mature bearer biological assets is therefore seen by many as similar to that of manufacturing, and consequently they believe that such assets should be accounted for similarly to property, plant and equipment or intangible assets, at cost.

A future project could be a limited scope improvement to IAS 41 to address the bearer biological assets issue.

## Business combinations between entities under common control

Business combinations between entities under common control occur in group restructurings, including in preparation for initial public offerings, and are excluded from the scope of IFRS 3 *Business Combinations*. As a result accounting practice has diverged. This project was added to the agenda but work was deferred pending completion of the projects set out in the IASB's Memorandum of Understanding with the FASB. No due process documents have been completed.

## Country-by-country reporting

The discussion paper *Extractive Activities*, published by the IASB in 2010, included consideration of requests from a number of parties for the requirement of entities involved in extractive activities to publish certain information, in particular payments to governments, on a country-by-country basis. Some jurisdictions, notably the United States and the European Union, have taken steps towards requiring similar disclosures by certain companies operating in these industries. In July 2010 the US adopted the Dodd-Frank Act which includes project-by-project disclosures. In October 2010, the European Commission published a questionnaire to gather views on reporting on a country-by-country basis by multi-national entities. A future project could consider whether a similar requirement should also be included in IFRSs, including consideration of whether such a requirement should apply to entities in all industries or only to selected industries.

## Discount rate

Various accounting measurements involve estimates of discounted cash flows. IFRSs use a variety of discount rates. That variation arises because different standards have different measurement objectives and were developed at different times. A future project could aim to provide more consistent guidance on how to determine discount rates.

## Earnings per share

IAS 33 *Earnings per Share* provides a standardised approach to the calculation of this measurement, taking into consideration the dilutive effects of potential ordinary shares. The approach in IAS 33 for calculating diluted earnings per share (eps) is complex and has the potential for simplification. There are also several areas of divergence between IFRSs and US GAAP in the required calculations. This project was added to the agenda and an exposure draft was published in August 2008. The IASB received a summary of the results of that consultation in April 2009. The project has since been deferred.

## Emission trading schemes

Emission trading schemes are designed to achieve a reduction of greenhouse gases through the use of tradable emission permits. They are a relatively recent phenomenon and an integral part of the Kyoto Protocol. Many jurisdictions are implementing different schemes, however the two main types of schemes are cap and trade schemes and baseline and credit schemes. The main financial reporting issues are how the assets and liabilities in emission trading schemes should be recognised and measured. In particular, the project considers how allowances received from the scheme administrator should be recognised and measured and what liabilities, if any, relating to the receipt of allowances should be recognised and measured. The IASB does not expect to reopen its discussions on this project until later in 2011.

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## Equity method of accounting

The application of the equity method of accounting can be complex in some circumstances. These complexities include the calculation of goodwill, the partial elimination of profits on upstream and downstream transactions, and the measurement of impairment. Some have questioned the appropriateness of the use of the equity method and challenged whether it should be permitted, whereas others have argued for the extension of the use of equity accounting to separate financial statements.

A future project could reconsider when the equity method of accounting is appropriate, and, if so, whether it could be simplified. Alternatively a future project could be of more limited scope focussing just on clarifying and/or simplifying the application of the equity method of accounting.

## Extractive activities

Extractive activities are the exploration for and discovery of minerals, oil and natural gas deposits, developing those deposits and extracting the minerals, oil and natural gas. Extractive activities are excluded from the scope of several otherwise relevant standards, and thus there is no specific guidance. This has resulted in diversity in accounting practices.

A project team of national standard-setters from Australia, Canada, Norway and South Africa undertook a research project on extractive activities. The IASB published the project team's discussion paper in April 2010 and received an analysis of the comments received in October 2010. A future project could leverage off the work of the discussion paper to develop guidance relevant for these activities.

## Financial instruments with characteristics of equity

IAS 32 *Financial Instruments: Presentation* provides the relevant guidance for distinguishing between asset and liability instruments (non-equity instruments) and equity instruments. The IASB has been reviewing this guidance to address some practice issues, including eliminating current rule-based approaches, and to achieve convergence with US GAAP. This is one of the long-standing projects on the IASB's agenda that addresses issues related to financial instruments. The main objective is to identify the characteristics that should be present in an instrument for it to be classified as either an equity or liability instrument.

Other significant issues related to this project are the accounting for put options written over own equity, including those written over non-controlling interests, and the classification of foreign currency convertible bonds. The IASB published a discussion paper in February 2008, deliberated on the responses received and made a number of tentative decisions on the project. In October 2010 the IASB suspended the project until it had the capacity to complete the work. A future project could be broad-scope consistent with the current agenda. Alternatively, a future project could focus on addressing a narrow range of issues.

## Financial statement presentation, including consideration of other comprehensive income

The financial statement presentation project is part of the IASB's current agenda. The objective of the project is to provide improved guidance on the organisation and presentation of information in the financial statements. The IASB has been developing principles that can be applied in the preparation of financial statements to ensure that an appropriate level of disaggregation of information is presented and that the information portrays a cohesive picture of the entity's activities. A staff draft of a proposed standard was released in September 2010. Since then the IASB staff have been conducting outreach to gain a better understanding of the consequences of these proposals. The IASB does not expect to have further, detailed discussions on the proposals until later in 2011.

An important issue that has been raised by many respondents to various IASB proposals in various projects is how to determine which items of income and expense and gains and losses should be included in profit or loss or in other comprehensive income, and whether items included in other comprehensive income should be recycled to profit or loss and, if so, on what basis. A future project could retain the broad scope of the current project or could be separated into two projects; one that considers the issues associated with other comprehensive income and another that considers the other issues.

## Foreign currency translation

The existing IFRS on foreign exchange (IAS 21 *The Effects of Changes in Foreign Exchange Rates*) is based on the US standard. Some have criticised IAS 21 as designed for companies that operate in a reserve currency. Recent volatility in exchange rates, especially in emerging economies, has led some to ask that this standard be reconsidered. At the Board's request, a group of national standard-setters led by the Korea Accounting Standards Board has been exploring this issue. In particular, they are considering whether the project should be limited to narrow implementation issues or should address questions of currency accounting more generally. They are also considering whether a project should be limited to the scope of IAS 21, or should address other situations in which exchange rates interact with other IFRSs. The Board expects to use the results of this group's work in considering a potential agenda project.

## Government grants

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* provides guidance on recognising, measuring and disclosing government grants and disclosing other forms of government assistance. IAS 20 is inconsistent with the conceptual framework, in particular in its recognition of a deferred credit when the entity has no liability. The standard also permits accounting policy choices that can reduce the comparability of financial statements and understate the assets controlled by an entity. The IASB added this project to its agenda but has deferred work pending progress on the revenue recognition and emission trading schemes projects. No due process documents have been published.

## Income taxes

The IFRS Interpretations Committee and IASB staff have received many questions on IAS 12 *Income Taxes*, indicating that the standard is sometimes difficult to apply. Income tax was also frequently identified as a source of significant reconciling items for US-listed foreign registrants applying IFRSs. The IASB's current project on income taxes originally started as a convergence project with US GAAP and with the intention of not changing the fundamental approach in IAS 12. An exposure draft was published in 2009, but since then the IASB has narrowed the scope of the project. Among the issues to be addressed within the current project is the accounting for uncertain tax provisions, although resolution of this issue may first require completion of the project to revise accounting for non-financial liabilities (amendments to IAS 37). In response to the comment letters received on the exposure draft, the IASB has indicated that it would consider undertaking a fundamental review of accounting for income taxes at some time in the future.

## Inflation accounting (revisions to IAS 29 *Financial Reporting in Hyperinflationary Economies*)

IAS 29 provides guidance on the preparation of financial statements in a functional currency that is suffering from hyperinflation. Concerns have been raised from some countries whose economies suffer from high inflation, but which are not hyperinflationary. Those concerns are that the effects of high inflation on an entity's financial results are not adequately reflected in IFRS financial statements. A research paper was prepared on this issue and submitted to the IASB by the Federación Argentina de Consejos Profesionales de Ciencias Económicas. A future project could use this research paper to consider revisions to IAS 29 to include guidance for entities whose functional currency is that of an economy subject to high, but not hyper-inflation.

## Intangible assets

Intangible assets are an increasingly significant class of assets for wide range of entities across many jurisdictions. There are many who consider the current standard, IAS 38 *Intangible Assets*, as out of date and not appropriately reflecting economic conditions or results. One major concern is the inconsistent treatments for particular types of intangible assets depending on whether they are purchased or internally generated. The IASB considered a proposal prepared for it by the Australian Accounting Standards Board for a broad scope project to address the issues relating to intangible assets in 2007. The IASB did not add the project to its agenda at that time because it did not have sufficient resources.

## Interim reporting

IFRSs do not require entities to prepare interim financial reports, but provide guidance in IAS 34 *Interim Financial Reporting* on how an entity should prepare such a report. The objective of the current standard is that the frequency of reporting should not affect the measurement of the annual financial statements. However, there can be tensions between this objective and the requirement to apply a discrete accounting period approach in the preparation of interim financial reports. Associated with this is the question of whether full remeasurement of assets and liabilities is required at each interim reporting date, for example should the defined benefit obligation of a defined benefit pension plan be remeasured at each interim date in the same level of detail as at the end of the financial year? A future project could consider what improvements should be made to overcome these issues.

## Islamic (Shariah-compliant) transactions and instruments

Modern Islamic finance emerged from a belief that conventional forms of financing may contain elements prohibited by Shariah. As an alternative, a myriad of Islamic financial transactions have been developed on the basis of a combination of classical trade-based contracts and other accompanying arrangements. These products are considered to be in compliance with Shariah precepts, yet provide some level of economic parity with comparable forms of conventional financing. Some stakeholders have asked the IASB to investigate whether, and if so how, financial reporting guidance for these transactions and instruments can be incorporated into IFRSs. The IASB staff are currently researching both the issues involved and possible approaches that the IASB might take. The Malaysian Accounting Standards Board and others have been especially helpful in this effort. The IASB would need to enlist the help of those knowledgeable in both Shariah precepts and the structure of these transactions to a much greater degree than for other IASB projects.

## Liabilities—amendments to IAS 37

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* addresses liabilities of uncertain timing or amounts that are not within the scope of another standard. This project is part of the IASB's current agenda. An important objective is alignment of the requirements for recording costs of restructuring activities with those in US GAAP, and alignment of the criteria for recording liabilities with the criteria in other IFRSs. The project also aims to provide more specific requirements on measuring the liabilities within the scope of the standard. Exposure drafts were published in 2005 and 2010, and a staff draft of the proposed IFRS was released in 2010. The IASB staff are conducting outreach on some issues raised in the project and the IASB expects to discuss the views received later in 2011. The next step is expected to be a further exposure draft of the revised standard.

## Post-employment benefits (including pensions)

IAS 19 *Employee Benefits* sets out the financial reporting requirements for all types of post-employment benefits, including defined benefit arrangements. Defined benefit arrangements can give rise to large and highly uncertain costs for many companies and estimating these costs can be extremely complex. This project is part of the IASB's current agenda. The IASB has approached this project in two phases:

- (a) improvements to the recognition, presentation and disclosures of defined benefit plans; and
- (b) improvements to the measurement of defined benefit plans and contribution-based promise plans, including plans that have the characteristics of both defined benefit and defined contribution plans.

Improvements to the recognition, presentation and disclosures of defined benefit plans were completed in June 2011. The second phase of the project, which will propose improvements to the measurement of defined benefit plans and contribution-based promise plans, has not yet commenced.

## Presentation and disclosure standard

Currently each IFRS sets out the presentation and disclosure requirements relevant to the subject of that standard. These requirements add to the general requirements set out in IAS 1 *Presentation of Financial Statements*. Some stakeholders have told us that the disclosure requirements are too voluminous and not always focused on the right disclosures. One approach to address these concerns could be to develop of a single IFRS that provides all the necessary disclosure guidance to replace the piecemeal requirements of the other IFRSs.

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## Rate-regulated activities

Rate regulation is the setting of prices that can be charged to customers for services or products through regulations. Generally, it is imposed by regulatory bodies or governments when an entity has a monopoly or dominant market position that gives it significant market power.

The issue to be addressed is whether IFRSs should require entities operating in rate-regulated environments to recognise assets and liabilities arising from the effects of rate regulation? Some national GAAP provides specific guidance on this matter, but there is no equivalent guidance in IFRSs.

The IASB's previous project on rate-regulated activities was not completed because of resource constraints, but it identified the following possible ways forward:

- a disclosure-only standard
- an interim standard, similar to IFRS 4 or IFRS 6, to grandfather previous GAAP with some limited improvements, pending a longer-term project
- a medium-term project focused on the effects of rate regulation
- addressing it as part of a comprehensive project on intangible assets.

## Share-based payment

IFRS 2 *Share-based Payment* provides guidance on the accounting for share-based payments, including transactions with employees. The guidance in IFRS 2 has been the source of several requests for clarification to the IFRS Interpretations Committee and is considered by many to be unclear and insufficiently principle-based. At the request of the IASB, the Autorité des Normes Comptables (the French accounting standard-setter) has reviewed IFRS 2 to consider how the IFRS might be clarified without changing its core principles. The results of this review will be helpful in a possible future project on IFRS 2. Such a project could consider limited, narrow scope improvements to address the concerns about a lack of clarity in the IFRS. Another alternative could be for the IASB to undertake a broader scope project to reconsider some of the principles of IFRS 2, in particular whether the measurement focus should be on the value of services received or on the value of the share-based payment made.

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