



Grant Thornton

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By Email: standard@asb.gov.au

10 November 2011

Dear Kevin

[Request for Views – IASB Agenda Consultation 2011](#)

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on the International Accounting Standards Board's (the Board) Request for Views – Agenda Consultation 2011 (the Request for Views).

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 30 November 2011, and discussions with key constituents.

Our comments should be seen as representing the Australian position on the impact that the IASB's Agenda will have for Australia in the coming years, and is for the information of the AASB in helping it submit an Australian view to the IASB. Grant Thornton International has, as detailed above, sole responsibility for providing the global Grant Thornton view to the IASB. From an Australian perspective Grant Thornton Australia believes that it is critical that there are in the short term there are agreed global rules around the accounting for both a carbon tax and emissions trading scheme given the current Australian minority Government's legislation to establish a carbon tax from 2013 (we note that AASB 26 October 2011 Agenda Paper 5.2 on this issue).

Broad Support for the consultation process

Developing the agenda is a critical part of the Board's standard-setting process. We, and many other constituents, have for some time been calling for a more transparent and inclusive approach to this aspect of the Board's work. We believe this will contribute to the quality of agenda decisions and, over time, lead to improvements in IFRSs. Strengthening

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the due process around agenda-setting decisions should also enhance the Board's and IFRS Foundation's accountability and legitimacy.

In particular we believe that all standards setters should make available for public review a collation of comments received from all submissions, and a response to each of the issues raised as appropriately grouped as otherwise there is both a transparency and accountability issue which does make many who provide submissions to various standards boards, with some question as to whether their own particular views have been understood and considered by the boards.

We therefore congratulate the Board on publishing the Request for Views and welcome the opportunity to provide input.

Key considerations in developing the agenda

This consultation takes place at a time when four major projects (Revenue, Leasing, Insurance, and Financial Instruments) are in progress and have uncertain finalisation dates. We expect that the Board will, quite rightly in our view, continue to prioritise these projects until their completion. This work, together with existing commitments such as post-implementation reviews, annual improvements and reviewing the IFRS for SMEs, will of course reduce the Board's and Staff's spare capacity especially during 2012.

Moreover, in determining the number and type of projects it should work on concurrently, it is important that the Board considers what lessons can be learned from recent experience of major projects. It appears to us that the Board has tended to set over-ambitious work plans, inevitably followed by delays and deferrals. The optimum scale of the future agenda should be assessed taking into account that:

- most major projects will be controversial to some degree
- the calls for additional outreach, field-testing and other due process activities continue to increase
- constituents will need time to evaluate and implement the major new standards referred to above (along with others issued recently in areas such as consolidations) and will have limited capacity and appetite for further substantial changes
- a number of jurisdictions are in the process of transitioning to IFRS, or are considering whether to do so. Entities in those jurisdictions would benefit from a period of calm in IFRS developments (often referred to as a stable platform).

Our views on the shape of the future agenda

Given this context, we suggest that the Board should restrict the major projects on its post-2011 to a small number – perhaps in the order of two to four (whether new projects or those added previously but deferred). We further suggest that the project selection should focus on areas where there is a broad consensus among constituents that change is needed.

We believe that other standards-level projects should be limited to targeted amendments to address particular issues. In selecting those projects, we suggest the Board aims for areas

where simplifications appear to be achievable, or diversity reduced, through relatively uncontroversial and straightforward amendments.

In selecting these projects, the Board should also pay close attention to concerns raised in regions and jurisdictions that may have been accorded a lower priority in recent years. The Board's and Staff resources have understandably been heavily committed to US Generally Accepted Accounting Practice convergence projects in recent years. Concerns in other regions may therefore have been given less attention. Some rebalancing may now be called for in future resource allocation decisions.

We expand on these comments, respond to the questions in the Request for Views and set out our detailed project suggestions in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

Appendix 1: Comments

Question 1

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

Question 1(a)

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

We agree that the two categories (developing financial reporting and maintaining existing IFRS) are appropriate as broad headings.

We also agree that the five strategic areas identified (in summary: conceptual framework, research, major new projects, post-implementation reviews, responding to implementation needs) form a suitable basis for classifying possible activities and work-streams.

As detailed in our covering letter we would add a carbon tax/emissions trading new project given the pressing need in Australia for consistent global rules, and we also favour adding an Intangibles project as a new project given that Intangibles represent a significant part of many business worth and yet are often not recognised in the financial statements which widens the 'expectation gap' facing users and producers of financial information.

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 doubt there is an objective basis to determine an optimal balance among the identified categories and strategic areas. Different constituents will undoubtedly have different priorities based on their particular circumstances.

That said, we suggest that the expected completion of the Board's major in-progress projects (Revenue, Leasing, Insurance, Financial Instruments) in 2012 will limit the capacity and tolerance of many constituents for other major standards-level projects. Moreover, in view of the extended timelines for these projects, and existing commitments to undertake post-implementation reviews, to review the IFRS for SMEs and suchlike, the Board's free

capacity to develop major new standards in the next few years is likely to be quite limited. Accordingly, we suggest that the emphasis in the next few years should be more on maintaining existing IFRSs than developing financial reporting. In particular, as noted in our cover letter, we suggest that the Board should restrict the major new projects to a small number.

We comment more specifically on the five strategic areas in the following paragraphs.

Conceptual framework

Of the three areas in “developing financial reporting” category we suggest that completing a revised conceptual framework should be the highest priority. While the conceptual framework’s importance to standards-development can perhaps be overstated, we nonetheless consider that an up-to-date, comprehensive framework would be a useful tool for the Board in pursuing its standards-level projects.

We also suggest that many of the potential projects identified in the Request for Views should be pursued only once the underlying issues have been considered in the conceptual framework project.

Research and strategic issues

We agree that the Board and Staff should have access to relevant academic and other research to inform their standard-setting activities and decisions.

However, we are not convinced that a significant investment in research capability is an optimum use of the IASB’s limited resources at present. Research is generally best conducted by academic institutions, national standard-setters and suitable regional organisations. The IASB should continue to strengthen its liaison with these bodies to promote research which is focused on relevant to its activities. Commissioning specific research projects might also be useful and appropriate from time to time.

The Request for Views refers to exploring the interaction of IFRSs with integrated reporting. We agree the Board should acknowledge the setting in which financial reporting is presented, and therefore should evaluate the extent to which it should engage in this field in the next few years. We also believe that high quality management commentary (and similar) has a vital role to play in serving the information needs of investors and other stakeholders. However, we think the Board also needs to consider the likelihood that it will in practice be able to achieve significant improvement and global harmonisation in this area in the foreseeable future. There are many underlying factors that could affect this evaluation. Overall, however, at present we are not convinced that the Board has a strong mandate from stakeholders or public authorities, or that sufficient consensus exists on the role of integrated reporting exists. Accordingly, we suggest the Board should not devote significant resources to this area for the time being.

New projects to fill gaps

We note that identifying “gaps” in a principle-based system such as IFRS is a subjective judgement. We suggest instead that the focus should be on the number and type of active major projects to be included in the future agenda (whether replacements, major amendments or completely new standards).

For the reasons given above and in our cover letter, we think that the Board should work on only a small number of major standards at any one time in the next few years. The selection should preferably focus on areas where there is a broad consensus on the need for change. We think that placing a realistic limit on the number of major projects is possibly more important than the specific projects selected. That said, we suggest five projects below and give our reasons in our response to question 2:

- Income taxes
- Extractive industries
- Other comprehensive income
- Carbon Tax and Emissions Trading
- Intangibles

Post-implementation reviews

Beyond 2011 we believe the IASB's work should place greater emphasis on assessing the effectiveness of the major recent changes already made. We consider that post-implementation reviews of significant pronouncements are essential to the achievement of high quality, global standards and therefore welcome the current indications that these will be a substantial part of the post-2011 agenda.

We think these reviews should consider more routine matters such as internal consistency and clarity, but also address broader matters such as complexity, costs and benefits, the relevance of the information in practice and an appropriate level of consistent application (subject to the normal constraints on that outcome).

Responding to implementation needs

We support the inclusion of targeted improvements in the future agenda. This category presents opportunities to address problems that are significant for some constituents while placing relatively minor demands on Board and Staff resources.

In selecting improvement projects we suggest that the focus should be on areas where simplifications could be achieved, or diversity reduced, through relatively uncontroversial and straightforward amendments

With this in mind, our suggestions for specific targeted improvements are:

- Business combinations between entities under common control (acknowledging that this could become a major project depending in part on its direction)
- Agriculture, particularly bearer assets

- Foreign currency translation.

The Request for Views refers to consistency of integration of XBRL with IFRS under this heading. We are aware that the IFRS Foundation appears to be committed to developing and maintaining XBRL taxonomies and related initiatives as a strategic matter. However, we are not convinced that substantial IASB Board and Staff resources should be allocated to these areas, nor XBRL integration should be a major focus of the standard-setting process.

We note that there is no specific reference to accommodating requests from jurisdictions that may decide to adopt IFRSs in the coming years. Experience suggests that such adoption decisions often lead to requests in areas such as IFRS 1 exemptions. Such matters could be included in the responding to implementation needs category.

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?

See our response to question 2(b) below.

Question 2(b)

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

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

We have considered this and question 2(a) together. We have set out our project suggestions in two tables on the following pages (one for potential new projects and one for projects previously added but deferred).

Table 1: Projects previously added to agenda but deferred

Project	Restart?	Rationale
Business combinations under common control	✓	These transactions are widespread and the accounting is inconsistent. We anticipate that this could be a relatively uncontroversial and straightforward project. <i>(Limited scope project).</i>

Earnings per share	✗	We suggest that a standard on EPS will inevitably be somewhat rule-based and , based on the 2009 ED, are not convinced that a significant improvement would be achieved.
Emissions trading schemes	✓	We recognise that these schemes have grown in importance and that applying existing IFRSs is challenging. Whilst we acknowledge that developing a satisfactory, principle-based IFRS may not be possible without considering the underlying IFRSs and conceptual framework, we believe that an interim solution is needed now given that various countries including Australia either have or will shortly have operating schemes.
Financial instruments with characteristics of equity	✗	We recognise that IAS 32 has shortcomings, in particular its rule-based approach to classifying puttables and instruments settled in own shares. However, we believe it is nonetheless relatively well understood and accepted in practice. We suggest a general review of IAS 32 is deferred until completion of the conceptual framework.
Financial statement presentation	✗	Although substantial work has been already been undertaken, we feel it has mainly served to highlight the challenges and controversy of developing a new model in this fundamental area.
Government grants	✗	We agree that IAS 20 has some conceptual problems but feel that it works reasonably well in practice.
Other comprehensive income	✓	We understand that issues around OCI presentation and recycling may be controversial and difficult to resolve but suggest that recent additions to the types of gains/losses presented in OCI render the current situation increasingly unsatisfactory. The role of OCI should preferably be considered first at the conceptual framework level. <i>(Major project)</i> .
Income taxes	✓	Many find deferred tax accounting is complex to apply and we believe it can produce information of questionable usefulness. We feel this area needs a rethink and support the commencement of a research project (building on EFRAG's proactive work if appropriate). We do not support rules-based amendments to IAS 12 along the lines of the 2009 ED. <i>(Major project)</i> .
Liabilities – amendments to IAS 37	✗	We have somewhat mixed views on this project. We acknowledge that IAS 37 has conceptual flaws and that some of its principles are challenging to apply. However, many consider that it nonetheless works reasonably well in practice given that it addresses items that are inherently very uncertain. On balance we suggest deferral until completion of the revised conceptual framework

Table 2: Potential new projects

Project	Add?	Rationale
Agriculture, particularly bearer biological assets	✓	Consistent with the reasons set out in the Request for Views, we believe that a limited scope project has the potential to achieve significant simplification for some constituents and is unlikely to be controversial. (<i>Limited scope project</i>).
Country-by-country reporting	✗	We do not view this as a priority for IFRSs. We understand primary demand is from particular interest groups rather than users of general purpose financial statements.
Discount rate	✗	We agree that discounting in IFRSs is problematic – both in terms of underlying principles (not always clearly or consistently articulated) and practical application. However, at this stage we find it difficult to envisage how the problems might be addressed. We suggest that a standard-level project should be preceded by consideration of the purpose and role of discounting in the conceptual framework project.
Equity accounting	✗	We think that IAS 28 has some conceptual shortcomings and areas of inconsistent application, but feel that it nonetheless works reasonably well in practice. We suggest that, if any work on IAS 28 is undertaken in the next few years, it should be limited to research.
Extractive industries	✓	Significant work has already been performed in this area and the Board has created an expectation (including by issuing IFRS 6) that it will be pursued. Accounting practices in this important sector are currently diverse. (<i>Major project</i>).
Foreign currency translation	✓	We agree with the reasons given in the Request for Views. We believe that a limited scope project has the potential to achieve significant simplification for some constituents and is unlikely to be controversial. (<i>Limited scope project</i>).
Inflation accounting	✗	We do not view inflation accounting as a significant problem and would not consider this area to be a priority.
Intangible assets	✓	We acknowledge that a broad scope project on intangible assets would be a major undertaking and likely to be highly controversial. We note that intangibles are ever more important in value creation the extent to which traditional financial statements should capture such matters is questioned by many, however ignoring intangibles does raise the question of what use are financial statements when often the most important asset is ignored in the financial statements..
Interim reporting	✗	We feel that the issues noted with IAS 34 are relatively minor and would not see revisions to this well-established standard as a high priority.

Islamic (Shariah-compliant) transactions	×	While we appreciate the growing significance of Islamic finance we question whether the IASB is the most suitable organisation to develop guidance in this area.
Presentation and disclosure standard	×	We strongly agree that the Board needs to reassess the role and extent of disclosure in IFRSs but suggest this should first be considered in the conceptual framework project.
Rate-regulated	×	This is a narrow, sector-specific area and we think it can be resolved satisfactorily only when related element definitions have been addressed in the conceptual framework project.
Share-based payment	×	We understand the criticisms of IFRS 2 and agree with some of them. However, we feel that narrow-scope amendments may increase complexity and that a broad review may be too ambitious for this round of agenda-setting.
