

31 March 2017

Andrew Lennard
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By email to: corprepresearch@frc.org.uk

Dear Mr Lennard

Consultation Document: The Financial Reporting Council's Corporate Reporting Research Activities

Deloitte LLP welcomes the opportunity to comment on the Consultation Document: *The Financial Reporting Council's Corporate Reporting Research Activities*.

We support the FRC's work to identify and assess opportunities that aim to improve the quality of corporate reporting. It is imperative that the UK has a strong voice and seeks to influence the direction of standard setting and corporate reporting globally. The FRC has a long history of both independent standard-setting and contributions to standard-setting at an international level and has as a result significant knowledge and experience that should be leveraged on if the FRC's stated aim that the UK should continue to be influential in the development of IFRSs following its exit from the European Union is to be achieved.

The output of the FRC's work will be more effective in stimulating debate and influencing the IASB if its research is carried out through a global lens. Much of the practical experience drawn upon during research will, understandably, be from the UK environment, but a global focus should be the aim for findings to address the full scope of issues arising and, as result, to gain traction internationally.

The four projects identified in the Consultation Document concern areas which can present conceptual challenge in applying the principles of IFRS in practice. In fact, Deloitte Touche Tohmatsu Limited's response to the IASB's *Request for Views: 2015 Agenda Consultation*, highlighted non-reciprocal transactions (referred to as 'non-exchange transactions' in the Consultation Document) and variable consideration as two priority areas that should be added to the IASB's Research Agenda even though they were not identified in the IASB's Request for Views. The response is attached as Appendix 2 to this letter.

Regarding research in the area of reporting to other stakeholders, whilst we understand that stakeholders other than investors may have legitimate case to ask for further information from organisations, the purpose of the annual report, as set out in the FRC's Guidance on the Strategic Report, is 'to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship'. As highlighted in the Consultation Document, there are many initiatives currently on-going looking at multi-stakeholder engagement and as such believe the FRC should not prioritise a project in this area, but instead, monitor and contribute to the work of the Corporate Reporting Dialogue.

Further we note the FRC's response to the BEIS Green Paper on Corporate governance reform and its plans to revisit the Guidance on the Strategic Report to cover how matters referred to in s172 of the 2006

Companies Act have been taken into account by directors in promoting the success of the company by covering "how these factors were taken into account, describing the boards' consultation mechanisms, the issues considered and trade-offs". We welcome this initiative but view this as part of the FRC's current standard setting rather than as research activities.

In addition to our comments above, we have set out our responses to the questions raised in the Consultation Document in Appendix 1 to this letter.

We would be happy to discuss our letter with you. If you have any questions, please contact Amanda Swaffield on 020 7303 5330 or aswaffield@deloitte.co.uk.

Yours sincerely



Veronica Poole

National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix 1

Responses to detailed questions

Question 1: Section 1 provides background to the FRC's research activities in relation to corporate reporting. In your view, should the FRC continue with its research activities at the current level, or increase or decrease the extent of its work in this area?

As set out in our covering letter, it is important that the UK has a strong voice and seeks to influence the direction of standard setting and corporate reporting globally. In particular, if the FRC's aim as stated in its Annual Review of Corporate Reporting 2015/2016 that the UK should continue to be influential in the development of IFRSs following its exit from the European Union is to be achieved, its work in this area should certainly not decrease, but its efforts should be directed towards those priority areas most likely to gain traction with its stakeholders globally.

Question 2: Section 2 considers projects that might be undertaken in the future with the aim of influencing the IASB. It identifies four potential projects: variable and contingent consideration; defined benefit pension schemes; non-exchange transactions; and intangible assets. Which, if any, of these potential projects do you think the FRC should undertake? In your view, what are the relative priorities? Are there other topics that you believe the FRC should undertake with a view to influencing the International Accounting Standards Board (IASB)?

The four projects identified in the Consultation Document are areas which can present both conceptual challenges and practical issues in applying the principles of IFRSs.

Variable and contingent consideration and non-exchange transactions are, in our view, the highest priority of the four suggested projects. This view is consistent with the Deloitte Touche Tohmatsu Limited's response to the IASB's *Request for Views: 2015 Agenda Consultation*, which highlighted non-reciprocal transactions and variable consideration as two priority areas not identified in the IASB's Request for Views that should be added to the IASB's Research Agenda.

- Variable consideration – we see this topic as high priority because of inconsistency amongst IFRSs that need to be addressed and the issues raised in the Consultation Document.
- Non-exchange transactions – this issue has raised concerns particularly in connection with government levies outside the scope of IAS 12 *Income Taxes*. Although IFRIC Interpretation 21 has established guidance for the recognition of liabilities for levies, the accounting outcomes it produces with respect to the recognition of an associate expense are viewed by many as counter-intuitive and meaningless. We believe that the issue of non-reciprocal transactions should be considered more broadly – addressing both inflows (contributions) as well as outflows (including 'tax-like' charges that do not meet the definition of income taxes).

In both cases, we believe that effective input from the FRC could assist the IASB in reaching conclusions on the issues identified within a manageable timescale.

In respect of the other topics proposed in the Consultation Document:

- Defined benefit pension schemes – the issues raised in the Consultation Document have merit but, as noted in Deloitte Touche Tohmatsu Limited's response to the IASB, there are other issues that arise in particular jurisdictions other than the UK that would also need to be considered in a comprehensive piece of research on pensions. An example is hybrid retirement plans, common in Switzerland, which IAS 19 does not cope with adequately.

- Intangible assets – we acknowledge the growing importance of intangible assets to the creation of value but are of the view that tackling the current inconsistent accounting between internally generated and purchased intangible assets would be better approached as a longer-term conceptual project.

Question 3: Section 3 discusses the potential for the FRC to undertake research:

- (i) **with a view to assessing how corporate communications as a whole might better serve the needs of investors; and**
- (ii) **to develop proposals on how corporate reporting might serve the needs of stakeholders other than investors.**

Do you believe that the FRC should undertake further research in these areas? On which specific topics do you consider such research might be fruitful?

We agree that the financial statements, and annual report more broadly, are just one element of the dialogue with investors. We also recognise that the annual report and investor presentations are not always aligned, almost being written through different lenses. We will be interested to see the outcome of the research on Preliminary Earnings Announcements and continue to support the work of the FRC in working with investors to ensure that information provided to them meets their needs.

Regarding research in the area of reporting to other stakeholders, whilst we understand that stakeholders other than investors may have legitimate case to ask for further information from organisations, the purpose of the annual report, as set out in the FRC's Guidance on the Strategic Report, is "to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship".

We support the objective of wider stakeholder engagement by companies to ensure that broader non-financial factors that impact on the ability of the organisation to create value in the long term are properly integrated into everyday decision making to create a sustainable business model. We think that non-financial factors that have an impact on a company's long-term value creation are, by their nature, of interest to investors, should be included as part of the normal dialogue with shareholders and should be appropriately addressed in the annual report. As noted in the cover letter we support the FRC's stated intent to enhance its Guidance on the Strategic Report in this respect. However, this is different from multi-stakeholder reporting which is being suggested as an area for research in the Consultation Document.

Furthermore, as acknowledged in the Consultation Document, there are many initiatives currently on-going looking at multi-stakeholder engagement and as such believe the FRC should not prioritise a project in this area, but instead monitor and contribute to the work of the Corporate Reporting Dialogue.

Question 4: Are there any other aspects of the FRC's research on corporate reporting on which you would like to comment?

We have no further comments.

Appendix 2

Deloitte Touche Tohmatsu Limited's response to the IASB's *Request for Views: 2015 Agenda Consultation* (attached)