

Hans Hoogervorst, *Chairman*  
International Accounting Standards Board  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

31 December 2015

Dear Mr Hoogervorst

## Request for Views: 2015 Agenda Consultation

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Request for Views *2015 Agenda Consultation* ('the consultation').

In deciding its priorities and allocating its resources to specific technical projects, the overriding factor for the Board to consider should remain the development and maintenance of a comprehensive set of high-quality financial reporting standards based on clear principles and developed in the context of the Board's established due process. We know that the Board has this presumption in mind as it undertakes its work, but it is a presumption that deserves to be repeated and emphasised and is the basis for our responses to the questions in the Request for Views.

We support the emphasis placed by the Board on completing the Insurance Contracts project, the revisions to the Conceptual Framework and the Board's Disclosure Initiative. We also note that the Board should allocate sufficient time and resources to these IFRSs and to IFRSs 9 and 15, and the forthcoming IFRS 16 *Leases* to facilitate and ensure high-quality implementation and application of these IFRSs.


The attention given to the Research Projects in the Consultation is welcomed. In our view, thorough, balanced and evidence-based research is necessary for the development of high-quality financial reporting standards that are based on clear principles. The research phase of a project is where a significant amount of deep and effective work is necessary before standard-setting activity can begin. Some projects will require a longer-term investment in the research phase and the Board should be satisfied that it has undertaken sufficient research on an issue before it proceeds to standard-setting.

We think that what is missing from this Consultation is a sense of context, how the Board sees its current standard-setting priorities in relation to a wider and more long-term view of financial and corporate reporting generally. It is appropriate that this longer-term outlook of its work is debated and agreed with the IFRS Foundation Trustees and then supported by periodic consultations. The agenda consultation should include the Board's current assessment of its long-term vision and what it sees as the financial reporting issues on the horizon, together with its current work plan explained and positioned in that context.

Our detailed responses to the questions in the request for views are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact me in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', with a stylized flourish extending to the right.

**Veronica Poole**

Global IFRS Leader

Deloitte Touche Tohmatsu Limited

# Appendix

## The balance of the IASB's work programme

Q1 *The IASB's work plan includes five main areas of technical projects:*

- (a) *its research programme;*
- (b) *its Standards-level programme;*
- (c) *the Conceptual Framework;*
- (d) *the Disclosure Initiative; and*
- (e) *maintenance and implementation projects.*

*What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?*

In our view, the overriding factor that the Board should consider in deciding how much of its resources to allocate to specific technical projects should remain the development and maintenance of a comprehensive set of high-quality financial reporting standards based on clear principles and developed in the context of the Board's established due process.

We continue to hold the view that the characteristics/ key elements of a high-quality, principles-based financial reporting standard are:

- Faithful presentation of economic reality
- Responsive to users' needs for clarity and transparency
- Consistency with a clear Conceptual Framework
- Based on an appropriately-defined scope that addresses a broad area of accounting
- Written in clear, concise and plain language
- Allows for the use of reasonable judgement

These characteristics, when considered in combination with the Board's existing criteria for new Standards in the *Due Process Handbook*, paragraph 5.4, are sufficient to enable the Board to make an appropriate allocation of resources to particular projects. We support reassessing projects from time to time to ensure that the resources allocated to them remain appropriate.

Projects that address high-priority deficiencies in IFRSs that have a pervasive (or at least broad) applicability across jurisdictions and/or sectors *and* for which a high quality financial reporting solution has been identified and supported by sufficient evidence should be considered for inclusion in the Board's standard-setting agenda. In addition, any Research Project that is accepted on to the standard-setting agenda should not ordinarily compromise the resources allocated to existing high and medium priority projects. We expand on our views of the Research Agenda in our responses to Questions 2 and 3, below.

### *Priority projects*

As an immediate priority, the Board should focus on completing its project on Insurance Contracts. In addition, it should allocate sufficient time and resources to this IFRS and to IFRSs 9 and 15, and the forthcoming IFRS 16 *Leases* to ensure high-quality implementation and application. This effort will involve the Board, the Interpretations Committee, and any related transition resource groups established or to be established by the Board.

We welcome the emphasis placed on developing revisions to the Conceptual Framework since the 2011 Agenda Consultation, and we support completing this project in the current work plan cycle as a high priority/ high urgency project. We see the provision of a set of clear principles as an important and necessary foundation for the development of high-quality financial reporting standards.

We also support strongly the Board's Disclosure Initiative, which we considered to be a 'critical and urgent' topic in our response to the 2011 Agenda Consultation. We commend the Board for their efforts to date and support continued attention to this project as a high priority/ high urgency matter. In our view, the project should be broadened to include a coordinated revision of IAS 1 and IAS 7 into a single IFRS on primary financial statements. We also suggest that the Disclosure Initiative be presented as a single major project in much the

same way as the Conceptual Framework project. We do not know how the initiative is being managed internally, but the external presentation through the work plan does not make it clear how the research and implementation threads fit together. This is a cross-cutting project that, of the current Board projects, has the potential to make the single biggest difference in improving financial reporting. It deserves to be resourced and presented as a top priority of the IASB.

#### *Due process*

Having projects designated as 'High priority/ high urgency' should not mean the IASB can cut corners or follow perceived expedients for them. On the contrary, they should follow the Board's established due process, allowing the maximum comment period on important issues, especially when those issues establish untested concepts or methods. Comment periods and post comment discussions should be accompanied by appropriate outreach, especially in complex areas in which the Board is developing previously untested solutions.

We think the IASB has robust due process guidelines and the right mechanisms available to it to develop high quality standards and urge the IASB to use them effectively.

#### *Effects analysis*

Considering the effects and effectiveness of new IFRSs is an important part of the process of developing Standards. We acknowledge that the IASB has made some progress in this area and we have been assured that the forthcoming IFRS 16 *Leases* will have a full effects analysis. However, we think the Board needs to do more in this area. We have not seen evidence of the IASB implementing recommendations of the Effects Analysis Consultative Group.

We support the recommendations in that report and strongly urge the Board to demonstrate that it is building high quality effects analyses into the process of developing IFRSs.

#### *Implementation*

Maintenance and interpretation, including post-implementation reviews, will remain an important activity. In this respect, we support working with national standard-setters, regional bodies, and local regulators to achieve effective and consistent application and implementation of IFRSs. We expand on this in our response to Question 5.

The Board's Agenda should also have a degree of flexibility to enable it to respond to urgent matters.

## **Research projects**

Q2 *The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.*

*Should the IASB:*

- (a) *add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.*
- (b) *remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?*
- (c) *remove any other projects from its research programme?*

Q3 *For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/ medium/low) and urgency (high/medium/low).*

*Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.*

#### *General comments*

In our view, thorough, balanced and evidence-based research is necessary for the development of high-quality financial reporting standards that are based on clear principles can occur. Such research is an essential foundation for high-quality global standards and is necessary before efficient standard-setting can begin. Some projects will require a longer-term investment in the research phase and the Board must be realistic about the timeframe for such activity and manage expectations accordingly. Our experience is that, in the past, the Board moved to standard-setting before this foundation was in place. This tendency has reduced with the more disciplined approach to the 'research agenda' and we welcome this and support the proper investment of time,

and staff and Board resources to the research phase of a project, so that it is a truly effective part of the Board's activities.

We know, and agree, that not all research projects will lead to standard-setting activity. Some might lead to an amendment of the Conceptual Framework or the development of a resource that could be used to assist the Board (and the Interpretations Committee) in standards-level projects. For example, we think that the research activity on Discount Rates could help the Board understand which discount rates are most appropriate to a particular measurement objective, so that consistent decisions can be made over time. Some projects may reach the point where the Board can make an informed decision to do no more work on a particular matter.

In this regard, we think the Board should promote its research activities and ensure that it is resourced adequately and receives adequate time in the public meetings of the Board.

#### *Priority projects*

In our response to the 2011 Agenda Consultation, we suggested that the Board should address the topics that follow on a 'high priority' basis. In our view, these topics are still relevant and continue to provide areas of considerable challenge in applying the principles of IFRS in practice. These topics do not feature in the Request for Views, so we reiterate our views here and suggest that they should be added to the Research Agenda.

#### *Variable consideration*

- We see this topic as high priority because of inconsistency among IFRSs that needs to be addressed. Contingent or variable consideration is a common feature in many jurisdictions of agreements to buy and sell a wide variety of assets. We believe that there is a lack of guidance (and, in some cases, inconsistent guidance) in the various standards dealing with assets (notably, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 2 *Inventories*), and in the absence of such guidance application of either IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* to the liability to make variable payments may not produce a faithful representation of the economic substance of the transaction. We note that in November 2015, the Interpretations Committee issued a Tentative Agenda Decision on the issue of variable consideration in an asset purchase, demonstrating that it is a live issue in practice. There is an inconsistency in approach between IFRS 3 *Business Combinations* and IAS 16 that is unhelpful and leads to accounting arbitrage in practice.

#### *Maintenance of IFRS 1 First-time Adoption of IFRSs*

- The Board should ensure that, when developing or amending an IFRS, there is a thorough process to identify all first-time adoption issues. An effective fatal flaw review would be an important part of such a process and should limit the necessity to amend a recently-issued IFRS because an IFRS 1 issue had not been identified.
- There is a second and increasingly urgent matter: how (or whether) IFRS 1 should be applied in jurisdictions that have adopted IFRSs gradually, or that have adopted IFRSs as issued by the IASB but labelled these standards as local GAAP, when local law or regulation requires or permits entities to report on the basis of IFRS as issued by the IASB. This will arise presently in China, Hong Kong and Singapore. We are not convinced that the application of IFRS 1 in these jurisdictions would in all cases be cost effective or provide relevant information to users.

#### *Non-reciprocal transactions*

- In 2011, we raised this issue in connection with Government levies and similar charges. Although IFRIC 21 has established guidance for some levies the accounting outcomes it produces are viewed by many as counter-intuitive and meaningless. Hence, we continue to encourage the Board to consider non-reciprocal transactions more broadly. Any project should address non-reciprocal inflows (contributions) as well as outflows (including 'tax-like' charges that do not meet the definition of income taxes). We have provided more detailed comments on non-reciprocal transactions in our comment on the Conceptual Framework exposure draft.

#### *Other projects*

With respect to the items identified in the Request for Views, we note the following, in particular:

- Two of the active research projects in the Development Stage, Financial Instruments with the Characteristics of Equity and the Disclosure Initiative—Principles of Disclosure, were identified by us as 'high priority' items in 2011. We continue to support these projects as 'high priority/ high urgency' topics.

However, as we emphasised in our response to Question 1, we think the Disclosure Initiative should be given more priority by the Board and managed as a single major project in much the same way as the Conceptual Framework project.

- We reiterate our support for addressing the Business Combinations under Common Control, the Definition of a Business, and Goodwill and Impairment projects as 'high priority/ high urgency' topics. In particular, having different models for the acquisition of a business and the acquisition of a group of assets creates opportunities for arbitrage and places pressure on the definition of a 'business.' We welcome the recent decision to follow the FASB in proposing modifications that would lead to a greater distinction between a business and assets. However, although this will be helpful, it does not address the root cause of the problem, which is the different accounting requirements.
- As in 2011, we consider the equity method of accounting to be a 'high priority/ high urgency' topic. The equity method continues to be an area of controversy and issues of application of IAS 28 arise almost daily. The fundamental conceptual divide continues between those who see equity accounting as a valuation technique and those who see it as a 'one-line consolidation.'
- With respect to Dynamic Risk Management, now that the Board has issued a final version of IFRS 9 *Financial Instruments*, it should allow that Standard sufficient time to be implemented and applied in practice before any standards-level activity on Dynamic Risk Management is done. Consequently, we have assigned it a Low Priority/ Low Urgency rating.
- We have assigned a slightly higher priority to Post-employment Benefits (including Pensions) primarily because we think that IAS 19 *Employee Benefits* does not cope well with hybrid retirement plans. We are aware that IOSCO is concerned that recent developments in employee benefit promises do not fit well within the existing accounting requirements and that the Board has also sought input from different countries. The more challenging issue is whether a cost-beneficial solution can be found for the hybrid schemes and how such a solution would interact with IAS 19. This suggests to us that a medium priority/ medium urgency rating is appropriate.
- In our comments on ED/2015/4, *Updating References to the Conceptual Framework*, we agreed with the Board that the definition of a liability in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and of an asset in IAS 38 *Intangible Assets* should not be changed as a result of the revision of the Conceptual Framework. In our view, the definitions of an asset and a liability in those Standards are so fundamental to the operation of their specific requirements that no changes should be made without a full consideration of the effects on all aspects of any change in the definitions of assets and liabilities used. In our view, both IAS 37 and IAS 38 are currently operational in practice and there is no necessity to make changes at present. Consequently, we have assigned low priority/ low urgency to both the Provisions, Contingent Liabilities and Contingent Assets and the Extractive Activities/ Intangible Assets/ Research and Development projects.
- Financial reporting issues related to extractive activities involve geological/ geophysical assessments as well as complex measurement issues. In addition, we note that issues related to 'unburnable carbon'/ 'stranded' resources will add to the complexity of assessing and measuring certain mineral resources. At present, there are effective and workable solutions being applied in practice and we would see this topic as a 'low priority/ low urgency' matter.

#### *Removing projects from the active work programme*

If we were to remove any projects listed in paragraph 32, we would see Foreign Currency Translation and possibly Income Taxes as candidates. We noted in our 2011 comment letter that although IAS 12 and IAS 21 are complicated standards in practice, and implementation issues arise on a regular basis, we thought that the standards are operational at present. It is likely that interpretative issues will continue to arise and the Interpretations Committee should continue to identify issues that might warrant inclusion in the Board's annual improvements programme.

For similar reasons, work on share-based payment could be discontinued to allow higher priority matters to be addressed.

We also support the removal from the Board's agenda of the project on high and hyper-inflation. However, we note that in June 2015 the update on research activities confirmed that the IASB's Emerging Economies Group had been asked to examine this topic and that the IASB would consider any analysis and recommendations made by that group. The Request for Views did not refer to the Emerging Economies Group but simply asked if

the IASB should stop work on this project. We support having the emerging economies, where high inflation is more prevalent, work on the matter with the IASB keeping a watching brief.

*Use of the broader community of standard setters*

In the Request for Views the IASB only mentions in passing, as background to the foreign currency, business combinations and extractive activities work, the involvement of national standard-setters in its work programme.

In our observations of public IASB meetings we have seen excellent contributions to the research programme from national standard-setters on foreign currency, the equity method, goodwill, and business combinations under common control, as well as important contributions to the Disclosure Initiative. We see national standard-setters as an important part of the IASB's network of resources. As the Due Process Handbook states, the "IASB and the technical staff are not expected to undertake all of the activities on its research programme. It is important to the IASB that others, such as national accounting standard-setting bodies and regional bodies associated with accounting standard-setting or regional financial reporting bodies, academics and other interested parties, participate in these activities." (DPH paragraph 4.9)

We encourage the IASB to continue to work closely with national standard-setters in developing its research programme.

Our overall assessment of the current research agenda follows.

## 2015 and 2011 suggested agenda priorities compared

Adapted from the table in paragraph 32

Stage	Project	2015		2011
		Priority	Urgency	
Development Stage	Business Combinations under Common Control	H	H	H
	Disclosure Initiative—Principles of Disclosure	H	H	H
	Dynamic Risk Management	L	L	
	Equity Method	H	H	P
	Financial Instruments with Characteristics of Equity	H	H	H
Assessment Stage	Definition of a Business	H	H	§
	Discount Rates	L	L	L/N
	Goodwill and Impairment	H	H	§
	Income Taxes	L	L	N
	Pollutant Pricing Mechanisms (Emissions Trading Schemes)	L	L	P
	Post-employment Benefits (including Pensions)	M	M	N
	Primary Financial Statements (Performance Reporting)	H	H	N
	Provisions, Contingent Liabilities and Contingent Assets†	L	L	N
	Share-based Payment	L/R	L/R	N
Inactive	Extractive Activities/Intangible Assets/Research and Development	L	L	H*
	Foreign Currency Translation	L/R	L/R	N
	High Inflation	L	L	%
Other (2011) <i>Not identified in the RFV</i>	Maintenance of IFRS 1	M	M	H
	Non-reciprocal transactions and 'tax-like' charges	H	H	P
	Variable consideration (cross-cutting issue)	H	H	H

### Note

\* - In 2011, described as "Intangible assets (including rate-regulated activities)"

† - There may be issues in common with the Variable Consideration project (rated by us as 'H')

% - In 2011, we supported assigning this to the Research agenda, with 'national standard-setters and academics to undertake targeted research...'

§ - Arises from the PIR of IFRS 3, which we supported undertaking

### Key

H – High

M – M

L – Low

R – Remove

P – Priority (used in 2011; treated as equivalent to Medium)

N – Not a priority/ IFRS operational



## Major projects

Q4 Do you have any comments on the IASB's current work plan for major projects?

As noted in our response to Question 1, we support the emphasis placed on completing the Insurance Contracts project, the revisions to the Conceptual Framework and the Board's Disclosure Initiative.

The Board should also allocate sufficient time and resources to these IFRSs and to IFRS 9 and IFRS 15, and the forthcoming IFRS 16 *Leases* to facilitate and ensure high-quality implementation and application of these IFRSs.

## Maintenance and implementation projects

Q5 Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

In our view, the Board and the Interpretations Committee provide an appropriate mix of implementation support. We would add that the innovation of appointing Transition Resource Groups for major standards that address complex areas in which the Board has developed previously untested solutions is welcomed. We would encourage their use in future, in particular when the Board's outreach while developing an IFRS suggests that such a group would facilitate consistent and high-quality transition and implementation, or when there is particular complexity involved in an aspect of the IFRS. We think that the work of the IFRS 15 Transition Resource Group and the IFRS 9 Impairment Transition Resource Group is an efficient and potentially highly-effective way of facilitating consistent and high-quality transition to, and implementation and application of these new IFRSs.

### *Narrow scope amendments*

We urge the Board to be more discerning when developing narrow-scope amendments/ 'targeted improvements' to IFRSs. Recent experience has demonstrated the potential that a narrow-scope amendment in one area of a standard can lead to unintended consequences in the same standard or elsewhere in IFRSs, and in some cases the amendment has not actually accomplished what the requester requested. This has led to criticism of how the Board attempts to make 'quick fixes' to accommodate perceived or actual implementation challenges, often in a particular jurisdiction.

The forthcoming amendments to IAS 7 (exposed as ED/2014/6) provides an illustration of our concern. The amendment was prompted by calls from (mainly) UK-based investors for a 'net debt' reconciliation as part of the cash flow statement. The Board's amendments will not achieve this—the amendments will require reconciliation of only a *subset* of the items that might be considered to constitute entity's financing activities. For example, transactions in equity items (specifically *excluded* from the proposed reconciliation) and cash (according to paragraph BC8 of the Basis for Conclusions on the exposure draft, apparently included on an *optional* basis) are often considered to be an integral part of financing activities. So the original 'ask' from users was not 'answered' in the ED.

In addition, the Board proposed these amendments before it had issued any documents on its 'principles of disclosure' project – essentially either (i) pre-empting discussion on whether 'net debt' is a useful metric in IFRSs; or (ii) introducing something in an IFRS only to have to modify or remove it in the near future.

This example demonstrates why the Board needs much more discipline in deciding to undertake piecemeal projects. Proper research is just as important for such projects as it is for major ones, and could identify issues and viable solutions, as well as significant problems in advance of significant standard-setting efforts. In our view, the Board should focus on genuine, proven widespread problems identified as candidates for Annual Improvements by the IC and the Board. They need to be more prepared to say 'no' to individual jurisdiction requests for 'quick fixes'. Historical precedents, undertaken when the use of IFRSs was not widespread, should not be seen to constrain the Board to act in a particular manner in the future.

## Level of change

Q6 Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

In general, we think that the Board's work plan as a whole delivers change at an appropriate pace and level of detail within the context of a set of standards based on clear principles.

We would observe that very few narrow-scope amendments are 'high priority' matters and they should be batched for more convenient consideration and comment by constituents.

However, if there is a genuine problem, such as a clear conflict between IFRSs (or within an IFRS), that matter should be rectified promptly.

## Any other comments

Q7 Do you have any other comments on the IASB's current work plan?

### *Publication of the technical work programme*

Paragraph 4.1 of the *IASB and IFRS Interpretations Committee Due Process Handbook* (DPH) states that the "technical work programme is updated regularly and is available on the IFRS Foundation website, which also includes estimates of project time lines reflecting recent IASB decisions."

We are concerned that recent changes to how the work plan is presented on the Foundation's website have reduced its usefulness.

The new presentation of the work programme has rolling time slots so that the next step on a project is "within 3 months", "within 6 months" etc. This means that even impending outputs are described as being "within 3 months".

Additionally, we can no longer tell if it will take longer to reach the next milestone than initially planned because of an unanticipated delay. Small, repeated, delays could see a project sit in the "within 6 months" column almost indefinitely. We think this makes the IASB appear to be less accountable for its programme, which we are sure was not the intention when the presentation format was changed.

The change has also made it more difficult for us to plan our activities—many of which are designed to help our clients and others contribute to the development and implementation of IFRS. When the Board is about to release a document it gives, typically, two days' notice via a publication alert. We do not understand why the Board is only able to give such limited notice. We know that it is difficult to predict timing on projects while the Board is still making technical decisions. Not only would that pre-judge the feedback from the consultation processes but the unanticipated difficulties can intervene. However, once the Board has balloted a document the steps required to get the document ready for publication should be clear and reasonably predictable. We think it would be very helpful if the IASB were to indicate what an impending publication is at in the process, providing firmer dates as the documents nears publication.

### *Broader financial reporting issues*

In our comment letter to the Trustees in response to the Request for Views on its strategy review, we have emphasised the importance of the IASB developing, and nurturing its existing, internal capacity to monitor issues that affect financial reporting more generally. The *Due Process Handbook* already covers this point, with paragraph 4.7 stating that the "research programme also includes the consideration of broader financial reporting issues, such as how financial reporting is evolving, to encourage international debate on financial reporting matters." The research programme is the appropriate place to assess the effects of technology, non-financial reporting metrics, integrated reporting and other cross-cutting issues.

This 'horizon scanning' would also permit the Board to identify any potential disruptions that it needs to monitor and other emerging issues related to a changing business world. For example, we would encourage the Board to monitor issues such as crypto-currencies (e.g., Bitcoin), leases of intangibles and the changing nature of intangibles generally, emission trading schemes and other environmental issues.

### *Work with the FASB*

The Request for Views refers to the US FASB only in relation to the post-implementation of IFRS 3. The IASB and the FASB developed several Standards that are broadly converged. We think it is important for users and

preparers to understand what steps, if any, the Board plans to take to keep these Standards aligned. This will be important for IFRS 15 and the forthcoming leases Standard—although the boards reached different conclusions on some matters, many aspects of the requirements are aligned.

As well as the converged requirements, the work programmes of the two boards share many topics—disclosure, the equity method, goodwill, performance reporting and the Conceptual Framework. The FASB appears to have regular meetings with other standard setters, but it is not clear how the IASB is interacting with the FASB. We think that it is important that the IASB and FASB collaborate and share their thinking on work they are undertaking on common topics. We also think it is important that the Board sets out how it intends to work with the FASB.

#### *Quality control - drafting*

We think the drafting and quality control procedures are an important part of the IASB's work programme, and would like to see more steps taken to improve drafting. Drafting was identified as an issue in the last agenda consultation and we have seen little improvement since then. Having said that, we are encouraged by the efforts in the Disclosure Initiative that are designed to lead to the development of guidelines for drafting disclosure requirements.

The final output of a project is the new IFRS, or amended wording of an existing Standard. Those words are critical to the successful implementation of an IFRS. We think that quality control in drafting proposals is important. We have concerns about the quality of some of the drafting that has emerged from the IASB recently, as evidenced by matters such as:

- The extent of the drafting changes from an exposure draft to the final Standard;
- The high number of comments that the IASB receives on fatal-flaw reviews of the pre-ballot drafts;
- The extent of the drafting changes between pre-ballot drafts and the final Standards, and the fact that those changes are not the subject of any additional external review;
- Minor amendments being made to newly issued IFRSs to clarify wording; and
- Issues being raised with the Interpretations Committee.

We note that if the research programme matures in the way we think it should, the research phase will be the place where the main technical requirements are developed and exposed. That being the case, the exposure draft of the Standard should focus mainly on the drafting and not on the technical decisions. Currently, the exposure draft phase is used to test the basic technical decisions. Such an approach would necessitate a change in behaviours, particularly among the Board's constituents who may be apt to pay less attention to an invitation to comment on a research report than to an exposure draft.

We strongly support the use of field testing of critical definitions during the development of an IFRS and fatal-flaw reviews as the Standard is being finalised. For the avoidance of doubt, the purpose of such a review should not be to challenge the Board's technical decisions, but to ensure that the articulation of those decisions in the IFRS is capable of consistent interpretation and application in practice. We see this as a more efficient investment of time and resources (both of the Board and its constituents), drawing on the practical experience of constituents, to ensure that an IFRS is of high quality before it is issued.

This should help in the process of incorporating the IFRS into the reporting framework in IFRS reporting jurisdictions, and (hopefully) avoid time- and resource-consuming post-issuance amendments.

The Board has resisted undertaking public fatal flaw reviews. We are not convinced that a public process would be an effective way of improving the drafting. However, we are concerned about the level of change that takes place between the pre-ballot draft and the final Standard. The process the Board has for addressing the drafting suggestions that networks like Deloitte make during the fatal flaw review is not transparent. We would not be surprised if the Board receives different drafting suggestions from different reviewers, with some suggestions conflicting with each other. The staff presumably decide how to reconcile those suggestions and what, if any, changes to make to the draft.

We think that the Board is exposing itself unnecessarily to the risk that changes from the pre-ballot draft will introduce wording that will cause problems when the Standard is implemented. We urge the Board to consider mechanisms for getting external input on these changes. It need not be an additional fatal-flaw review of the Standard, but could be a targeted review of specific wording. There may be circumstances, perhaps when the

Board has a second pre-ballot draft, where the Board should undertake a second full fatal-flaw review. It should be up to the Board to make that judgement.

We are also concerned that there seem to be inconsistent styles, terminology and drafting of IFRSs and Interpretations. From an external perspective, the drafting seems to reflect the style of the authors rather than the IASB, giving the impression that the Board does not have a clear style guide for IFRSs and Interpretations.

## Frequency of Agenda Consultations

Q8 *Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?*

*If not, what interval do you suggest? Why?*

Whilst a five-year time span is acceptable, we think that the Board should give itself more flexibility. Therefore, we suggest that the formulation be that ‘the Board shall consult periodically on its agenda topics and priorities, with the interval between such consultations *not exceeding* five years.’

The frequency also depends on the nature of the consultation. As paragraph 4.3 of the IASB and IFRS Interpretations Committee Due Process Handbook states, the “primary objective of the review is to seek formal public input on the **strategic direction and balance** of the IASB’s work programme, including the criteria for assessing projects that may be added to the IASB’s standards-level programme” [emphasis added]. We think this is the right objective—the agenda consultation is not the gateway for adding or removing projects.

On that basis, a quinquennial consultation should provide a good discipline about whether the topics and priorities are appropriate. The Request for Views makes it clear that the Board is operating at close to capacity. Given the limited scope for any major changes to the content of its work programme, this would have been a good opportunity for the Board to set out its longer term vision for the development and maintenance of IFRS.

As we noted in our comments on the IFRS Foundation Trustees’ Request for Views on their Review of Structure and Effectiveness, the organisation as a whole needs to see their current priorities in relation to a wider and more long-term view of financial and corporate reporting generally. At the standard-setter level, the Board should then place their 5-year plan of activities in that context. The agenda consultation should include the Board’s current assessment of its long-term view and what it sees as the financial reporting issues on the horizon, together with its current work plan.