The Hundred Group
of Finance Directors

Financial Reporting Committee

Hans Hoogervorst Esq
Chairman
International Accounting Standards Board
30 Cannon Street
London
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Dear Hans

Agenda Consultation 2011

We welcome the opportunity to comment on the Board's proposed agenda for the next three years and are pleased to submit our views.

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the UK FTSE100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual Members or their respective employers.

Summary of our views

We urge a 'period of calm'
We have witnessed a period of frenzied standard-setting over recent years, driven largely by the Board's convergence agenda and the global financial crisis. While we fully support the Board in its efforts to complete its ongoing projects on revenue recognition, leases, financial instruments and insurance contracts, we strongly recommend that thereafter there should be a period of calm during which no major new standards are issued. During the period of calm, the Board should focus on strategic projects and should aim to engage in very few standards-level projects.

Review of the conceptual framework should be completed
We believe that the conceptual framework is fundamental because it provides the basis for principles-based accounting standards. As the Board recognises, the updating of the conceptual framework does not, in itself, impose new financial reporting requirements on reporting entities. We believe that it is therefore an ideal project to address and complete in the period of calm that should follow the completion of the Board's current projects.

Other comprehensive income should be addressed
We are concerned that the accounting model supported by the Board considers financial performance to represent the difference between two balance sheets. Most preparers regard assets and liabilities as the residual that results from transactions and cash flows.

While the Board purports to support a mixed measurement accounting model, it is undeniable that there is a growing use of mark to market accounting in its accounting standards. We believe that the vagaries of 'mark to market' accounting can obscure the communication by management of the results of its stewardship of the resources entrusted to it by investors (which we believe to be the primary objective of financial statements).

We therefore urge the Board to address the definition and presentation of other comprehensive income as part of its conceptual framework project. We believe that only when this fundamental issue has been addressed can progress be made on the Board's wider project on financial statement presentation.

Presentation and disclosure framework should be developed
We have observed a steady increase over recent years in the disclosure requirements imposed by accounting standards and other regulations. We believe that financial reporting is fundamentally an exercise in communication but we are concerned that important messages are being lost among compliance-driven disclosures. We therefore encourage the Board to develop a presentation and disclosure framework aimed towards succinct, relevant disclosure about material matters.

Standards-level projects should be kept to a minimum
We believe that the Board has been too optimistic in the number of projects that it considers it can address over the next three years. We would rather that the Board had suggested fewer projects but provided a more robust justification for those projects that it believes should be undertaken.

We urge the Board to engage in new standards-level projects only where a compelling case for action can be made either where there is currently no accounting standard or where an existing standard is in urgent need of reform.

We welcome the Board's intention to be ready to respond quickly to early implementation issues. However, the interaction of the Interpretations Committee and the Board itself is unclear to us. For the avoidance of any confusion, we suggest that such early implementation issues are dealt with in the annual improvements process by the Interpretations Committee.

We support post-implementation reviews to focus on important issues identified as contentious during the development of standards and any emerging application issues. We agree with the Board's intended timing of post-implementation reviews, i.e. after two years of application of the new requirements.

Convergence with US GAAP should no longer be a priority
We agree with the Standards Advisory Council that convergence with US GAAP should no longer be a prime consideration in setting accounting standards. While we recognise the significance of the US to the global economy, we believe that that the IASB must be even-handed towards the interests of all of its constituents. While clearly influential, the FASB is but one of the IASB's global constituents.

Consistent with this view, we believe that the Board must guard against developing or amending standards to suit politically motivated or special interest groups wherever they exist in the world.

Board should be wary of 'mission creep'
While we encourage the Board to devote some of its resources to research, we believe that the Board will need to be careful to guard against the suggestion that it is looking for opportunities to develop accounting standards merely to justify its own existence. We believe that the Board should make a very clear case for any research activities that it proposes to undertake in each agenda consultation.

Board's remit should not extend beyond financial reporting
We believe that the Board should focus on the development of financial reporting, by which we mean financial statements and related management commentary (the MD&A or the OFR). Reporting of non-financial information is not within the Board's remit as a setter of accounting standards. We believe that any future integrated reporting requirements should be set by the regulatory authorities.

Preparers needs should be considered too
Quite rightly, the Board focuses its standard on the needs of users. We are concerned, however, that the Board does not appear to consider preparers themselves to be users. In fact, preparers are the users of accounting standards and also important users of the resulting financial statements.

We therefore encourage the Board to continue in its recent initiatives towards understanding the views and needs of preparers, whether through outreach on specific accounting proposals or generally through representative groups such as the Global Preparers Forum.

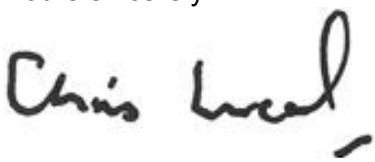
Standards should be written in plain English
As the use of IFRSs extends around the globe, we recommend that the Board gives more consideration to those of its constituents whose first language is not English and aims to use plain English in its standards. We believe that more clarity in this respect will assist in the correct application of IFRSs.

Benchmarks should be set for measuring the quality of standards
One of the Board's objectives is that its accounting standards should be of 'high quality' yet it is unclear to constituents how the Board actually measures the quality of its standards. We recommend that the Board considers and publishes the benchmarks against which it measures the quality of its standards and in the post-implementation review specifically addresses whether the new standard has met those benchmarks.

Consider setting the agenda for five-year periods
Given the length of the Board's due process, we do not believe that it can hope to complete any major new standards-level projects within three years. We therefore suggest that the Board should set its agenda for five-year periods.

Please feel free to contact me if you wish to discuss our comments on the Board's future agenda.

Yours sincerely



Chris Lucas
Chairman
Hundred Group – Financial Reporting Committee

APPENDIX

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?

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 agree with the two categories identified by the Board and the five strategic areas within them: the conceptual framework (including a presentation and disclosure framework); researching strategic issues for financial reporting; standards-level projects; post-implementation reviews; and responding to implementation needs. We would suggest, however, that the conceptual framework and the presentation and disclosure framework are dealt with as two separate strategic areas.

We comment below on each of the strategic areas.

Developing financial reporting

Conceptual framework

We have consistently expressed the view that the Board should have given priority to the updating of the conceptual framework. We do not understand why the Board thought that the project would take so long and repeatedly deferred its deliberations on all but the initial phases. We believe that the conceptual framework is fundamental because it provides the basis for principles-based accounting standards. While new and revised standards continue to be developed without the review of the conceptual framework having been completed, we are concerned that we will eventually get a framework designed to fit the standards rather than principles-based standards based on a coherent concepts..

As the Board recognises, the updating of the conceptual framework does not, in itself, impose new financial reporting requirements on reporting entities. We believe that it is therefore an ideal project to address and complete in the 'period of calm' that should follow the completion of the Board's current projects.

We are concerned that the accounting model supported by the Board considers financial performance to represent the difference between two balance sheets. Most preparers regard assets and liabilities as the residual that results from transactions and cash flows.

While the Board purports to support a mixed measurement accounting model, it is undeniable that there is a growing use of mark to market accounting in its accounting standards. We believe that the vagaries of 'mark to market' accounting can obscure the communication by management of the results of its stewardship of the resources entrusted to it by investors (which we believe to be the primary objective of financial statements).

We therefore urge the Board to address the definition and presentation of other comprehensive income. We believe that only when this fundamental issue has been addressed can progress be made on the Board's wider project on financial statement presentation.

Presentation and disclosure framework
We believe that financial reporting is fundamentally an exercise in communication but we are concerned that important messages are being lost among compliance-driven disclosures. We consider that current disclosure requirements focus disproportionately on technical accounting areas that are irrelevant to investors and on description of the accounting process (thereby encouraging 'boilerplate' disclosures). We would welcome initiatives to make financial statements a clearer means of communication for the benefit to investors. We therefore encourage the Board to develop a presentation and disclosure framework aimed towards succinct, relevant disclosure about material matters.

We urge the Board to give full and proper consideration to the recent study by ICAS and the NZICA 'Losing the Excess Baggage: Reducing Disclosures in Financial Statements to What's Important' and that of the UK's Financial Reporting Council 'Cutting Clutter: Combating Clutter in Annual Reports'.

We believe that the Board's project on the financial statement presentation should be encompassed within the presentation and disclosure framework. We would remind the Board that we did not believe that its proposals for a cohesive approach to the presentation of the primary financial statements would have improved communication with investors.

We suggest that the Board moves away from the 'one size fits all' approach to disclosure, particularly with regard to financial instruments where the financial statements of many non-financial companies have become cluttered with disclosures that may be relevant to financial institutions, but are not relevant to them.

As a safeguard against the further proliferation of disclosure requirements, we recommend that the Board should undertake to justify in the basis of conclusions of future standards its reasons for the required disclosures.

Researching strategic issues for financial reporting
While we encourage the Board to devote some of its resources to research, we believe that the Board will need to be careful to guard against the suggestion that it is seeking opportunities to develop standards merely to justify its own existence. We believe that the Board should make a very clear case for any research activities that it proposes to undertake in each agenda consultation.

We believe that the Board should focus on the development of financial reporting, by which we mean financial statements and related management commentary (the MD&A or the OFR). Reporting of non-financial information is not within the Board's remit as a setter of accounting standards. While we acknowledge that financial reporting is an important component of integrated reporting, we believe that any future integrated reporting requirements should be set by the regulatory authorities.

Similarly, we do not believe that the use of XBRL should be considered in the standard-setting process. In our view, XBRL is a tool to aid analysis of financial statements and should not itself influence accounting standards. Indeed, we are concerned that if XBRL is allowed to influence accounting standards it may perpetuate the one size fits all approach to disclosure requirements and discourage companies from giving additional disclosures to assist the users of their financial statements.

Standards-level projects
While we agree that the Board's immediate focus should be on completing its ongoing projects on revenue recognition, leases, financial instruments and insurance contracts, we strongly recommend that thereafter there should be a 'period of calm' during which no major new standards are issued. Such a period would allow preparers and users alike to implement and become experienced in applying the new standards that will become effective during the next four years or so.

During the period of calm, we urge the Board to engage in new standards-level projects only where a compelling case for action can be made either where there is currently no accounting standard or where an existing standard is in urgent need of reform.

We suggest which projects these should be in our answer to Question 2.

Maintaining existing IFRSs

Post-implementation reviews
We support post-implementation reviews to focus on important issues identified as contentious during the development of standards and any emerging application issues. We agree with the Boards intended timing of post-implementation reviews, i.e. after two years of application of the new requirements.

One of the Board's objectives is that its accounting standards should be of 'high quality' yet it is unclear to constituents how the Board actually measures the quality of its standards. We recommend that the Board considers and publishes the benchmarks against which it measures the quality of its standards and in the post-implementation review specifically addresses whether the new standard has met those benchmarks.

Responding to implementation needs
We welcome the Board's intention to be ready to respond quickly to early implementation issues. However, the scope of the remits in this regard of the Interpretations Committee and the Board itself is unclear to us. For the avoidance of any confusion, we suggest that such early implementation issues are dealt with in the annual improvements process by the Interpretations Committee.

We recognise the global reach that is now enjoyed by IFRSs and welcome the adoption of IFRSs in new jurisdictions. We are concerned, however, that the Board does not seem to take into account language barriers in drafting its standards. We have found that the Board's standards are written in a complex way which is difficult even for native English speakers to understand on occasion. We suspect that some of the Board's intentions do not always translate well into other languages. We recommend that the Board gives more consideration to those of its constituents whose first language is not English and aims to use plain English in its standards. We believe that more clarity in this respect will assist in the correct application of IFRSs.

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 previously added to the IASB's agenda but deferred (see table page 14) 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).

Given the length of the Board's due process, we do not believe that it can hope to complete any major new projects within three years. We therefore suggest that the Board should set its agenda for five-year periods.

We believe that the Board has been too optimistic in the number of projects that it considers it could address over the next three years. We would rather that the Board had suggested fewer projects but provided a more robust justification for those projects that it believes should be undertaken.

We would most certainly not add to the list of topics identified by the Board in Appendix B. We consider each of those topics below having ranked them according to whether they should or should not be addressed in the context of the Board's agenda over the next three years.

Include on three-year agenda

Business combinations between entities under common control
We believe that combinations between entities under common control should have been addressed in the revised version of IFRS3 that was published in 2008. As there is divergence in practice, it would be helpful for the Board to issue guidance on accounting for such business combinations.

Emissions trading schemes
We recognise that emissions trading schemes are increasing in importance as more and more countries seek to meet emissions targets. We therefore believe that the Board should continue with this project. We are mindful that this is likely to be a difficult project given the need to identify a methodology that can be applied to the many different types of schemes that exist and recognise that it is likely to require considerable resources.

Financial statement presentation
We believe that financial statement presentation should be addressed as a strategic issue within the presentation and disclosure framework for the reasons we give in our answer to Question 1.

Islamic (Shahriah-compliant) transactions and instruments
We recognise that there is a need to consider the compatibility of IFRSs with Shariah-compliant transactions and instruments and believe that the Board should consider this issue as a research project to inform its decision as to whether to develop an accounting standard in the medium term.

Other comprehensive income
We are aware that this is an issue on which there are a wide variety of views that may take a long time to resolve. However, we believe that other comprehensive income should be addressed in the context of the conceptual framework for the reasons we give in our answer to Question 1.

Post-employment benefits (including pensions)

We do not believe that there is an urgent need for fundamental reform of the basis of accounting for post-employment benefits. While it has not always been popular with our members and may require some refinement, we support the full recognition of accumulated post-employment benefit obligations.

We do, however, believe that there is a need to address under the existing model the accounting for the relatively new types of pension scheme that are emerging due to the pressure on traditional final salary schemes, for example, career average salary schemes and contribution-based promises.

Rate-regulated activities
Rate-regulated activities are significant in certain countries and we believe that the Board should develop guidance based on existing national accounting standards, perhaps, as the Board suggests, adopting a 'grandfathering approach' as it initially did with insurance contracts.

Omit from three-year agenda

Agriculture, particularly bearer biological assets
IAS41 is a relatively long-established standard and we are not aware of any widespread pressure for reform.

Country-by-country reporting
We consider that country- by-country reporting is within the remit of legal and regulatory authorities and is not an area that should be addressed in accounting standards.

Discount rate
We recognise that IFRSs use a variety of discount rates but, as we understand it, the Board's intention would not be to amend accounting standards such that a single discount rate would be used throughout, but to provide more guidance on how to determine the various discount rates. We agree that such a project might be helpful and improve consistency in the application of the relevant accounting standards but consider that it should be deferred until the next agenda consultation..

Earnings per share
Earnings per share is unique in that it is the only performance indicator that cannot be derived directly from the financial statements that is the subject of an accounting standard. We would ask the Board to consider, in consultation with users, whether it should withdraw IAS31. If the Board decides to retain IAS31, it is in need of simplification.

Extractive activities
It is our understanding that the Board generally does not favour industry-specific standards (for example, it has consistently resisted requests for accounting and disclosure standards on financial instruments that are specific to financial institutions). We therefore believe that the Board would be being inconsistent if it were to proceed with its project on extractive activities.

Equity method of accounting
We do not believe that there is an urgent need for review of the equity method. It is a long-established approach that the Board has only recently endorsed in the context of accounting for certain joint arrangements.

Financial instruments with the characteristics of equity
As we commented when the Board published the FASB's Preliminary Views back in 2008, we are not convinced that IAS32 is in need of radical reform. While we acknowledge that IAS32 may be difficult to apply to the more exotic financial instruments, we believe that it gives a sensible answer in most practical situations. We would welcome a limited scope project to address specific difficulties experienced in the application of IAS32.

Foreign currency translation
IAS 21 is a relatively long-established standard and we are not aware of any widespread pressure for reform.

Exchange rate fluctuations can be significant even for reserve currencies as has been experienced by Sterling over the decades.

Government grants
We acknowledge the apparent inconsistency of the existing standard with the conceptual framework. However, this is essentially a matter of balance sheet classification which we do not believe is a significant cause of concern among users of financial statements.

Income taxes
We recognise that IAS12 is complicated and difficult to apply in some situations and would welcome a longer-term project undertaking a fundamental review of accounting from income taxes.

We would not, however, welcome the rejuvenation of any aspect of the proposals that the Board put forward for the replacement of IAS12 back in 2009. As we commented at the time, we believed that the proposals represented a retrograde step to a more complex, rules-based approach that less faithfully represents commercially reality than IAS12. Consistent with our views on the measurement of other non-financial liabilities, we do not support the expected value approach to uncertain tax positions and were concerned that the accompanying disclosures would provide information to the tax authorities that could be seriously prejudicial to the interests of capital providers.

We would hope that, when the time comes, the Board will be able to develop proposals independent of FIN48 now that convergence with US GAAP is no longer a prime consideration.

Inflation accounting (revisions to IAS29)
While there is a risk that inflation rates will increase compared with the historically low levels that have been witnessed in recent years in the developed economies, we do not believe that the Board should allocate its resources to a resurrection of the inflation accounting standards that were experimented with during the 1970s and subsequently dropped (for example, FAS33 in the US and SSAP16 in the UK).

Intangible assets
We recognise that intangible assets are an increasingly significant class of assets for a wide range of entities across many jurisdictions. However, due to the difficulty of identifying the cost of many internally-generated assets, it is likely that any project would conclude that they should be recognised and measured at fair value. We do not believe that this extension of the use of fair value would be relevant or reliable in the case of internally-generated intangible assets. Such an outcome would also raise the issue of how to present changes in fair value during the reporting period, which could not realistically be addressed until the Board has completed its project on other comprehensive income.

Interim reporting
We do not believe that there is any need for radical reform of IAS34 though selected amendments may need to be made to it so that it remains consistent with other accounting standards. We suggest that any such amendments are made through the annual improvements process.

Liabilities (amendments to IAS37)
As we have made clear on each occasion that we have commented on the Board's recent proposals, we do not consider that IAS37 is in need of reform. In our experience, most users agree with us.

While the Board often cites the inconsistency between the recognition and measurement of contingent liabilities under IFRS3 and IAS37 as a reason for replacing IAS37, we believe that this inconsistency is sustainable because, with some exceptions, IFRS 3 requires initial measurement at fair value while this is not usually the case other than in a business combination. Moreover, and perhaps most importantly, we do not support the Board's favoured 'expected value' approach to recognising and measuring non-financial liabilities which can give misleading results.

We would, however, support limited scope amendments of IAS37 or other accounting standards to ensure consistency of recognition and measurement of, for example, restructuring costs with that of other non-financial liabilities.

Presentation and disclosure standard

We believe that specific disclosures are best dealt with in the context of the accounting standard to which they relate and would not favour a single consolidating standard on disclosures.

Share-based payment
We doubt that the cost to preparers of applying IFRS2 is justified by the benefit to investors. In our experience, many investors write-back the expense recognised in relation to share-based compensation. We believe that this very complex standard lacks credibility and is in need of simplification.

We would recommend that the Board conducts a full post-implementation review of IFRS2 as a basis for its reform.