The 100 Group

Financial Reporting Committee

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

Request for Views – 2015 Agenda Consultation

We welcome the opportunity to comment on the above consultation.

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 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 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Research programme

We support the Board's development of a research programme, as we consider that it provides an opportunity to assess whether change is needed before standards-levels projects are initiated.

Research initiatives are often undertaken by national standard setters and similar bodies. We consider that the agenda consultation should acknowledge this as it would provide context as to what IASB resources are available for other projects.

Whilst we encourage the Board to devote resources to research, we think the Board should focus those resources on addressing the more important existing or potential issues. We consider that priority should be given to the following research projects:

- *Definition of a Business* – As shown by the Board's post-implementation review of IFRS 3 *Business Combinations*, there is a need to revisit the definition of a business in the context of accounting for business combinations.

- *Goodwill and Impairment* – We are concerned that the focus of the debate is simply on whether goodwill should be amortised or not. We believe that this research project should go deeper than that and consider more fundamental issues such as whether it is meaningful to separate acquired intangibles from acquired goodwill and the appropriateness of the impairment testing rules.

- *Primary financial statements (formerly performance reporting)* – As we said in our response to the Board's recent consultation on the conceptual framework, we believe that the focus of this project should not be on finding a definition of financial performance within comprehensive income but on determining how comprehensive income should be categorised and whether items should, at any stage, be 'recycled' between categories.

- *Dynamic Risk Management* – If the Board believes that its standards should be applicable across industries then we believe the Board should take a broader view of dynamic risk management by considering the impact on corporates, particularly the dynamic risk management of forecast transactions, which were not addressed by the Discussion Paper.

We encourage the Board to initiate two other research projects (one of which is on its radar and the other that is not):

- *High Inflation* – We believe the Board should be forward-looking in its approach and, for this reason, believe that the Board should initiate a research project on accounting in conditions of high (but not hyper) inflation (a project that is currently 'inactive'). Whilst high inflation is not currently an issue in most economies, this is not to say that high inflation will not return. In that eventuality, it would be unfortunate if the Board did not have an appropriate up-to-date accounting standard in place since the world would be unable to wait five years or more for one to be developed.

- *Quality Framework* - One of the Board's objectives is that its accounting standards should be of 'high quality', yet it continues to be unclear as to how the Board actually assesses the quality of its standards. We recommend that the Board includes a research project to develop a quality framework against which new standards can be assessed. Such a framework would also provide a basis for future post-implementation reviews.

<u>Standards-level programme</u>

<u>Period of calm</u>

Given the significant new standards that have been issued recently (or will be issued shortly), we would propose a period of relative calm on major standards-level projects and that thereafter standards-level projects should be kept to a minimum. We believe that, in the past, the Board has been too optimistic as to the number of standards-level projects that it can practically address at any one time (this has been demonstrated by its repeated deferral of project milestones and the increasingly long gestation period of individual standards).

We would urge the Board to engage in new standards-level projects only where:

a) a compelling case for action can be made (generally following a research project), either where there is currently no accounting standard, or where an existing standard is in urgent need of reform; and

b) sufficient resources are available to complete the project in a reasonable timeframe.

As we commented in our response to the previous Agenda Consultation, we do not believe that the Board's due process allows for the completion of major standards-level projects within a three-year horizon. We therefore agree with the proposal that the Board should in future revisit its agenda at five-year intervals.

Conceptual Framework

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 standards-level projects.

Disclosure Initiative

We continue to believe that financial reporting is fundamentally an exercise in communication but we are concerned that important messages are being lost among immaterial compliance-driven disclosures. We therefore encourage the Board to:

a) continue its work on a presentation and disclosure framework aimed towards succinct, relevant disclosure about material matters; and

b) apply restraint in imposing disclosure requirements in new standards.

We are concerned that the Board has fragmented the Disclosure Initiative into a number of different work streams that are moving at a different pace. It is difficult for constituents to comment meaningfully on one particular work stream without being able to see the full picture. We therefore urge the Board to adopt a more cohesive approach to its projects on presentation and disclosures.

Maintenance and implementation projects

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 Board's intended timing of post-implementation reviews, i.e. after two years of application of the new requirements.

Dealing with implementation issues

We welcome the Board's intention to be ready to respond quickly to early implementation issues. However, we are not convinced that implementation issues should be dealt with using a vehicle such as the Transitional Resource Group that was established with regard to IFRS 15 *Revenue from Contracts with Customers*. We are concerned that the remit and authority of such bodies is unclear and may well be interpreted differently by the US GAAP and IFRS constituencies. We suggest that implementation issues should be dealt with either by the Interpretations Committee or by way of an annual improvements process. Incidentally, we recommend that the Board reviews the annual improvements process because, after a promising start, it now deals with largely trivial matters. We suggest that the Board considers dealing with narrow-scope amendments to standards by way of the annual improvements process.

Clear and concise

We have commented many times on the increasing length and complexity of standards that is often disguised by the relegation of much of the content to various appendices. As a result, the standards have become user unfriendly and difficult to understand and apply in practice. We strongly believe that an accounting standard should be capable of being used as a stand-alone document and that the intention of the standard and the principles on which it is based should be clearly stated in the standard itself and not in the Basis for Conclusions.

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 an international approach in wording its standards. We have found that standards are written in an unnecessarily complex way which, on occasion, is difficult even for native English speakers to understand. We suspect that some of the Board's intentions do not always translate well into other languages.

We recommend that the Board initiates an overarching review of its standards with a view to expressing them in plain English and making them clear and concise. We believe that, in the long run, the Board will reap the benefits of such an initiative, in that it will facilitate the consistent application of IFRSs.

Other comments

Unconsolidated financial statements

As we said in our response to the Board's consultation on the conceptual framework, we consider that it is inappropriate for the Board to assert that "in general consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements". We believe that the usefulness or otherwise of unconsolidated financial statements relative to consolidated financial statements will depend on the user's interests.

Standards for subsidiaries

In some countries, such as the UK, there is a legal requirement for individual entities (including subsidiaries of listed entities) to prepare and file financial statements. Where this is the case, whilst subsidiaries will prepare IFRS financial information for consolidation purposes, they may have to incur additional expense to prepare entity-level financial statements under local GAAP. In the UK and Australia, the relevant national standard-setters have developed accounting regimes for individual entities that are based on "full IFRS" recognition and measurement principles but with reduced disclosures. We suggest that the Board considers developing an IFRS with reduced disclosures regime for subsidiaries of companies that prepare their financial statements in accordance with IFRS. We believe that such an initiative would be welcomed as making a major contribution to eliminating unnecessary costs in preparing financial statements around the world.

Feedback

Please feel free to contact me through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.

Yours sincerely

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Financial Reporting Committee
The 100 Group of Finance Directors