

1 December 2011

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON *REQUEST FOR VIEWS – AGENDA CONSULTATION 2011*

In response to your request for comments on the *Request for Views – Agenda Consultation 2011*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics. The APC is the technical advisory body to the Accounting Practices Board (APB), the standard-setting body in South Africa.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We are fully supportive of the IASB's public consultation process regarding its future agenda. As many countries have either adopted International Financial Reporting Standards (IFRS) or are in the process of adopting IFRS, we feel that it is important that the IASB does consult with stakeholders to identify those projects which are urgent and require immediate attention, as well as those projects which are relevant so that resources can be properly applied to completing projects.

We believe that the three key strategic aspects identified on page 8 of the request for views document should be the cornerstone of the strategy and used as the base to allocate resources to projects. More specifically we believe that increased focus should be provided on assessing the requirements of the broader IFRS community, including the needs of developing countries.

We therefore believe that convergence should not be the main driver for the agenda setting process, and that the IASB should focus all efforts and resources on developing and maintaining IFRS.

SPECIFIC COMMENTS

MAINTAINING EXISTING IFRSs

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 with the two categories identified and the five strategic areas within them.

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 believe that the balancing process should start with an assessment of the existing IFRS practice against the evolving needs for improved financial reporting. Only when a need is demonstrated, a project can be justified for inclusion on the agenda.

A need is demonstrated and may be justified when for example:

- a) A void exists in IFRS requirements and is becoming critical;
- b) Changes in underlying economics and transactions result in information prepared under the existing requirements becoming less relevant; or
- c) Post-implementation reviews, or surveys of existing financial reporting, show that information being prepared under existing requirements is not effective in

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meeting users' needs, or is not so widely used that it is not cost effective to continue to require it. National standard setters can be an effective tool to identify these matters.

Items included on the agenda, based on reporting needs identified, will result in convergence ceasing to be the main driver of the agenda setting process. Thus the IASB resources should be spent on improving IFRS financial reporting, having in mind jurisdictions that have adopted the IFRS or are undergoing the first-time adoption process.

We believe that convergence should not be the main driver for the agenda setting process, and that the IASB should focus all efforts and resources on developing and maintaining IFRS.

Applying this approach above will ensure that an appropriate balance will be achieved between the five strategic areas identified as well as between the development and maintenance of standards.

ACHIEVING BALANCE

Question 2

What do you see as the most pressing financial reporting needs for the 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?

1) Conceptual framework, including a disclosure framework

We believe that the conceptual framework is the foundation for all principle-based standards and that it is imperative that resources are focused in the near future to complete this project. A completed conceptual framework will ensure that consistent principles will be available and applied in the development of all future projects.

We also believe that as part of the conceptual framework project, basic disclosure principles should be developed that form the basis of disclosures for all standards. The individual standards may provide more detailed guidance regarding disclosures requirements which should be developed on the consistent disclosure principles provided in the conceptual framework. This will ensure more focused, relevant and consistent disclosures.

2) Other comprehensive income

Due to the lack of consistent principles applied by the IASB for determining when other comprehensive income (OCI) should be applied throughout the various standards, there is a significant need for clarification regarding the purpose and treatment of OCI.

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The creation of the OCI category is also affecting and influencing key ratios to the point where they may become potentially misleading (for example, earnings per share).

We believe that a comprehensive project would be required for OCI, which could be incorporated in the conceptual framework and disclosure project.

3) *Extractive industries*

IFRS 6 - *Exploration for and Evaluation of Mineral Resources* (IFRS 6) does not currently provide specific accounting principles and therefore inconsistent accounting practises have developed between entities within this industry.

IFRS 6 was issued as an interim standard and is one of the few standards that still contain an “option” in terms of accounting policy choices. It would appear that only one of the choices, being ‘expense’ rather than ‘capitalise’, is totally consistent with the framework and thus given the emphasis on the conceptual framework project provides support for IFRS 6 to be amended as part of a project running simultaneously with a conceptual framework project.

Further, as more of the less industrialised countries adopt IFRS there is likely to be a need for the development of extractive activity guidance given that these economies are more dependent on the utilisation of natural resources and without specific IFRS guidance there is likely to be “home-country” interpretation creep into IFRS, reducing comparability across the many IFRS jurisdictions. It could also lead to reduced IFRS acceptance in countries considering IFRS adoption given the status of their economies and the lack of industries that could adopt IFRS in its current form.

We believe that a comprehensive project is required to develop a standard dealing with the accounting principles of extractive activities. As a project team of national standard-setters from Australia, Canada, Norway and South Africa already undertook a significant research project on extractive activities from which a resulting discussion paper was issued and commented on, we believe that significant work has already been completed on this topic on which the future project can leverage. We also would encourage the IASB to consider other sources of research already performed, for example the KPMG annual mining survey that provides valuable information regarding the lack of consistency in accounting in the industry globally and the trends that have developed.

4) *Business combinations between entities under common control*

Business combinations between entities under common control are fairly frequent transactions around the world. Currently there is no guidance on these types of transactions, which could result in a wide range of adopted accounting policies and consequential inconsistency.

Due to the specialised nature of these transactions, we believe that a narrow and targeted improvement to the standard could suffice.

5) *Agriculture: Bearer Biological Assets*

IAS 41 – *Agriculture*, currently provides a single accounting treatment for both bearer and consumable biological assets. Many of the users of the standard are however of the opinion that these items are so significantly different that the existing accounting treatment does not reflect the true substance of bearer biological assets.

We do not believe that a comprehensive project would be required to address the challenges being faced in accounting for biological assets, as significant research has already been performed by the national standard-setters that can provide a base for a targeted improvement of the existing standard.

6) *Government grants*

Developing countries often use government grants paid to government business enterprises (GBEs) to achieve specific policy objectives. GBEs apply IFRS. Some users view these payments as contributions by owners and apply IAS 39 - *Financial Instruments: Recognition and Measurement*, to these payments. Applying International Public Sector Accounting Standards (IPSAS), an assessment would need to be made to determine whether such payments are revenue, liabilities (loan or a payable), or a contribution by owners.

For example, the national government can choose to make a transfer payment to a local authority to repair a road. The local authority contracts a service provider to repair the road. The local authority correctly reflects the transfer payment as revenue and the payment to the service provider as an expense. Alternatively, the national government could make the payment to the National Roads Agency, a GBE, responsible for the construction and maintenance of national roads. The national government prefers this option as the National Roads Agency can use its bulk buying power to negotiate a better deal for the local authority. The payment from the national government is generally deemed to be a contribution from owners, excluded from the scope of the standard on government grants and accounted for as an equity instrument in accordance with the financial instruments standards.

Due to the lack of symmetry between private sector financial reporting and public sector financial reporting some developing countries are reluctant to adopt IFRS as a reporting framework. Accordingly we believe that the IASB should provide clarity on when a payment received from government, which is also the holding company of the recipient, should be treated as a government grant rather than as a contribution from the owner.

7) *Research project on enhancing usefulness of reporting*

Information historically provided in financial statements is becoming less and less relevant for management and the users of financial statements in estimating the true value and potential of a company. We believe that a strategic research project should be undertaken that would consider the expected future shape of financial reporting considering how existing accounting standards will interact with the growing importance of economic and integrated reporting.

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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 14) would you remove from the agenda to make place 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 believe that all projects previously added to the agenda of the IASB should be addressed over time. Resources should however initially be focused on addressing the topics identified in the answer to question 2(a).

OTHER COMMENTS

International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)

It is noted on page 19 of the request for views document that the IFRS Advisory Council provided the advice that the relationship between IFRS and IFRS for SMEs should be managed, especially due to the recent spate of changes to IFRS. We would like to urge the Board to follow a practical approach to this to ensure that IFRS for SMEs remains simple and applicable to a small and medium-sized entity.

IFRS Interpretations Committee

Page 11 of the request for views document indicates that the IFRS Interpretations Committee will have a responsibility towards maintaining IFRSs by developing interpretations and proposing amendments through annual improvements. We fully support this approach and encourage the IFRS Interpretations Committee to be more considerate towards future requests for interpretations.

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