

17 December 2015

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

Dear Sir/Madam

SAICA SUBMISSION ON REQUEST FOR VIEWS: 2015 AGENDA CONSULTATION

In response to your request for comments on Request for Views: *2015 Agenda Consultation*, attached is the comment letter prepared by the 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, investment analysts, auditors, IFRS specialists and academics.

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 faithfully,

Prof Danie Coetsee
Chairman of the Accounting
Practices Committee

Bongeka Nodada
Project Director – Financial
Reporting Standards

GENERAL COMMENTS

We welcome the International Accounting Standards Board's (IASB) second agenda consultation process and commend the IASB for considering our comments provided on the previous Agenda Consultation conducted in 2011.

SPECIFIC COMMENTS

The balance of the IASB's projects

Question 1

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?

We agree with the factors set out in paragraph 55 of the Request for Views document applied by the IASB in prioritising individual projects on its work plan and allocating resources. In light of these factors we believe that these areas should be prioritised as follows:

- Standards-level programme and the Conceptual Framework. The major projects that are currently in progress should be given high priority to ensure that they are completed within the set deadlines. These projects include insurance contracts, leases and the Conceptual Framework.
- Maintenance and implementation projects. We acknowledge that the IASB has a number of activities to support constituencies in the application and implementation of IFRSs (as noted in paragraph 52 of the Request for Views document), however, given the magnitude of diversity in the application of the IFRSs, we are of the view that a lot more effort should be placed in the maintenance and implementation projects area once the major IFRSs, as noted above, have been completed. As the custodian of IFRSs, we recommend that the IASB should be more pro-active in identifying diversity in the application and this could be achieved by undertaking more outreach activities.
- The Disclosure Initiative. The Disclosure initiative is also an important project which the IASB should also be allocating a fair amount of resources to ensure that it is completed timeously.
- Research programme. In deciding which projects to include on the research programme, we believe that that decision should be triggered by the outcomes from its maintenance and implementation projects.

Research projects

Question 2

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.*

We have no additional projects to add to the current research programme. However, given that the Extractive Activities/Intangible Assets/Research and Development (R&D) is currently categorised as 'inactive' we strongly suggest that the IASB should take this project onto its active agenda. IFRS 6 – *Exploration for and Evaluation of Mineral Resources* currently does not provide specific accounting principles and therefore inconsistent accounting practises have developed which have undermined comparability in the extractive industries sector.

Furthermore, as more of the less industrialised countries adopt IFRS, there is likely to be an even more increasing need for guidance for the extractive industries to ensure comparability amongst jurisdictions.

Should the IASB decide not to take this project onto its active agenda, it should consider whether the exclusions relating to extractive activities in other IFRSs should remain.

- (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?

We agree with the proposal to remove from the research programme the projects on foreign currency translation and high inflation. However, there are currently issues in IAS 21 – *The Effects of Changes in Foreign Exchange Rates* which require further development but they do not require an entire research paper for example common control transactions, restructuring transactions and multiple group restructuring transactions etc.

- (b) *remove any other projects from its research programme?*

None.

Question 3

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).

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

Project	Importance	Urgency	Additional column (ranking)	Reasons
Definition of a Business	High	High	3	We believe that the IASB should clarify the existing definition of a business or eliminate the differences between the accounting treatments for a business combination and that of an asset acquisition.
Discount Rates	Medium	Medium	11	There have been concerns regarding the use of different discount rates in IFRSs. We believe that a project should be undertaken to address any inconsistencies that arise from the application of the different discount rates.
Goodwill and Impairment	High	High	5	We believe that a project should be undertaken to address : <ul style="list-style-type: none"> • whether changes should be made to the existing impairment test for goodwill and other non-current, non-financial assets; • whether goodwill should be amortised; • the extent to which intangible assets should be separated from goodwill.
Income Taxes	Medium	Medium	13	We would rate the accounting relating to income taxes low as it is often relatively easier to apply. However, the rating of medium relates to the accounting for deferred tax as the requirements relating

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				to deferred tax are complex and should be simplified. The principles of IAS 12 – <i>Income Taxes</i> needs to be considered as well.
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	Low	Low	14	We do not consider it to be a major issue in our jurisdiction.
Post-employment Benefits (including Pensions)	High	High	6	In our jurisdiction, there are currently a few pure defined benefit plans that are in existence. Hybrid type plans are in existence (for example, the pension may offer a guaranteed payment plus an increase which is subject to affordability). Significant application issues arise from having to discount the expected benefits using high quality corporate bond/ government bond rates. Also there are plans that give the member the choice at retirement to take the value of contributions to the plan plus actual returns (pure defined contribution) or to buy into the defined benefit plan. Under the current definition, such plans need to be treated as defined benefit from day one. For both of these issues there is significant concern about the resultant values that are accounted for and disclosed under IAS 19. Actuaries have been qualifying their IAS 19 valuation reports on the basis that they believe the resultant values are grossly misleading. Bigger deficits are being reflected when

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				economically they do not exist.
Primary Financial Statements (formerly Performance Reporting)	High	High	8	We believe that most of research on this project would be done on the Disclosure Initiative project. As part of the Conceptual Framework project, the need for a performance reporting project was identified to clarify the effect of a mixed measurement system.
Provisions, Contingent Liabilities and Contingent Assets	High	High	1	The publication of the Conceptual Framework (which we believe should be expedited) will impact IAS 37 – <i>Provisions, Contingent Liabilities and Contingent Assets</i> . For this reason we believe this project should be prioritised.
Share-based Payment	Low	Low	15	We would not suggest that the IASB to conduct a comprehensive review of IFRS 2 – <i>Share-based Payment</i> .
Business Combinations under Common Control	Medium	Medium	10	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 results in a wide range of adopted accounting policies and consequential inconsistency. We have observed that the scope of this research project is narrow and if undertaken by the IASB we would recommend that the scope be broadened.
Disclosure Initiative – Principles of Disclosure	High	High	2	To address the disclosure overload, we believe that the IASB should prioritise this project which aims to

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				provide guidance on the application of materiality; clarify the distinction between a change in an accounting policy and a change in an accounting estimate and provide guidance regarding disclosures.
Dynamic Risk Management	Medium	Medium	12	We believe the IASB should critically evaluate the project, especially in so far as we felt that Portfolio Revaluation Approach went too far in terms of its suggestions and also raised major differences of application between that and IFRS 9's hedge accounting model.
Equity Method	High	High	9	The concept of the equity method is currently not clear. One view is that the equity method is a consolidation basis (one-line consolidation) and the other is a measurement basis for the investment. However, IAS 28 – <i>Investments in Associates and Joint Ventures</i> , does not clarify which of these two viewpoints is the underlying concept of the equity method. This is a fundamental issue as it directly affects the inconsistencies and complexities of the equity method.
Financial Instruments with Characteristics of Equity	High	High	7	Currently there are deficiencies in IAS 32 – <i>Financial Instruments: Presentation</i> , which we believe should be addressed through this project.
Extractive Activities/ Intangible	High	High	4	IFRS 6 – <i>Exploration for and Evaluation of Mineral Resources</i> currently does not

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Assets/ Research and Development (R&D)			provide specific accounting principles and therefore inconsistent accounting practises have developed which has undermined comparability in the extractive industries sector. Furthermore, as more of the less industrialised countries adopt IFRS, there is likely to be an even more increasing need for guidance for the extractive industries to ensure comparability amongst jurisdictions. Related to this project, is the need to review the relevance of the exclusions in IFRSs relating to accounting treatment of extractive activities.
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Major projects

Question 4

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

As noted in our response to Question 1, we recommend that the IASB should prioritise the completion of major IFRSs that are currently in progress to ensure that the set deadlines to complete projects are adhered to.

Maintenance and implementation projects

Question 5

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)?

As noted in our response to Question 1, we commend the IASB for the activities that the IASB has undertaken to support stakeholders in the implementation of IFRS. However, we believe that a lot more could be done by the IASB and the IFRS Interpretations Committee to curb diversity in the application of IFRSs. Currently, implementation issues are being addressed by the IASB and the IFRS Interpretations Committee as a result of submissions made by stakeholders. We do not believe that this is sufficient as we are of the view that, as custodians of IFRS, the IASB and the IFRS Interpretations Committee should be more proactive in identifying diversity in the application of IFRSs and this could be achieved by undertaking more outreach activities.

Level of change

Question 6

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?

We believe that the IASB's work plan as a whole delivers change at the right pace and at a level of detail that is appropriate to principle-based standard-setting. We are also of the view that it should be agile to address any urgent issues that arise from time to time.

Any other comments

Question 7

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

The role of the new Transition Resource Groups (TRGs), including the IASB and US Financial Accounting Standards Board Transition Resource Group on Revenue Recognition and the IFRS Transition Resource Group for Impairment of Financial Instruments, are unclear. We believe the purpose of the feedback provided by these TRGs is important to facilitate consistency of application of the new IFRSs. The TRGs should function as advisory committees to the IASB and not represent separate bodies as it remains the IASB's role (supported by the IFRS Interpretations Committee) to solicit, analyse and discuss stakeholder issues arising from implementation of the new requirements. We are concerned that the views expressed by the TRGs may also be interpreted as authoritative interpretations of the new requirements. We are also concerned that these views are not subject to proper due process, the removal of the function of the TRGs as a separate body should avoid the potential misuse of its views.

Frequency of Consultations

Question 8

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?

We believe that the change from the three to the five year period would be appropriate provided that the maintenance and implementation programme is managed well. In line with our response to Question 1, if the agenda consultation process is undertaken every five years, the IASB should be pro-active and agile to ensure that the work plan remains relevant.