Request for Views: Agenda Consultation

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Request for Views (hereafter RFV) Agenda Consultation, issued on 11 August 2015.

We welcome the focus on evidence-based standard-setting and would encourage the IASB to more clearly communicate on how that feeds into the various stages of its standard-setting process. We would also welcome more transparency on the factors assessed in the IASB ascribing priorities to various projects as well as on the resources allocated to them.

Assuming that the standard-setting lease and insurance contracts projects are finished for the period covered by the RFV, we consider that priority should be given to:

- finalising the review of the Conceptual Framework, including the research projects on Financial Instruments with Characteristics of Equity (FICE) and Primary financial statements;
- making concrete progress on the Disclosure Initiative;
- setting standards on financial reporting gaps such as on Business Combinations under Common Control; and
- resolving difficulties encountered in practice on the definition of a business, goodwill and impairment, IFRS 5 and IFRS 2. The latter two could usefully benefit from an implementation review to assess the breadth of the issues to be addressed.

We also consider that the “consolidation package” standards should undergo a post-implementation review over that same period.

In addition, we encourage the IASB to reconsider the quality control process in the finalisation phase of its standards to avoid having a significant number of submissions coming immediately after publication of the standard.
We are concerned that converged standards, such as IFRS 3 and IFRS 15, may begin to diverge and encourage the IASB and the FASB to find a way to work together and at the same rhythm to preserve convergence as much as possible.

Our detailed comments to the questions raised in the Request for Views are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin

*Head of Financial Reporting Technical Support*
Appendix

Question 1 – The balance of the IASB’s projects
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 would first of all like to welcome the evolution announced by the Board after the last Agenda consultation towards evidenced-based standard-setting. This, to us, is the starting point for standard-setting, regardless of the breakdown into areas of technical projects.

We would, however, welcome better communication on how that actually feeds into the process. In particular, whilst the process is apparent in the feedback provided to Post-implementation review (hereafter PIR) consultations, especially as regards IFRS 3, it is not clear, for instance:

- why standards regarding which a number of issues are submitted to the IFRS IC are not considered in need of an “implementation review” (e.g. IFRS 5 and IFRS 2);
- nor why some issues identified by the PIR on IFRS 3 (namely definition of a business and goodwill and impairment) are in the “assessment phase” of the research work plan rather than in the development phase.

Therefore, as much as we agree with the factors set out by the IASB in § 55 to consider to prioritise individual projects, we consider that the IASB needs to provide explanations on how these factors are assessed, weighed against each other, and, where they feed into the process.

In addition, as mentioned in our answer to the Trustee’s RFV dated 1 December 2015, we would also welcome more transparency on resource allocation between the various activities and projects.

Question 2 – Research projects
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?

3
We are pleased to see that some of the topics we had proposed priority be given to in the last agenda consultation have been added to the IASB’s research work plan.

We note however that there has been talk for well over a decade on some of these and that it is unlikely the period covered by the current consultation will lead to final results on these topics given what we understand are the phases these projects are classified in.

In addition, we think the IASB needs to better communicate what objectives these individual projects intend to address.

We therefore consider that, assuming that the standard-setting lease and insurance contracts projects are finished, the research program should give priority to by accelerating work on:

- finalising the review of the Conceptual Framework, including the research projects on Financial Instruments with Characteristics of Equity (FICE) and Primary financial statements (including Performance and OCI);
- making concrete progress on the Disclosure Initiative;
- setting standards on financial reporting gaps such as on Business Combinations under Common Control;
- resolving difficulties encountered in practice on the definition of a business, goodwill and impairment, and some other issues highlighted in the PIR IFRS 3. In particular, we believe that the relevance of P&L impact resulting from step acquisitions and partial disposals should be reassessed. Similarly, we believe that subsequent accounting of contingent consideration, or recognition of a contingent consideration as compensation for post-acquisition services are not relevant in specific circumstances;
- resolving difficulties arising from the application of IFRS 5 and IFRS 2, given the number of submissions received by the Interpretations Committee. Both could usefully benefit from an implementation review to assess the breadth of the issues to be addressed.

We consider that the outcome of the revision of the Conceptual Framework (subject to the comments we make in our comment letter to the ED, dated 30 November 2015), together with the outcome of the FICE and Primary financial statement projects, as mentioned above, will be useful in informing whether and if so, in what way, other projects listed in the research and standard-setting work plans ought to be furthered, such as: dynamic risk management, pollutant pricing mechanisms, post-employment benefits, discount rates, equity method of accounting, rate-regulated activities.

We agree with the projects on foreign currency translation and high inflation being removed from the research agenda. In addition, we think the currently inactive project on extractive industries could also be removed from the agenda.

Beyond the implementation review of IFRS 2 and IFRS 5, which we have already mentioned, we consider that the period covered in the agenda consultation should also see a PIR for the “consolidation package" (IFRS 10, 11, 12, IAS 28), given the number of issues that have arisen upon implementation.
Question 3 – Research projects

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.

Based on our answer to question 1, we have prioritised the various projects in the tables hereafter:

Research projects – Assessment stage

<table>
<thead>
<tr>
<th>Assessment stage</th>
<th>Mazars' comments</th>
<th>Importance</th>
<th>Urgency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition of a business</td>
<td>In responding to the IFRS 3 PIR RFV, we had identified this topic as a significant issue. In addition, we note that IFRS 3 is a converged standard and that the FASB has already issued an exposure-draft to address this issue. On the topic of convergence, see our answer to question 7</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Discount rates</td>
<td>We regret that there is no conceptual basis on which to determine the discount rate to be used in the various significant cases it is required given the very significant impact they have, and recognised the separate project, hoping that it would bring clarity on the topic. However, other topics warrant higher priority in our view.</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Goodwill and impairment</td>
<td>In responding to the IFRS 3 PIR RFV, we had identified this topic as a significant issue. In addition, we note that IFRS 3 is a converged standard. On the topic of convergence, see our answer to question 7</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Income taxes</td>
<td>A number of implementation issues. However, other topics warrant in our view higher prioritisation</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Pollutant pricing mechanisms</td>
<td>We consider that these issues can be dealt with within the current set of standards. In addition, the issue could be informed from the outcome on the Conceptual Framework project</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Post-employment benefits (including pensions)</td>
<td>IAS 19 could probably benefit from updating to reflect changes in business practices on retirement schemes. However, other topics warrant in our view higher prioritisation</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Assessment stage</td>
<td>Mazars’ comments</td>
<td>Importance</td>
<td>Urgency</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------</td>
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<tr>
<td>Primary financial statements (previously Performance reporting)</td>
<td>The topic of the distinction between profit or loss and OCI is, in our view, in urgent need of clarification. As the topic has been on the table for a number of years now, we consider that significant progress needs to be achieved over the period covered by the RFV.</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Provisions, Contingent liabilities and contingent assets</td>
<td>Could be informed from outcome on Conceptual Framework project. However, IAS 37 works reasonably well in our view. We do not think the standard is in need of an overhaul.</td>
<td>Very low</td>
<td>Very low</td>
</tr>
<tr>
<td>Share-based payment</td>
<td>A number of issues have arisen over the years on this standard, including a number of submissions to the IFRS IC. We consider that it is in need of an implementation review.</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>IFRS 5</td>
<td>A number of issues have arisen over the years on this standard, including a number of submissions to the IFRS IC. We consider that it is in need of an implementation review.</td>
<td>Medium</td>
<td>Medium</td>
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</tbody>
</table>

**Research projects – Development stage**

<table>
<thead>
<tr>
<th>Development stage</th>
<th>Mazars’ comments</th>
<th>Importance</th>
<th>Urgency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business combinations under common control</strong></td>
<td>This area is a gap in the current set of standards which needs to be addressed. The topic has been on the agenda for a significant amount of time and it is time to see it come to fruition.</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Disclosure initiative – Principles of disclosure, including standards-level review and standards-level projects (e.g. IAS 8)</strong></td>
<td>We consider that the IASB needs to accelerate the work on all these topics so that changes in practice can be implemented as soon as possible, taking advantage of the existing momentum. The 2014 amendments to IAS 1 are helpful in conjunction with securities’ regulators public statements and commitments but they may not be sufficient on the long term.</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>Dynamic Risk Management / macro-hedging</strong></td>
<td>Whilst this topic is important to entities concerned, we consider at this stage that other topics warrant higher priority.</td>
<td>High/Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Development stage</td>
<td>Mazars' comments</td>
<td>Importance</td>
<td>Urgency</td>
</tr>
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<tr>
<td>Equity method of accounting</td>
<td>A number of issues have arisen in conjunction with its application. This project could be informed from that of the Conceptual Framework. However, a number of other topics have higher priority in our view.</td>
<td>Medium/Low</td>
<td>Medium/Low</td>
</tr>
<tr>
<td>Financial instruments with characteristics of equity</td>
<td>This project has been on the table for a number of years and there are significant practical issues that are in need of a solution. We therefore consider that significant progress needs to be achieved on this topic over the period covered by the RFV.</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

**Research projects – Inactive projects**

<table>
<thead>
<tr>
<th>Inactive projects</th>
<th>Mazars’ comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extractive activities / Intangible assets / R&amp;D</td>
<td>Remove from work plan</td>
</tr>
<tr>
<td>Foreign currency translation (assessment finalised)</td>
<td>Remove from work plan</td>
</tr>
<tr>
<td>High inflation (assessment finalised)</td>
<td>Remove from work plan</td>
</tr>
</tbody>
</table>

**Question 4 – Major projects**

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

Looking at the IASB’s current work plan for the period considered in the agenda consultation (which assumes that the lease and insurance contracts will have been finalised) and taking out the projects which are also on the research agenda, we note that only rate-regulated activities remains.

On rate-regulated activities, as we have already mentioned in our answer to question 2, this project will probably be informed by the outcome of the Conceptual Framework project and should therefore be considered with medium priority.

We note that IFRS for SMEs does not appear: we assume that this topic will follow its usual periodic review and due process and therefore we do not assign it with any particular level of priority.
In conjunction with the IFRS for SMEs, we note that the European Commission, as part of its project on Capital Markets Union, has mentioned that it “will also explore with the International Accounting Standards Board (IASB) the possibility of developing a voluntary tailor-made accounting solution, which could be used for companies admitted to trading on SME Growth Markets”1. We would like to indicate here that we do not consider this to be an appropriate solution and bring your attention to the following position we expressed in our answer to the EC’s questionnaire:

“We acknowledge that IFRSs are complex. However, we note that simple transactions within IFRS are accounted for in a simple manner. We do consider however that the following improvements should to be brought to IFRSs regardless of the nature, size of companies applying them:

- Finalisation of the IASB’s disclosure initiative with a view to produce relevant, understandable, legible and entity-specific financial information, thus in effect resulting in pragmatic and proportionate implementation of IFRS presentation and disclosure requirements. We are confident that this initiative will have a positive outcome.
- Simplification of IFRSs, especially in terms of some complex measurement requirements.

These improvements would therefore equally benefit the listed companies which today apply IFRSs.”

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### Question 5 — Maintenance and implementation projects

*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 mentioned in our answer to the Trustees RFV, we note that the larger most recently issued standards are more complicated and have led to a significant number of issues being raised and/or amendments being made shortly after their publication. We consider the IASB needs to take a step back and identify why this has been the case so as to remove such needs with future standards, thereby improving the quality control in the finalisation of the standard. We refer to our comments in that letter dated 1 December 2015 on possible ways to address this issue.

In conjunction with our answer to question 1, we hope that more evidence-based standard-setting will help appropriately scope projects and issues and lead to not repairing what needn’t be whilst solving issues that do need to be addressed.

Regarding the mix of implementation support, subject to our comments in question 1 on a PIR for the “consolidation package” standards, we consider it to be reasonable and would only suggest that, where possible, issues regarding the same standards be grouped as much as possible.

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1 Action Plan on Building a Capital Markets Union, 30 September 2015
Question 6 – Level of change

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 consider that the level of change over the period covered by the last agenda consultation was reasonable. We note for the upcoming period that major projects will have to be implemented: IFRS 9, IFRS 15, lease contracts and insurance contracts.

The changes implied by these projects are quite significant, if not in their impacts, at least in the analysis of the requirements to determine the level of changes and that therefore, beyond filling gaps and resolving long-standing issues and conceptual aspects, there should not be additional significant changes imposed on preparers during that period.

Regarding the level of detail, as we have expressed it in our answer to the IASB’s ED Clarifications to IFRS 15, we are broadly satisfied with the issues that the IASB has chosen to tackle as much as with those that it has chosen not to, so that the standard remains principle-based. Subject to our comments on convergence in our answer to question 7 hereafter, we therefore encourage the IASB and the IFRS IC to continue in this way.

Question 7 – Any other comments

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

We note that there are a number of topics which deal with IFRS-US GAAP converged standards that are either coming up (regarding IFRS 3, potentially on lease contracts) or have come up (IFRS 15).

On these, we encourage the IASB and the FASB to put into place a process for sharing detailed views on how to deal with implementation issues related to those standards, in order to maintain convergence as much as possible. We are concerned for instance that the FASB seems to be ahead on the definition of a business project, having already issued an exposure document on the topic.

Question 8 – Frequency of Agenda Consultations

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 do not think the length of the interval is to be determined by the time needed to complete individual major projects. We note that some of these projects are in steps or phases such as Conceptual Framework related projects, including the Disclosure initiative, some of which would be ended by 2020, which would free up resources to be reallocated to other projects. We consider that the current interval of 3 years will enable to aid the IASB in such reallocation and therefore are in favour of retaining the existing interval.
In addition, we note that the effective interval between the last agenda consultation and this one was longer. We would encourage the IASB to shorten the time it takes to issue the feedback on its consultation so that implementation of the action plan is swift.

On a different note, we consider that, as the agenda consultation process is defined in the Due Process Handbook, it would have been more appropriate for the IFRS Foundation to have dealt with this issue in its concomitant Review of Structure and Effectiveness. We do however understand why this has been placed within this consultation and as long as the Trustees examine the comments on this question and make the decision, we would consider that the due process has been respected.