

Agenda consultation

Invitation to comment issued by Financial Accounting Standards Board in August 2016

Comments from ACCA
17 October 2016

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 188,000 members and 480,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 95 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

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ACCA welcomes the opportunity to provide views in response to the Invitation to Comment (ITC) issued by the Financial Accounting Standards Board (FASB). This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting. They have considered the questions raised and their views are reflected in the following comments.

Over the last decade or more there has been significant convergence on a global set of accounting standards and on the harmonisation of accounting treatments across the world. This has been a major achievement and benefit for investors, corporations and the accountancy profession among others. A principal interest for ACCA as the global body for professional accountants is, having achieved this progress, to limit any major future divergence between the key standard setting bodies, above all between the International Accounting Standards Board (IASB) and FASB.

We welcome FASB's approach of including in their ITC the possibility of a fundamental review of accounting for the issues of intangible assets, pensions, liabilities/equity and reporting performance and cash flows.

SPECIFIC COMMENTS ON THE FEEDBACK REQUESTED

Are the financial reporting issues described in this ITC areas for which there is the potential for significant improvement?

We agree that all of these issues deserve a fundamental reconsideration by standard setters in the most part for the reasons FASB have set out in this ITC. All of these issues will require considerable research (as well as a review of existing standards) and this research will be most efficiently and effectively done in a co-ordinated way between the major standard setters with resources to allocate to the tasks.

What is the priority of addressing each issue?

In terms of the priority we would suggest that intangible assets and reporting performance are the most urgent because these are capable of undermining the whole relevance of financial reporting and the accounting standards.

The increasing gap between the value of businesses and net asset values mean that financial statements are not adequately representing their activities.

The increasing importance attached to non-GAAP or alternative performance measures reflects comparable, though not always the same factors. In addition resolving some of the fundamental issues around net income and other comprehensive income (OCI) may be needed for the resolution of some of the other issues raised, for example pensions and other post-employment benefits. Within the reporting performance area concentrating on the income statement and on OCI may be more of a priority than the cash flow statement and segment reporting.

What approach should the FASB take to address each issue?

On the intangibles issue we would encourage FASB to

- look at the adoption of the principal requirements of IAS38 as a next step on this very significant issue.
- only start on the possibility of recognition, beyond development costs, of further internally-generated intangible assets or much more extensive disclosures about them, in co-ordination with the IASB

On the pensions issues we would encourage FASB to

- look at the adoption of the principal requirements of IAS19 as a next step on this significant issue
- Start in co-ordination with the IASB on reconsidering the treatment of hybrid schemes

On the liabilities/equity issue the IASB have an active project on financial instruments with characteristics of equity. If FASB take up a project here, as we would hope, it is important that both boards work in co-ordination with so that a greater degree of convergence can result from any changes made.

Similarly on the reporting performance issues that FASB might take up, IASB has already started a project on primary financial statements. Both boards should aim to work in co-ordination so that at least no significant divergence and ideally a greater

degree of convergence can result from any changes to the structure of the income statement, cash flow statement and segment information.

Are there other major areas of financial reporting not described in this ITC that the FASB should consider adding to its agenda?

There are other issues where it would be beneficial if the US monitored IASB projects to ensure that new significant differences should not emerge between IFRS and US GAAP. The projects on the IASB work plan which might change IFRS but where no current FASB projects seem to be proposed include

- Business combinations under common control
- Dynamic risk management
- The equity method
- Pollutant pricing mechanisms
- Provisions
- Variable consideration
- High inflation

