SwissHoldings
Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

8 January 2016

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on the Request for Views on the 2015 Agenda Consultation

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Request for Views.

Before providing our response to the detailed questions, we wish to make some overall comments on our views of the current status of the IASB process and its Agenda.

The Board is concluding major projects in such important areas as accounting for revenue, leases and financial instruments which affect almost all preparers and a very important industry-specific project related to insurance activities. Our member companies continue to spend a considerable amount of time and resources in preparing for these new standards. As a result our members would welcome a period of stability with relatively few changes in order to allow our members to consolidate their understanding and application of IFRS.

We therefore welcome the IASB's statement that it has adopted a new approach to standard setting informed by evidence. We suggest that findings of Post-Implementation Reviews should be the main source of this evidence-based approach.

In our view, future developments should therefore be restricted to the essential projects currently in progress, such as completing the *Conceptual Framework*, including the principles of performance reporting in the income statement, and the *Disclosure Initiative*, and other matters identified by our members in order to improve the quality of IFRS standards and address certain limited areas where current IFRS guidance is inadequate.

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Our detailed response (in the appendix) has been prepared in conjunction with our member companies.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

Felix R. Ehrat
Chair

Christian Stiefel
Director

cc SH Board

APPENDIX

ANSWERS TO SPECIFIC QUESTION IN INVITATION TO COMMENT

Question 1 – The balance of IASB's projects

The IASB's work plan includes five main areas of technical projects:

(a) its research program;
(b) its Standards-level program;
(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?

Answer to Question 1

Once the topics included in the current work programme are finalised which are either at the ED or more advanced stages, the IASB will have produced a relatively comprehensive set of standards which cover almost all significant areas. Finalisation of the *Conceptual Framework* however will require that several significant areas will require immediate attention. We suggest that these areas are tackled with urgency.

Other areas to which significant resources should be devoted are those that increase the ability of financial statements to assist preparers to communicate the results of their entities' activities and thereby increase the relevance of the financial statement preparation process. The *Disclosure Initiative* is a good example of this and this should be completed with urgency.

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?

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.

Answer to Questions 2 and 3

As indicated above, the finalisation of the *Conceptual Framework* will potentially result in added pressure to ensure that all standards are fully aligned with the new thinking. The *Research Agenda* needs to fully address all areas where change is foreseen as a result of this new *Conceptual Framework*.

In addition, you will see from the below, that we strongly disagree with the removal of projects that cover *IAS 29 (Financial Reporting in Hyperinflationary Economies)* and its interaction *with IAS 21 (The Effects of Changes in Foreign Exchange Rates).*

We further suggest that consideration should be given to explaining the rationale for the research projects by grouping them in a manner which explains why they are being undertaken and which therefore emphasizes their relevance to a broader audience than technical accounting experts.

One such grouping of projects would be those that:

a) Enhance the ability of preparers to communicate their results

This could include (High priority and urgency):

- *principles of disclosure:* Financial statements are increasingly becoming a compliance exercise and often include extensive disclosures in areas which are not of fundamental importance to the entity preparing the financial statements. This overload of information, which often has little relevance, distracts from communicating the real entity specific, judgmental and other similar matters which are material to the entity. It is important that the IASB proceeds quickly with the review of the disclosure requirements in all standards in the light of the revised *Conceptual Framework* and the *Principles of Disclosure* project.

- *primary financial statements:* Whilst we do not consider that the existing components of primary financial statements should be expanded, it is important that efforts are made to facilitate the communication of an entity's results and performance. Consideration should therefore be given to see how more emphasis can be given to segmental data and data that are extracted from the financial statements that represent "underlying" or "core" performance, as this is information that our users indicate is useful to them.

b) Address areas where IFRS lacks sufficient clarity

This could include (High priority and urgency):

- *interaction of foreign currency exchange rates and hyperinflation for consolidation purposes (e.g. the current challenges of finding the correct approach to consolidate the financial statements from entities in countries such as Venezuela):* Whilst IAS 29 Financial Reporting in Hyperinflationary Economies may be suitable for producing local financial statements in the jurisdiction of the hyperinflationary economy applying the same approach in consolidated financial statements in jurisdictions outside of the hyperinflationary economy results in many challenges in implementation and in understanding the corresponding results. Furthermore, when the hyperinflationary economy also has severe exchange controls resulting in a distortion of the "official" exchange rate, this results in further challenges in applying IFRS in these circumstances. The two projects mentioned in paragraphs 39-43 did not address this interaction. This is especially an issue if the accounting impacts of inflation and exchange rate movements do not more or less compensate each other. If this is not the case, the monetary correction and reporting of revenue and expenses required to be recorded in consolidation under IAS 29 Financial Reporting in Hyperinflationary Economies are inappropriate. Therefore we consider that the matter has not been studied sufficiently for it to be removed from the agenda. We also note that the IFRS IC concluded that "a longer-term lack of exchangeability is not addressed by the guidance in IAS 21 The Effects of Changes in Foreign Exchange Rates". The fact that US GAAP has a very different approach, which many would say is preferable, to handling this situation, results in preparers not being able to articulate the rationale for the IFRS solution when questioned and brings IFRS into disrepute in the eyes of many who are not accounting experts.

- *defining a business:* Whether or not an acquisition is structured as acquiring a business or a group of assets has significant accounting implications. These cover such matters as whether or not goodwill or contingent consideration needs to be recognised and whether or not intangible assets need to be grossed up to reflect the theoretical tax benefit. As a result there is considerable “accounting arbitrage” and much time is often spent on structuring transactions to achieve a desired accounting result. Such discussions are not adding any value to the underlying business and the differences are not readily understandable by senior management or members of the entity’s board who are not technical accounting experts.

- *provisions, contingent liabilities and assets:* As indicated above, once the *Conceptual Framework* is finalised, *IAS 37* should be immediately reviewed to align with the new concepts so that the current challenges of accounting for certain legal and tax liabilities are remedied.

Furthermore, this could include (Medium priority and urgency):

- *finding a consistent approach for discount rates:* We agree that there is a need to provide a theoretical and not rules based approach to determining the appropriate discount rate for both assets and liabilities. This review should also address whether or not there should be different requirements for using pre- or post-tax discount rates in value-in-use or fair value situations.

- *the equity method:* The current *IAS 28 (Investments in Associates and Joint Ventures)* is extremely old and needs bringing up to date to reflect current thinking. Furthermore, the research project should assess whether or not the current equity-accounting mechanism is appropriate in all circumstances.

And (Low priority and urgency):

- *business combinations under common control:* This is a very specialized topic with limited applicability.

- *financial instruments with the characteristics of equity:* This is not considered an urgent matter for non-financial service industry entities.

c) Fundamental reassessment of approaches

This could include (High priority and urgency):

- *goodwill and impairments:* We fully support the conclusions coming from the *IFRS 3 Post Implementation Review (PIR)* that there should be a review of the goodwill and impairment testing approach. We acknowledge that accounting for business combinations is challenging and that most likely an approach that will suit everyone will be almost impossible to achieve. However, the IASB needs to recognise that the process required to perform impairment tests can often be extremely time consuming and costly for entities and often brings little real value.

  Furthermore, the inclusion of increasingly large amounts of goodwill on many entities’ balance sheets will most likely be unsustainable in the future and may result in the inability to capitalise goodwill arising from new acquisitions.

- *income taxes:* We consider that the approach to income tax, specifically in certain areas of deferred tax accounting, should be fundamentally reassessed. Such areas which currently produce inappropriate outcomes include the “deferred tax benefits on intangible assets in a business combination which are effectively discounted whereas deferred tax in other circumstances is currently not discounted" and the "required approach to calculating the deferred tax impact resulting from eliminating intercompany profits in inventory on consolidation by using the buying company's tax rate".

Furthermore (Medium priority and urgency):

- *pollutant pricing mechanisms:* This is clearly a topic of increasing general worldwide importance so the IASB should be pro-active in having a well thought through accounting approach.

And (Low priority and urgency):

- *post-employment benefits:* The current approach is generally well understood and accepted. We suggest that only limited amendments are made to address specific anomalies.

- *share-based payments:* The current approach is generally well understood and accepted. We suggest that only limited amendments are made to address specific anomalies.

- *dynamic risk management:* This is not considered an urgent matter for non-financial service industry entities.

Question 4 – Major projects

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

Answer to Question 4

We fully endorse the completion of the current work plan. As already mentioned, the finalisation of the Conceptual Framework will potentially result in added pressure to ensure that all standards are fully aligned with the new thinking and existing standards which are likely to be impacted should be prioritised for alignment and amendment. It is also important to us that the IASB proceeds quickly with the review of the disclosure requirements in all standards in the light of the revised Conceptual Framework and the Principles of Disclosure project.

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)?

Answer to Question 5

We consider that the Annual Improvements process is a good way of rectifying small items as they occur. We are less convinced about the processes employed by the Interpretations Committee. These take too much time to produce results. We consider that including its recommendations in either the Annual Improvements cycle or narrow scope amendments would give the proposed interpretations a higher level of focus and a better due process.

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?

Answer to Question 6

Generally we are of the view that the work plan is delivering change at an appropriate pace.

Question 7 – Any other comments?

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

Answer to Question 7

We have no other specific comments.

Question 8 – Frequency of Agenda Consultation

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?

Answer to Question 8

We agree that the default period for the *Agenda Consultation* should be a five year interval. The Board however should retain the option of reducing this period if a need to make changes to the agenda is identified during this period.