



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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November 30, 2011

Mr. Hans Hoogervorst
Chairman of the International Accounting Standards Board (IASB)
30 Cannon Street
London, United Kingdom
EC4M 6XH

Dear Mr. Hoogervorst:

Re: Request for Views on Agenda Consultation 2011

The Canadian Public Accountability Board (CPAB) is pleased to comment on the IASB Agenda Consultation 2011.

CPAB is Canada's independent audit regulator responsible for overseeing audit firms that audit Canadian reporting issuers. Our mandate is to promote high quality independent auditing that contributes to public confidence in the integrity of reporting issuers' financial reporting. We accomplish our mandate by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing and accounting standards and how they might be improved. CPAB strongly supports the IASB's objective of developing, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards. In Canada, public companies were required to adopt IFRS for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011.

We commend the IASB for undertaking this agenda consultation and providing stakeholders with an opportunity to provide input to the IASB strategy and work plan. The Agenda Consultation is well articulated and clearly lays out the IASB's tentative view on its overall strategic direction. In addition, we appreciate the consideration of financial reporting needs of regions and jurisdictions such as Canada in setting the agenda.

Preparers and users of financial statements have had to deal with a lot of change over the past few years and significant change is coming with the completion of the IASB's current projects on Revenue from contracts with customers, Financial instruments, Leases and Insurance contracts. In our view, a period of relative calm and stability is required with a focus on addressing implementation issues and improving the consistency and quality of application of IFRS, especially

in areas where there is an unacceptable level of diversity. A renewed focus on improving consistency of application of IFRS will assist financial statement users in comparing the financial position and performance of companies and thereby improve the quality of financial reporting and decision making. Many countries around the world are considering adoption of IFRS or are in the process of transition; it is important for the IASB to effectively address implementation issues and divergence in practice if IFRS is to become globally accepted. We agree with the five strategic areas brought forward by the IASB, and believe the priority for the IASB should be to ensure that the new and revised standards are implemented consistently and effectively with significant interpretation issues being dealt with on a timely basis. This can be achieved through the IASB's involvement in making narrow-scope improvements to IFRS in response to practice issues identified or through interpretations and amendments developed by the IFRS Interpretations Committee (IFRIC). In our view, IFRIC needs to be more proactive in addressing urgent implementation issues and should issue more interpretive guidance. These improvements would reduce diversity in practice, a barrier to achieving high quality, understandable, enforceable and globally accepted financial reporting standards.

Post implementation reviews on new or revised standards should be the next highest priority to assist with understanding and responding to application issues.

In order to have a single set of high quality, globally accepted financial reporting standards, we also believe that the United States needs to incorporate IFRS into its financial reporting system for U.S. issuers. Other major economies such as China, India and Japan also need to be fully converged with IFRS. Thus, we are also proposing an additional strategic area related to convergence of national standards and IFRS. It is particularly important for the IASB to continue to work closely with the U.S. Financial Accounting Standards Board if IFRS is to achieve global acceptance.

We strongly agree with the IASB's project to update and refine its conceptual framework, including the development of principles for presentation and disclosure, in order to help address criticism that disclosure requirements in IFRS are too voluminous and not always focused on disclosures that are most relevant to users. A sound conceptual framework will assist preparers and practitioners with standards interpretation issues thereby improving the quality and consistency of IFRS application.

Given the complexity of financial reporting and volume of financial statement disclosure requirements, the IASB should also consider how it can improve the ability of financial statement users to navigate the financial statements and better draw users' attention to the most critical notes in the financial statements.

With respect to other standard-setting action and specific projects which the IASB should prioritize, we believe the IASB should take on a very limited number of standards-level projects over the next few years and focus its resources on effectively completing the four major projects on Revenue from contracts with customers, Financial instruments, Leases and Insurance contracts, as well as on improving consistency and quality of IFRS application. Two projects, however, that we would urge the IASB to take on are rate-regulated activities and extractive industries given the lack of guidance under IFRS and divergence that has emerged in these areas. Broad-scope projects in these areas would help eliminate significant diversity in practice.

We have responded below to the questions posed in the Agenda Consultation:

Question 1:

- What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

We believe the IASB's strategic priorities, in order of importance and allocated work effort, should be:

1. Consistency and quality of the application of IFRS
2. Post-implementation reviews
3. Convergence of national standards and IFRS
4. Conceptual framework, including a presentation and disclosure framework
5. Researching strategic issues for financial reporting
6. Standards-level projects

We believe it is of critical importance that the consistency and quality of application of IFRS internationally be improved. In this regard, we agree with the objective of the IFRS Advisory Council. As the IFRS community continues to add more countries and become more diverse and as complexity in financial reporting continues to increase, the need for consistent and high quality application is essential to achieving a truly global set of financial reporting standards. We believe implementation issues will increase as major new and revised standards come into effect in 2013 or later. Consequently, we strongly encourage the IASB and/or IFRIC to expand its role in proactively responding to implementation issues and thereby improve the quality and effectiveness of IFRS implementation. We encourage the IASB to focus its efforts on ensuring that the four major projects outstanding on Revenue from contracts with customers, Financial instruments, Leases and Insurance contracts are of high quality, operational and provide financial statement users with better information for decision making.

In addition, in order to achieve the objective of the IFRS Foundation of having a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles, we also believe that all economies representing a significant proportion of the world's capital markets need to adopt the same financial reporting standards. As a result, the United States needs to incorporate IFRS into its financial reporting system for U.S. issuers. Other major economies such as China, India and Japan also need to be fully converged with IFRS. Major financial reporting standards projects should continue to be undertaken jointly by the IASB and the Financial Accounting Standards Board in order to decrease divergence between IFRS and U.S. standards.

We strongly support the IASB's project to update and refine its conceptual framework, including the development of principles for presentation and disclosure. As indicated by the IASB, this would help to address criticism from some stakeholders that disclosure requirements in IFRS are too voluminous and not always focused on the right disclosures. A sound conceptual framework will assist preparers

and practitioners with standards interpretation issues thereby improving the quality and consistency of IFRS application. This project should continue to be worked on jointly with the Financial Accounting Standards Board.

Investing in research should also be a priority for the IASB. Performing research in the early stages of identifying and developing new standards will assist in producing higher quality standards.

Please refer to our response to question 2 below with respect to standards-level projects.

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. As discussed in our response to question 1 above, we would add a strategic area related to convergence of national standards and IFRS within the category 'Developing financial reporting'.

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.

Please refer to our response to question 1 where we have provided our ranking of strategic priorities.

Question 2:

- What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

We agree with the IASB that the intensity of standard-setting activity over recent years has left many hoping for a period of relief and relative calm. As a result, the number of new projects to be added or re-activated should be minimal; we agree with the view that a stable platform before further substantial projects are undertaken is advisable.

As noted in our response to question 1 above, the IASB should give priority to improving the consistency and quality of application of IFRS by responding to implementation needs. Application guidance should also be provided for those standards already issued that have resulted in significant diversity in accounting. One example is the issue relating to whether credit risk should be included in the discount rate when applying the requirement in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This can be achieved through the IASB's involvement in making narrow-scope improvements to IFRS in response to practice issues that have been identified. Alternatively, the IFRIC can develop interpretations and propose amendments.

The development of narrow-scope improvements would reduce the current diversity in practice, a barrier to achieving a set of high quality, understandable, enforceable and globally accepted financial reporting standards. This approach to responding to practice issues, as opposed to longer-term

comprehensive projects, would be more efficient in our view given the IASB's current resource constraints.

In addition to the above, we support the IASB's intention to giving the highest priority to progressing its work on the following existing projects: Revenues from contracts with customers, Financial instruments, Leases and Insurance contracts. In addition to these existing priorities, we believe that the IASB should give priority to re-activating its project on rate-regulated activities. Such a comprehensive project would enable entities involved with rate-regulated activities to apply a consistent set of financial reporting standards globally. The lack of guidance in this area presents an urgent and important financial reporting need in our view. As a result of this lack of guidance under IFRS, in Canada, many entities involved with rate-regulated activities deferred their adoption of IFRS and subsequently decided to adopt U.S. GAAP.

A second new project we believe the IASB should give priority to is extractive activities. Extractive activities should be addressed through a broad-scope project addressing recognition and measurement as well as disclosure. Such a project would enable entities involved with extractive activities to apply a consistent set of accounting policies globally. IFRS 6, *Exploration for and Evaluation of Mineral Resources*, which allows for significant latitude in the determination and application of accounting policies related to exploration and evaluation assets, has resulted in diversity in practice in the recognition and measurement of such assets.

Completion of these two new projects, which are relevant internationally, would help eliminate diversity in practice, thus reducing a lack of comparability in financial reporting, by providing comprehensive guidance which currently does not exist.

Given the complexity of financial reporting and volume of financial statement disclosure requirements, the IASB should also consider how it can improve the ability of financial statement users to navigate the financial statements and better draw users' attention to the most critical notes in the financial statements.

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?

Please see our responses to questions 1 and 2 above.

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 page 14) would you remove from the agenda in order to make room 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 the IASB should re-activate its projects on rate-regulated activities and extractive activities. The lack of guidance in these areas presents an urgent and important financial reporting need in our view. As a result of this lack of guidance under IFRS, in Canada, many entities involved with rate-regulated activities deferred their adoption of IFRS and subsequently decided to adopt U.S. GAAP. Other than the projects on rate-regulated activities and extractive activities, it is our view that the remainder of the projects previously added to the IASB's agenda but deferred need not be added to the agenda for the next three years.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Brian Hunt, FCA
Chief Executive Officer

cc. Mr. Gord Fowler, FCA
Chair, Accounting Standards Board
The Canadian Institute of Chartered Accountants