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НАЦИОНАЛЬНАЯ ОРГАНИЗАЦИЯ ПО СТАНДАРТАМ  
ФИНАНСОВОГО УЧЕТА И ОТЧЕТНОСТИ

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

30 November 2011

**Ref: IASB Agenda Consultation 2011**

Dear Sirs,

The National Accounting Standards Board of the NOFA Foundation (Russia) (hereinafter the National Accounting Standards Board) would like to thank you for the opportunity to express our views on the short-term IASB's proposed agenda.

We held a number of discussions concerning the IASB agenda consultation document at the meetings of the National Accounting Standards Board (Russia). In addition, on 15 November 2011 we organized in association with the Ministry of Finance of the Russian Federation, a roundtable in Moscow *Discussion of IFRS Development Agenda: Russian Constituents' Views* with representatives of accounting profession, business community and other interested parties. Comments in this letter were prepared on the basis of these discussions, and we believe that they will be useful for planning the IASB's agenda over the next three years.

Our comments on the questions in the Agenda Consultation are attached as an Appendix. Below, we highlight the comments which, in our view, are of particular importance.

**General comments**

**1. *More interpretations and amendments to the existing standards and fewer new standards in the next three years***

In general, the National Accounting Standard Board agrees with the strategic categories and areas within them identified in the Agenda Consultation being important objectives and issues that are to be addressed by the IASB in the next three years. At the same time, we believe that maintenance of the existing IFRSs should have the highest priority.

**2. *"IFRS Clarity Project" should be undertaken***

We recommend that the IASB undertake "IFRS Clarity Project" borrowing the name from a similar project completed by the International Federation of Accountants with respect to International Standards on Auditing (ISAs), with the aim of improving the quality and consistency of IFRSs implementation, especially in countries where principle-based standards have not been previously used for financial statements preparation and English is not an official language.

**3. *More attention to emerging and transition economies***

IFRSs historically evolved as standards for developed financial markets and did not take into account a number of aspects of high importance for emerging economies (for instance, common control transactions). With IFRSs adoption by a number of emerging economies, including BRICS, in our view, the IASB should pay more attention to projects of particular interest for emerging and transition economies.

**4. *Conceptual Framework should become part of IFRSs and be included into the set of standards and interpretations provided to national jurisdictions that adopt IFRSs as their national standards***

The situation when certain IFRSs contain direct references to the Conceptual Framework, which does not have the status of a standard, complicates IFRS adoption in countries where IFRSs are incorporated into national legislation. In this connection, we recommend that the IASB should either approve the Conceptual Framework as a standard or incorporate its provisions to which certain IFRSs refer into the corresponding standards.

**5. *A system of interaction between the IFRS Foundation and national jurisdictions adopting IFRSs as official financial reporting standards should be enhanced***

While IFRSs are adopted in an increasing number of jurisdictions, we expect that inevitably some issues of IFRS application will require official interpretation (for instance, during court proceedings). To avoid national IFRS interpretations, we recommend that one of the IASB's priorities be to further develop the system of interaction between the IFRS Foundation and national financial reporting standard-setters.

Yours faithfully,

Chairman of the National Accounting Standards Board



Askold Birin

**APPENDIX. Detailed answers to the questions 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?***

***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 identified categories of strategic development of IFRSs because we believe that the IASB should pay enough attention to both developing new standards and improving financial reporting as well as maintaining the existing IFRSs, including their post-implementation review and periodic update.

The identified strategic areas are also reasonable and in general characterize important strategic issues within the two main categories which require separate consideration and resources.

***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.***

Although we believe that both strategic categories identified by the IASB are important, we believe that in the next three years the IASB should pay more attention to the second category – maintenance of the existing IFRSs. The IASB has recently issued a significant number of new and revised standards and interpretations; a few new important standards are to be issued in the near future. In our view, it is important to focus on enhancing the clarity of requirements in standards which have already been issued, undertaking post-implementation reviews of these standards, introducing explanatory amendments to them as well as issuing interpretations related to complex application issues.

***Conceptual framework and presentation and disclosure framework***

We believe that within the first strategic category identified in the Agenda Consultation the IASB should focus on completing its projects on the conceptual framework and presentation and disclosure framework. A large number of new standards have been issued over the last few years; many of them have been developed separately from each other and use different principles which in some cases are not consistent. Besides, we are of the view that IFRS disclosure requirements are not balanced and result in extensive disclosures of certain aspects (for instance, financial instruments, pension plans, share-based payments), as result other disclosures related to entities' activities are given less prominence in the financial statements. We believe that common principles should be followed while developing standards in the future.

***"IFRS Clarity Project"***

IFRSs have actively evolved over the last decade; this has resulted in a number of inconsistencies between different standards. Besides, the format of different standards (most importantly, that of IASs and IFRSs) differs, which creates additional difficulties for their interpretation. Finally, as IFRSs are adopted in a significant number of non-English speaking countries, the English language used to write the standards may be difficult to understand because the wording can be interpreted by non-native English speakers in different ways. Taking into account the experience of successful systematization and enhancing the clarity of accounting and auditing standards (in particular, project of the International Federation of Accountants (IFAC) aimed at enhancing the clarity of International Standards on Auditing (ISAs) (Clarity Project) and FASB Accounting Standards Codification), we would recommend that, in order to improve consistency and quality of

application of IFRSs, the IASB should include “IFRS Clarity Project” into its agenda as a priority project. This project should ensure:

- Systematization of financial reporting standards (e.g., currently financial instruments are dealt with in four different standards; presentation of financial statements and consolidation issues are also considered in several standards);
- Achieving uniform terminology;
- Simplification of the standards’ language and minimization of their ambiguous interpretation or misunderstanding (for instance, using “International English” similarly to the language used in official documents of the UN and other international organizations).

*Enhancement of system of interaction between the IFRS Foundation and jurisdictions adopting IFRSs as official financial reporting standards*

While IFRSs are adopted in an increasing number of jurisdictions, we expect that inevitably some issues of IFRS application will require official interpretation (for instance, during court proceedings). To avoid national IFRS interpretations, we recommend that one of the IASB’s priorities should be the further development of a system of interaction between the IFRS Foundation and national financial reporting standard-setters. In our view, the existing opportunity to refer a disputable issue to the IFRS Interpretation Committee does not always ensure its resolution because, among other things, the Committee’s agenda decisions, which are the most common outcome when issues are referred to the Interpretation Committee, do not have an official status. We believe that a solution to this problem may not require significant resources but can significantly improve the quality and consistency of IFRSs application globally.

*Post-implementation reviews/responding to implementation needs*

Consolidation and dissemination of the best practices of IFRS implementation (within post-implementation reviews and responding to implementation needs or as a separate strategic area within the second strategic category) contribute to the effective maintenance of the existing IFRSs. Necessary resources should also be allocated to this strategic area in the first place.

*Incorporation of the Conceptual Framework into the official translation of IFRSs*

IFRSs official translations currently provided to national jurisdictions do not include the Conceptual Framework, whereas a number of standards contain direct references to the Conceptual Framework (for instance, paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or paragraphs 19, 23 and 28 of IAS 1 *Presentation of Financial Statements*). This results in a situation when a regulatory act contains a reference to the document which has not been legally enacted and has no official translation. As consequence the risk of non-application of the Conceptual Framework when its application is required by IFRSs as adopted by the IASB, arises. Therefore, we recommend that the IASB incorporate the Conceptual Framework into the official translation of IFRS to be applied at the national level.

*Need to make a strategic decision about the future of financial reporting*

As a result of a significant increase in disclosure requirements, IFRS financial statements are becoming very extensive and a large part of disclosed information is of interest only for small group of specialists because of its complexity. In our view, as a consequence, financial statements no longer meet one of their important objectives – to satisfy the needs of a wide range of users. We recommend that the IASB make a strategic decision about the future of financial reporting; in particular, it should decide whether financial statements should continue being more extensive because of the large amount of specialist information disclosed or the complexity and volume of the disclosed information should be limited so that financial statements remain understandable for a wide range of users.

Further, most of the IFRSs recently issued by the IASB are based on the “balance sheet” approach which focuses on measurement of balance sheet items, with financial performance measured as the difference between balance sheet items at the beginning and at the end of the reporting period. In our view, many users of financial statements are primarily interested in the financial results of an entity. Therefore, we recommend the IASB to consult with a wide range of users whether balance sheet or profit and loss approach should have a priority in determining entity’s financial results. These consultations should also help in determining the approach to performance reporting and distinguishing profit or loss items from items that form part of other comprehensive income. Thus, we believe that within the implementing the first strategic category in the nearest future, the IASB should focus on the first strategic area. Researching the strategic issues outside this area and development of new standards or fundamental review of the existing standards should be postponed until the projects on the conceptual framework and presentation and disclosure framework are completed. This does not refer to new standards which are almost completed (please refer to our answer to question 2(a)). Resources saved could be allocated to other issues which, in our view, have higher priority.

#### *Researching future of financial reporting*

We believe that the future of financial reporting should be researched primarily by academics. In this connection, the IASB could identify the main objectives of necessary research and develop the research agenda while the research itself would be conducted by scientific institutes financed out of academic sources. In our view, this would not only decrease the financial burden for the IFRS Foundation but would also expand the scope of the research as well as ensure that results of the research conducted simultaneously will be available earlier.

#### *Convergence of IFRS and US GAAP*

We are not of the view that convergence with US GAAP should be the highest priority for the IASB. Nevertheless, we believe that the results obtained in convergence activities should be used to complete the joint projects. Furthermore, we support the efforts of the IASB and FASB in the area of joint development of new standards and believe that this approach should be followed in the future.

#### ***Question 2.***

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

#### ***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?***

#### *The highest priority projects*

As we have already noted answering question 1 (a), we believe that in the nearest future the IASB should focus on improving the existing IFRSs. In addition “IFRS Clarity Project” should be assigned a high priority. The completion of this project is likely to require developing new IFRS interpretations and amending the existing standards both via the annual improvements process and issuing new versions of the existing standards with an improved and clarified wording.

In terms of developing new IFRSs, in our view, the IASB should complete its work related to the major standards which are currently being developed (financial instruments, leases, revenue recognition, insurance contracts).

*Projects desirable to be completed provided necessary resources are available*

Provided the IASB is able to allocate necessary resources to developing additional new IFRSs, in our view, the following projects should have the priority:

1. *Accounting for business combinations, other types of reorganization and other transactions under common control.* Business combinations and other transactions under common control are of particular interest for emerging and transition economies.
2. *Revision of IAS 1 and IAS 7.* In our view, the existing IAS 1 and IAS 7 (even taking into account the recently issued revised IAS 1) do not comply with existing practice of preparation of financial statements. Therefore, we believe that development of a single standard on the presentation of financial statements should become the highest priority for the IASB as soon as it completes the development of presentation and disclosure framework.
3. *Combined and carve-out financial statements.* Combined or carve-out financial statements are to be prepared, for instance, when an entity is preparing for a business combination or for the sale of a part of its business. However, there is no relevant guidance in IFRSs, which in a number of cases leads to inconsistent approaches to presentation of financial information. We believe that this need is not peculiar only to our country and therefore we recommend the IASB to address it in a separate project.
4. *Implementation guidance for fair value measurement in emerging markets.* Most methodologies of measurement of the fair value using valuation techniques described in the existing standards applicable primarily to the developed markets. As more countries have recently introduced the requirement to prepare IFRS financial statements, the number of entities using fair value measurement in emerging markets has increased. In this respect we believe that it would be reasonable if the IASB developed corresponding guidance on fair value measurement.
5. *Extractive activities.* Completion of the project on accounting in extractive industries has a special interest for Russia. At the same time, we would consider an "interim standard" with corresponding requirements from US GAAP as an acceptable solution.
6. *Agriculture, particularly bearer biological assets.* We support this project in part of accounting for bearer biological assets. In our view, the scope of fair value should be generally revisited, especially with respect to non-financial instruments.
7. *Accounting for government grants.* The existing standard on accounting for government grants is outdated and contains a number of ambiguities which complicate its application.
8. *Interim reporting.* We support this project as the increasing of number of entities that use IFRS, many of which have to prepare interim financial statements, leads to the pressing need for a more detailed guidance on the preparation of interim financial statements.

We also believe that the following projects should be included in the IASB's agenda or in the agenda of the Interpretations Committee:

- a. *Transactions with intellectual property (new interpretation or appropriate provisions in the revised Intangible Assets standard).* Transactions with intellectual property are becoming more and more common in modern economies. In our view, IAS 38 does not provide sufficient guidance that may help to account for significant number of new types of intellectual properties transacted in the market more and more often.
- b. *Financial reporting in situations when the "going concern" assumption is not appropriate.* The existing IFRSs do not provide any relevant guidance. As IFRSs are obligatory in many jurisdictions, a number of entities to which the "going concern" assumption cannot be applied also have to report according to IFRS. A new standard on financial reporting in such situations should be developed.
- c. *Separate financial statements (revised standard).* The existing standard does not provide guidance on accounting for many types of intragroup transactions in the separate financial statements and there are significant divergences in practice.

- d. *Accounting for revenue in the Internet industry.* Development of the Internet industry results in appearance of new questions about accounting for “virtual items”, such as “virtual money”. The existing IFRSs do not provide enough guidance on accounting for such items while they can be significant for entities in the Internet industry. As a result, in practice different accounting policies can be unreasonably applied while accounting for similar items.
- e. *Presentation of prepayments and indirect taxes in financial statements.* Prepayments and indirect taxes can be significant for financial statements of non-financial organizations. Absence of relevant guidance in IFRS results in the risk of significant divergences in practice.
- f. *Accounting for an entity’s income (other than revenue) and expenses.* Many entities transiting to IFRS from local GAAP need additional guidance on accounting for other gains and expenses. As local GAAP as a rule provides the relevant guidance, absence of IFRS guidance increases the risk of significant divergences in accounting for these items in practice.

### **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 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?***

#### *Projects proposed for removal from the IASB’s agenda*

In our view, Country-by-Country Reporting is one of such projects. We believe that information disclosed according to the proposals of coalition of non-governmental organizations known as the Publish What You Pay campaign will not be useful for users of general-purpose financial statements. In our view, according to the Conceptual Framework principles such information will not be relevant for economic decision-making needs whereas disclosure of such information can require additional costs related to its collecting and processing.

#### *Priority of the projects*

Our position is that the IASB’s available resources should first of all be allocated to an “IFRS Clarity Project”, completion of the most significant projects which are almost completed, development of the conceptual framework and presentation and disclosure framework as well as necessary interpretations of the existing IFRSs. Therefore, we would recommend restricting the number of projects according to the available resources. In the table below, we express our views on the priority of the projects, both mentioned by the IASB in the Agenda Consultation and new ones, proposed by us.

Projects	Priority
<b><i>Framework projects</i></b>	
Conceptual framework project	A
Presentation and disclosure framework <sup>1</sup>	A
<b><i>Projects about to be completed</i></b>	
Financial instruments	A
Leases	A
Revenue recognition	A
<b><i>Projects listed in the Consultation document</i></b>	
Agriculture, particularly bearer biological assets	B

Business combinations between entities under common control <sup>2</sup>	B
Country-by-country reporting	D
Discount rate	C
Earnings per share	C
Emissions trading schemes	C
Equity method of accounting	C
Extractive activities	B
Financial instruments with characteristics of equity	C
Financial statement presentation (excluding consideration of other comprehensive income) <sup>1</sup>	B
Foreign currency translation	C
Government grants	B
Income taxes	C
Inflation accounting (revisions to IAS 29)	B
Intangible assets	B
Interim reporting <sup>1</sup>	B
Islamic (Shariah-compliant) transactions and instruments	B
Liabilities – amendments to IAS 37	C
Other comprehensive income <sup>1</sup>	B
Post-employment benefits (including pensions)	C
Presentation and disclosure standard <sup>1</sup>	B
Rate-regulated activities	B
Share-based payment	C
<b>Projects proposed in addition</b>	
Accounting for other transactions under common control <sup>2</sup>	B
Combined and carve-out financial statements	B
Implementation guidance for fair value measurement in emerging markets	B
Transactions with intellectual property <sup>3</sup>	C
Financial reporting in situations when the “going concern” assumption is not appropriate	B
Separate financial statements	C
Accounting for revenue in the Internet industry <sup>4</sup>	C
Presentation of prepayments and indirect taxes in financial statements	B
Accounting for an entity’s income (other than revenue) and expenses	B

**Key:**

**A** – highest priority, these projects should be completed first

**B** – projects that should be completed after the completion of A-level projects or together with them provided that necessary resources are available

**C** – projects which, in our view, are not of high priority.

**D** – projects that require further research with respect to the need of their completion

<sup>1</sup> - the development of presentation and disclosure framework can be the first stage of the development of “presentation and disclosure” standard. Probably, it would be reasonable to combine *Financial statement presentation (excluding consideration of other comprehensive income)*, *Other comprehensive income* and *Interim reporting* projects within this standard.

<sup>2</sup> - *Business combinations between entities under common control* and *Accounting for other transactions under common control* can be combined within one project.

<sup>3</sup> - *Transactions with intellectual property* project can be implemented within the *Intangible assets* project

<sup>4</sup> - *Accounting for revenue in the Internet industry* project can be implemented as a project of developing of separate IFRS interpretation.