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IFRS Foundation

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Reference: Request for Views 2015 Agenda Consultation

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Request for Views 2015 Agenda Consultation.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We would like to congratulate the Board for its efforts to issue the work plan with a complete set of accounting standards to be analyzed in the next five years. However, the removal of inflation and foreign currency translation from the standard work plan concerns us, given the high impact of those topics in our jurisdiction.

We urge that the Board members and staff give consideration to each response in this comment letter. We have some concerns about the path that the Board is taking, considering its role, as a standard-setter based on principles. We also propose a revision of FASB and IASB agreement, ensuring its extension towards an one single international standard.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,



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Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

¹The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



QUESTIONS ON THE IASB'S WORK PLAN 2015 AGENDA CONSULTATION

The IASB invites comments on all matters in this Request for Views. Respondents need not comment on all of the questions and are encouraged to comment on any additional matters. The IASB will consider all comments received in writing by 31 December 2015.

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?

Answer to question:

We assess that the factors considered by the IASB for prioritizing standards and allocation of resources are adequate, but we consider that the high priority projects as we suggest below should have enhanced resources.

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?

Answer to question:

(A) Add any further projects:

We believe that no other projects should be added on IASB's research project list.

(B) Remove of these research programme:

We believe that no proposed project should be removed from the active agenda of IASB over the period of 2016 to 2020. We highlight the importance of the projects that we classify as high priority and high urgency listed below and propose to support the IASB Board, and staff members over this period for those projects.

(C) Remove of any other research programme:

None.

Research projects (continuation)

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 question:

The table below states the position of CPC on the priorities and urgency of IASB board, and staff members to consider when allocating resources over the agenda period.

Stage	Projects	Priority	Urgency	#
Development	Business Combinations under Common Control	High	High	(1)
	Disclosure Initiative—Principles of Disclosure	Medium	Medium	(2)
	Dynamic Risk Management	High	High	(3)
	Equity Method	High	High	(4)
	Financial Instruments with Characteristics of Equity	High	High	(5)
Assessment	Definition of a Business	Medium	Low	(6)
	Discount Rates	High	High	(7)
	Goodwill and Impairment	Medium	Medium	(8)
	Income Taxes	High	Medium	(9)
	Pollutant Pricing Mechanisms	Medium	Low	(10)
	Post-employment Benefits	Low	Low	(11)
	Primary Financial Statements	High	Medium	(12)
	Provisions, Contingent Liabilities and Contingent Assets	High	High	(13)
	Share-based Payment	Medium	Medium	(14)
	Inactive	Extractive Activities/Intangible Assets /Research and Development (R&D)	Low	Low
Foreign Currency Translation		High	Medium	(16)
High Inflation		High	High	(17)

Please, see below the factors considered by CPC in order to propose the above classification:

- (1) High demand from Brazilian jurisdiction entities, which made CPC establish a workgroup to discuss the mentioned theme.
- (2) Long-term project.
- (3) Issue that highly impact the Brazilian entities.
- (4) Issue that highly impact the Brazilian entities. CPC intends to send a specific letter regarding this matter to the Board as soon as possible for consideration of its members.
- (5) CPC believes that this project should be ammended after an improvement to Other Comprehensive Income definition, which is not contemplated in the current Exposure Draft of the Conceptual Framework.
- (6) Long-term project, with low impact in our jurisdiction at this stage.
- (7) Issue with high impact in the Brazilian jurisdiction.
- (8) We did not detect any need for change in our jurisdiction, so far.
- (9) Improvements to IAS 12 are necessary, but we do not believe that will have high impact in our jurisdiction. We highlight the importance of assessing present value to deferred tax.
- (10) With future impact in our jurisdiction, therefore we believe that it is necessary a long-term project.



- (11) We did not detect the need for change in our jurisdiction, so far.
- (12) Project with high importance and impact on financial statements
- (13) If the 2015 Exposure Draft of the Conceptual Framework is issued without major changes in the definition of liability, we suggest the reconsideration of IAS 37 as soon as possible.
- (14) We did not detect the need for change in our jurisdiction, so far.
- (15) Brazilian companies have auto regulated the accounting recognition, measurement and presentation process to be in compliance with IFRS 6. There is diversity in practice, but we believe that there are no need for research in the Agenda to 2015 - 2020. We have not translated to our jurisdiction this standard, and the companies uses the accounting policies described in IAS 8.
- (16) We strongly recommend the revision of IAS 21.

We believe that for this, the IASB should start joint project with the jurisdictions with the most relevant impacts by the adoption of this standard. CPC intends to detect the theoretical foundation of the problems related to exchange rate matters of IAS 21, showing the relevance of this subject in the information provided by companies. We would also like, as the evolution of this work, to develop a new model for recognition of conversions on foreign currency transactions, proposing addition, or changes, of accounting treatments given by the current standard.

- (17) We strongly recommend the revision of IAS 41.

The Brazilian academy has an extensive body of academic research debating and identifying the importance of currency translation in cases of inflationary economy. We are of the belief that, even before the hyperinflation stage, as shown in IAS 41, the correction of non-cash items is a relevant piece of information for users decision using financial statements. We propose to maintain this issue on the active agenda of the IASB and, we also intend to start an internal group to debate this topic and send some IAS 41 revision proposals to the Board. We stress that, in the long term, the studies also show that in low inflation countries the loss of significance is very high.

We add below a summary of work presented in an international journal, showing the importance of the above issue.

ABSTRACT: *The monetary unit assumption of financial accounting assumes a stable currency i.e., constant purchasing power over time. Yet, even during periods of low inflation or deflation, nominal financial statements violate this assumption. I posit that, while the effects of inflation are not recognized in nominal statements, such effects may have economic consequences. I find that unrecognized inflation gains and losses help predict future cash flows as these gains and losses turn into cash flows over time. I also find significant abnormal returns to inflation-based trading strategies, suggesting that stock prices do not fully reflect the implications of the inflation effects for future cash flows. Additional analysis reveals that stock prices act as if investors do not fully distinguish monetary and nonmonetary assets, which is fundamental to determining the effects of inflation. Overall, **this study is the first to show that, although inflation effects are not recognized in nominal financial statements, they have significant economic consequences, even during a period in which inflation is relatively low.** (Highlight from CPC)*

Konchitchki, Y. (2011) **Inflation and Nominal Financial Reporting: Implications for Performance and Stock Prices**. The Accounting Review, Vol. 86, No. 3, 2011, pp. 1045-1085.



Major projects

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

Answer to question:

We believe that the IASB should give focus to the implementation standards with high impact that are currently in the pipeline to be issued (Insurance Contracts and Leases). Both standards may have high impact to companies in our jurisdiction, requiring technical discussion with professionals from different areas.

We propose to the Board the inclusion of the research project Business Combination Under Common Control (BCUCC) among the projects with high impact. This project is currently being analyzed in our jurisdiction, and we consider it relevant. CPC intends to send the conclusions of the study made by the specific workgroup to the Board in 2016.

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:

We agree with the level of support given by members of the IASB and IFRIC in the issuance and implementation of standards, however, we are concerned about the continued issuance of interpretations such as the ones related to Uncertainty Over Income Tax Treatments and ED Foreign Currency Transactions and Advance Consideration. We believe that instead of issuing IFRIC interpretations such those ones, the own standard should be revised to contemplate the proposed changes in order to avoid the existence of a high number of interpretations, which may create difficulties for the full implementation of IFRS, supposed to be a principle basis framework.

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:

We propose the boards reevaluation on the time to issue, or change, the accounting standards and the level of detail in the issuance thereof. We understand the extent of jurisdictions that adopt IFRS and the complexity of creating a single unique standard. However, we believe that in certain cases there is a lack of information about the issuance process. Below we highlight some issues identified in our jurisdiction over the past few years:

- Increase of guidance and quantitative parameters;
- Extensive delay in issuing standards with excessive emission of discussion papers and exposure drafts. We acknowledge the Board due process, but we believe that it should be used with increased level of judgement;
- Systemic difficulties in adopting new standards leading in an increase of companies costs.



Any other comments

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

Answer to question:

It is necessary that the agenda is in strict compatibility with the board's ability to complete projects on schedule, avoiding delays in the development of standards.

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?

Answer to question:

We agree that a principles-based accounting standards work plan with greater intervals of time is more appropriate.

In order to include, or to exclude, new research projects to the board agenda we propose the joint actions with ASAF. The advisory group would advise the inclusion of items at the meetings, with timing and assurance to the importance and urgency.

We also propose the maintenance of IASB outreach members to jurisdictions that adopt international standards, together with greater debate with members of the academy, auditors, preparers and users by keeping participation in conferences and journals.

In order to monitor the adoption of standards and understanding the transition processes, we propose maintaining TRGs when there is the issuance of a major impact project. These groups may increase the direct involvement of companies, considering the adoption of the standard costs and operational impacts. In our jurisdiction there is the adoption of such, to carry out work with high local impact. These groups focus on ongoing projects of the IASB and, or, for projects with high impact on improving information to users.