



Grupo Latinoamericano  
de Emisores de Normas  
de Información Financiera  
Group of Latin American  
Accounting Standard Setters

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**December 17, 2015**

## **International Accounting Standards Board**

30 Cannon Street  
London EC4M 6XH  
United Kingdom

### **RE: 2015 Agenda Consultation**

Dear Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS<sup>1</sup> welcomes the opportunity to comment on the Request for Views on the 2015 Agenda Consultation.

#### **Due process**

The discussions Agenda Consultation were held within a specified Technical Working Group (TWG) created in September 2015. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

#### **Overall comments**

Two issues are highly important for the Latin American countries. The first issue is the development of a standard to recognize the effects of high inflation before it reaches the hyperinflation level, since distortion of the financial information starts at a level of high inflation. The second issue is how to deal with official exchange rates to translate transactions in foreign currency, to which entities may have restricted access.

#### **Specific comments**

Attached please find our specific responses to the Request for Views.

#### **Contact**

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<sup>1</sup> The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Vice Chairman), Chile, Colombia (Board), Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (Chairman), Panama, Paraguay, Peru, Uruguay (Board) and Venezuela (Board).



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If you have any questions about our comments, please contact [glenif@glenif.org](mailto:glenif@glenif.org).

Sincerely yours,

**Felipe Pérez Cervantes**  
Chairman  
Group of Latin American Accounting Standard Setters (GLASS)



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## **GLASS' Comment Letter on the Request for Views on the 2015 Agenda Consultation**

### **Question 1—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 project;
- (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?

In addition to the factors mentioned in paragraph 55 of the Request for Views on the 2015 Agenda Consultation, the priorities of specific issues proposed and justified by the Regional Standard Setters should be considered for each of the five broad categories of projects included in the IASB work plan.

When evaluating the importance of the issue for users of the financial statements, the economic reality of the region in which they are involved should be addressed, to avoid the need for the issuance of supplementary local standards to be applied concurrently with International Financial Reporting Standards (IFRS), which could adversely affect the convergence of the standards applied in different jurisdictions for the preparation and presentation of general purpose financial statements, which is the mission of the IASB.

### **Question 2—Research projects**

The IASB research programme is laid out in paragraph 32 and a further potential 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 translation (see paragraphs 39



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– 41) and high inflation (see paragraphs 42 – 43)? Why or why not?

(c) remove any other projects from the research programme?

## RESEARCH PROJECTS THAT SHOULD BE CONTINUED

### High inflation

We believe the project of recognizing the effects of high inflation should be continued, since high inflation is a phenomenon that affects many countries in Latin America and other parts of the world. Pursuant to IAS 29, *Financial Reporting in Hyperinflationary Economies*, entities operating in such countries do not recognize the effects of inflation, and, consequently, do not present adequate information to investors and other interested parties due to the distortions caused by high inflation, since such IAS only requires recognition of the effects of hyperinflation.

The consensus of GLASS is that waiting until the economy is hyperinflationary to recognize the effects of inflation does not provide an adequate or timely solution for entities that operate in high inflation economies.

Some of the arguments used to propose that the project remain inactive are based on the fact that it is a problem of just a few countries. In this regard we take into account that the IASB has carried out investigations that arise from problems that have affected a few countries. In addition, the experience with inflation in our region over many years has resulted in studies and high quality standards on this topic.

An issue related to inflation is the need for guidelines to determine as to which price index (which is what determines the inflation rate) is reliable; in many jurisdictions government influence results in reporting lower than actual inflation, resulting in the distortion of financial information that is generated when financial statements are adjusted with such rate.

Considering what is established in paragraph 37 of IAS 29, the question arises as to which criteria should be followed to determine a reliable price index. We believe that the two main criteria would be the independence and technical ability of the entity determining the index. It would be convenient that the IASB prepare a guideline to be included in the standard on financial reporting in high inflation economies.

### Translation of transactions in foreign currencies

Regarding the translation of transactions in foreign currency, one of the main problems that the entities in some countries in our region have is the use of exchange rates that are not based on an exchange rate quoted in a free market, but rather are established by the government (existing in certain cases more than one rate) and apply to few transactions. This creates a problem in determining which exchange rates should be used and in which circumstances.

The issue is whether, to attain a fair view, the official exchange rate should be used in those cases in which a liability qualifies to be paid with foreign currency obtained at such exchange rate, even though the probability that foreign currency can be obtained at such exchange rate is remote, in which case a free market rate should be used, considering the availability and sharp fluctuation of such rate.

To deal with this issue, in some countries local standards that are not in accordance with IFRS are applied, some of which are heavily influenced by the government, which creates distortions of reported amounts that do not present a fair view of the financial position and operating results of the entities.



It is important to point out that the problems of high inflation and constant devaluation of local currencies jointly exist in many Latin American economies; therefore, when false measures of these phenomena exist, the financial statements are distorted. Consequently, it is important to have guidelines to make the necessary adjustments.

## NEW RESEARCH PROJECTS

### IFRS for not-for-profit entities

A new project to be added to the Agenda is that of not-for-profit entities, of which there are many in the region, and, since there are no specific IFRS standards, there is significant divergence in the methodology being applied. In some countries there are standards based on full IFRS, while in other countries the standards established by USGAAP are followed to the extent possible, with local variances.

The importance of this issue is due to the fact that these entities manage resources over which they must demonstrate stewardship, including disbursement in accordance with their objectives. Those that provide resources to not-for-profit entities do not expect the financial statements to demonstrate the value of the entity (as prescribed in paragraph OB3 of the Conceptual Framework for businesses) but rather to obtain information that demonstrates a sound and proper use of the resources obtained. Using standards designed for businesses does not address the expectation that the financial statements of a not-for-profit entity provide a fair view of its financial position and operating results, since their objective is other than to generate a profit.

## REVISIONS TO BE UNDERTAKEN

### IFRS 1, First-time adoption of IFRS

We believe that the IASB should add a project to its research projects related to IFRS 1, *First-time Adoption of IFRS*, specifically paragraph 11, which indicates that the adjustments for the first-time application of a new IFRS standard should be recognized “directly in retained earnings (or, if appropriate, another category of equity)”. We do not find any IFRS guidance that indicates when it is appropriate to recognize such adjustments in another category of equity. Is it when there are unrealized gains? This issue is not clear and creates a lot of confusion both for preparers, regulators and auditors.

### 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.

The Consensus of GLASS is that the projects in the research program should be ranked as follows:

|            | Projects in the research programme | Relative Importance | Urgency |
|------------|------------------------------------|---------------------|---------|
| Assessment | Definition of a Business           | Medium              | Low     |



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| Stage               |                                                                        |        |        |
|---------------------|------------------------------------------------------------------------|--------|--------|
|                     | Discount Rates                                                         | High   | High   |
|                     | Goodwill and Impairment                                                | Medium | Low    |
|                     | Income Taxes                                                           | Medium | Medium |
|                     | Pollutant Pricing Mechanisms (formerly Emission Trading Schemes)       | Low    | Low    |
|                     | Post-employment Benefits (including Pensions)                          | Low    | Low    |
|                     | Primary Financial Statements (formerly Performance Reporting)          | Medium | Medium |
|                     | Provisions, Contingent Liabilities and Contingent Assets               | High   | Medium |
|                     | Share-based Payments                                                   | Low    | Low    |
| Development Stage   | Business Combinations Under Common Control                             | Medium | Medium |
|                     | Disclosure initiative – Principles of Disclosure                       | High   | High   |
|                     | Dynamic Risk Management                                                | Low    | Low    |
|                     | Equity Method                                                          | High   | High   |
|                     | Financial Instruments with Characteristics of Equity                   | Medium | Medium |
| Inactive            | Extractive Activities/Intangible Assets/Research and Development (R&D) | Low    | Low    |
|                     | Foreign Currency Translation                                           | High   | High   |
|                     | High Inflation                                                         | High   | High   |
| Additional Projects | Not-for-profit entities                                                | High   | High   |
|                     | Simplification of standards                                            | High   | High   |

The assignment of the above rankings was made considering the importance of the problems for each of the countries that can be resolved with the different projects. Accordingly, the projects considered to be highly important were Discount Rates, Provisions, Contingent Liabilities and Contingent Assets, Disclosure Initiative, Translation of Foreign Currency, High Inflation, Not-for-



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profit Entities, Equity Method and Simplification of Standards, all of which represent issues for which the GLASS members have recently faced problems. On the other hand, the projects for Pollutant Pricing Mechanisms, Post-employment Benefits, Share-based Payments, Dynamic Risk Management and Extractive Activities/Intangible Assets/Research and Development have not generated important accounting problems that were brought to the attention of the local standard setters that are members of GLASS.

One of the GLASS members considers it important that the IFRS 6, *Exploration for and Evaluation of Mineral Resources*, project be extended to the following stages of the production process, that is the development, production and shutting down stages of the operation. The mining and extractive industries are very significant in several countries of Latin America, and there are no industry guidelines for these three stages, and the guidelines of other standards are used by analogy, which creates divergence in practice.

Another member country believes that, as a corollary to the *Conceptual Framework (CF)* and *Disclosure Initiative (DI)* projects, a project to simplify the standards should be initiated. There are some standards that, due to the fact that they deal with complex issues, such as financial instruments, employee benefits or revenues from contracts with customers, could be improved by better organizing the standard. For example, chapter 5 of IFRS 9, *Financial Instruments*, should follow the sequence of the three stages of risk of default for financial instruments. Also, IFRS 15, *Revenue from Contracts with Customers*, should be structured following the five steps to recognize revenue, from the identification of the contract to final revenue recognition.

#### **Question 4—Major projects**

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

The major projects are definitely those of the CF and the DI, which are necessary to establish a clear guide for the overriding accounting topics. In addition, it is necessary to complete these projects to review all standards and deal with the inconsistencies between individual standards and the CF and the DI, as well as undertaking other projects such as the review of the standard for provisions.

The standards in process that should be finished as soon as possible are those of leases and insurance contracts.

We recommend that greater relevance and urgency be given to the Materiality Practice Statement within the DI, since it is a matter that affects the vast majority of entities and, being a topic that is very subjective and of great importance for entities, raises great concern regarding a practical treatment to define materiality.

#### **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)?

The implementation guidance for some new complex standards has been developed through Implementation Transition Groups, which have devoted time to analyzing implementation issues



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before the standards become effective, which has either resulted in some focused amendments or guidance, or the IASB has indicated the reasons to not to make any amendments. We believe this effort should continue.

It is important to strengthen and prioritize a project of training activities geared to the preparers of financial information, to avoid inconsistent application of the standards. We suggest seeking agreements with regional standard setters and regulators in each country, so that they be the ones to direct the dissemination and training of the standards when these are issued or amended.

Regarding maintenance and implementation, it is important to carry out the post-implementation reviews of IFRSs 10, 11 and 12 that deal with investments in subsidiaries, associates and joint ventures and related disclosures.

#### **Question 6—Level of change**

Does the IASB 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?

As a whole the IASB work plan offers adequate resources and a timeframe so that the constituents in each jurisdiction have sufficient information and time to analyze the IASB proposals and, therefore, provide high quality feedback on the proposals and an evaluation of their possibilities or limitations to implement the changes that will result from those proposals.

Overall the pace and level of change has been adequate to establish standards based on principles, since when necessary new requests for comments and exposure have been carried out.

However, in some cases standards have been issued that are not principle-based, as in the case of valuing certain equity financial instruments through other comprehensive income (OCI), for which we find no sound basis. Also, we find no sound basis for not recycling to profit and loss all components of OCI, and in some cases the use of OCI is questionable.

#### **Question 7—Any other comments**

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

We suggest that the work plan for the development of the new CF include an immediate review of all standards to align them with the modifications resulting from the new CF.

#### **Question 8—Frequency of Agenda Consultations**

Because of the time needed to complete major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required? Why or why not?

If not, what interval do you suggest? Why?

We believe that a five-year interval would be more appropriate for two reasons. The first reason is because projects stemming from the previous agenda consultation would be initiated if and when a



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new consultation is requested after just three years. The second reason is because it would be aligned with the term of the Chairman of the IASB.