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Third IASB Agenda Consultation - EFRAG Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX ~~Month 202X~~ October 2021]

Dear Mr Barckow,

Re: Third Agenda Consultation

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to provide input in response to the Request for Information regarding the Third Agenda Consultation, issued by the IASB on 30 March 2021 (the 'RFI').

EFRAG considers that the overall balance of the main activities of the IASB should reflect the selection of projects as resulting from this Agenda Consultation. EFRAG's preliminary view is that the balance, as indicated in the RFI, is generally appropriate and should not be substantially modified over the 2022–2026 period. EFRAG considers that the IFRS are by now considered to be a mature reporting platform, hence we suggest putting more effort on the maintenance and improvement of the understandability of existing standards compared to what is proposed in the RFI.

EFRAG, however, further suggests the IASB identifies a separate area of its activity to address the connectivity between financial reporting and sustainability reporting and increases the resources devoted to digital reporting. Financial and sustainability reporting are currently not formally connected. EFRAG considers that possible developments in financial reporting standards may facilitate the creation of connectivity between financial and sustainability information. EFRAG considers that cooperation between financial reporting standard setters and sustainability reporting standard-setters to ensure the continuity and coherence of corporate reporting is essential.

As indicated in its previous feedback to the IASB, EFRAG considers that the priorities for the IASB should be to focus on finalising the projects in its active work plan and conducting on a timely basis the Post-implementation Reviews ('PIR') of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and, towards the end of the 2022-2026 period, IFRS 17 *Insurance Contracts*. However, EFRAG additionally requests the IASB to reassesses the feasibility of fully completing all the projects in the current work plan and possibly identifies projects to be discontinued as it may free up resources that could be used on more urgent topics.

Although we understand that only a limited number of projects can be added to the IASB's agenda after setting aside capacity for the current active work plan and planned PIRs,

*PART A – EFRAG’s draft response to the IASB’s agenda consultation Third IASB
Agenda Consultation -EFRAG draft final comment letter*

EFRAG considers that, in adding projects to its agenda the IASB should primarily rely on their relevance and urgency rather than the level of resources involved. EFRAG has identified a number of priority projects in its response to Question 3 below:

EFRAG strongly encourages the IASB, in its research activities, to continue to build on the work of other organisations and create synergies. Leveraging on the substantial work of EFRAG and other regional and national accounting standards bodies related to standard level and research projects and also on topics not on the IASB’s current agenda would allow the IASB to move faster.

~~EFRAG considers~~ ~~observes that in addition to~~ the four criteria ~~contained~~ included in the Due Process Handbook ~~are appropriate for new IFRS Standards or major amendments,~~ the RFI lists three additional criteria to be used when deciding whether to add a potential project to its work plan. ~~However~~ In addition, EFRAG observes that, ~~in addition to these four criteria,~~ the IASB has developed on its own, three additional criteria (the last three in the RFI list) that it considers to be practical filters.

~~EFRAG is concerned about this situation as the additional criteria have not been submitted to a proper due process. EFRAG observes that the last consultation~~ one of the IFRS suggested criteria is narrower than the corresponding criterion in the Due Process Handbook which took place. The Due Process Handbook in 2018 provided a missed opportunity ~~fact refers to ‘the importance of the matter to ask constituents whether additional criteria should be introduced, those who use financial reports’ while the RFI refers to ‘the importance of the matter to investors’.~~

~~We therefore recommend that, in selecting projects for the IASB’s agenda, precedence should be always given to the four ‘official’ criteria as defined in the Due Process Handbook.~~

~~We also suggest for the sake of transparency to consider whether these additional criteria could be considered for the inclusion into the Due Process Handbook as part of the next consultation on that document.~~

~~In addition to the criteria identified by the IASB,~~ ~~EFRAG~~ EFRAG considers that the seven criteria suggested in the RFI could be useful. However, it is not clear to EFRAG why additional criteria than those included in the Due Process Handbook have been added. If the IASB would choose to apply the additional three criteria that are included in the RFI, but not in the Due Process Handbook, EFRAG would recommend the IASB to consider whether the criteria should be added to the Due Process Handbook and whether the new criteria should be given the same importance as the existing criteria. EFRAG similarly considers that the IASB should explain why it only considers ‘investors’ when deciding whether to add a potential project to the IASB’s workplan instead of ‘those who use financial reports’ as stated in the Due Process Handbook.

EFRAG also suggests considering additional ~~some~~ factors which ~~that~~ could be considered when assessing whether there is any deficiency in the way companies report the type of transaction or activity in financial reports. These factors are detailed in Appendix 1.

EFRAG’s detailed comments and responses to the questions in the ED are set out in Appendix 1.

If you would like to discuss our comments further, please do not hesitate to Didier Andries, Rasmus Sommer, Juan Jose Gomez de la Calzada or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1 - EFRAG’s responses to the questions raised in the RFI

Strategic direction and balances of the IASB’s activities

Note to constituents

~~1—The IASB seeks feedback on the overall balance of the main activities of the IASB. Input is requested on whether the IASB should increase, leave unchanged or decrease its current ‘level of focus’ on each activity. The level of focus reflects the IASB’s estimates of the resources allocated to each main activity over the past three years (technical resources including the IASB and technical staff). The RFI describes the IASB’s main activities and the current level of focus² as follows:~~

- ~~(a)—developing new IFRS Standards and major amendments to IFRS Standards (current level of focus: 40%-45%);~~
- ~~(b)—maintaining IFRS Standards and supporting their consistent application (current level of focus: 15%-20%);~~
- ~~(c)—developing and maintaining the IFRS for SMEs Standard (current level of focus: 5%);~~
- ~~(d)—supporting digital financial reporting by developing and maintaining the IFRS Taxonomy (current level of focus: 5%);~~
- ~~(e)—improving the understandability and accessibility of the Standards (current level of focus: 5%); and~~
- ~~(f)—engaging with stakeholders (current level of focus: 20%-25%).~~

~~2—The IASB assumes, in its consultation, that its current level of resources will remain substantially unchanged from 2022 to 2026. Therefore, an increase in the allocation of resources to one activity would mean that fewer resources would be available for other activities.~~

Question 1 - Strategic direction and balances of the IASB’s activities

348 Paragraphs 14–18 and Table 1 of the RFI provide an overview of the IASB’s main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the IASB increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the IASB should increase or decrease, including your reasons for such changes.
- (b) Should the IASB undertake any other activities within the current scope of its work?

²The level of focus has been determined by the IASB using estimates of the resources allocated to each main activity over the past three years.

EFRAG’s response

EFRAG considers that the overall balance of the main activities of the IASB, as indicated in the RFI, is **generally** appropriate and should not be substantially modified over the 2022-2026 period. **It is suggested to focus more on maintenance and improving the understandability of existing standards.**

The activities in relation to digital reporting could be increased. EFRAG’s is also suggesting to undertake a project on the effect on technology on standard setting (see our response to question 3).

EFRAG suggests that the connectivity between financial reporting and sustainability reporting should be identified as an additional and separate area of activity of the IASB. Sustainability reporting and financial reporting are currently not formally connected. EFRAG considers that possible developments in financial reporting standards may facilitate the creation of connectivity between financial and sustainability information.

EFRAG has previously indicated to the IASB (through its input to ASAF) that the IASB should give priority to finalising the major projects in its active work plan and conducting, on a timely basis, the Post-implementation Reviews (‘PIR’) of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and, towards the end of the period under consideration, IFRS 17 *Insurance Contracts*. **EFRAG recalls that the last PIR is time critical in the EU.**

Although we understand that only a limited number of projects can be added to the IASB’s agenda after setting aside capacity for the current active work plan and planned PIRs, EFRAG considers that, in adding projects to its agenda the IASB should primarily rely on their relevance and urgency rather than the level of resources involved. To that effect, EFRAG has identified priority projects in its response to Question 3 below.

Finally, EFRAG considers that the IASB should set aside capacity to react to emerging and unforeseen issues that can arise over the next 5 years.

41 EFRAG considers that the overall balance of the main activities of the IASB, as indicated in the RFI, is **generally** appropriate and should not substantially modified over the 2022-2026 period.

2 **EFRAG notes the IFRS Standards are considered to be a mature reporting platform by several European constituents (see also our response to Q2 and Q3). EFRAG notes more attention is to be given to maintenance and improving the understandability of existing standards.**

53 Considering the importance of technology-based use of financial statements, EFRAG believes that the resources devoted to the ‘supporting digital financial’ should be higher than the current 5%. See also the response to Question 3, **were**where EFRAG suggests that the IASB could undertake a project on digital reporting to consider the effect on technology on standard setting.

64 EFRAG is also of the view that, with the growing importance of sustainability reporting, a separate area of activity should be identified by the IASB to address the connectivity between sustainability reporting and financial reporting. Sustainability reporting and financial reporting are currently not formally connected. EFRAG considers that possible developments in financial reporting standards may facilitate the creation of connectivity between financial and sustainability information. (see

also our response to Question 3) suggesting that the IASB undertakes a project on the matter.

75 EFRAG has previously indicated to the IASB (through the feedback it provided to the consultation of ASAF members by the IASB staff in 2019) that the IASB should prioritise:

- (a) The finalisation of the projects that are already on the IASB's active work plan; and in particular, the ones close to standard setting;
- (b) Conducting, on a timely basis, the PIR of IFRS Standards, such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contract with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*; and
- (c) Undertaking standard-setting when necessary, to address the issues identified in the PIRs.

86 EFRAG therefore welcomes the indication in the RFI that the IASB intends to continue prioritising the completion of projects on its current work plan because (a) stakeholders have previously identified these projects as priorities; (b) re-prioritising projects could lead to inefficient starts and stops; and (c) some projects, such as PIRs, are required by the IASB's due process.

97 EFRAG notes the number and importance of projects that are already on the IASB's work plan which are either close to standard setting (such as Primary Financial Statements, Rate-regulated Activities, Equity Method, the first phase of the PIR of IFRS 9 and Management Commentary) or in the research phase but already well advanced (Dynamic Risk Management, Goodwill and Impairment and Financial Instruments with Characteristics of Equity).

8 EFRAG also emphasises the importance of the forthcoming PIRs of several major Standards including IFRS 9 *Financial Instruments* (phases II and III on impairment, and hedge accounting, respectively), IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* and, towards the end of the 2022-2026 period, IFRS 17 *Insurance Contracts*. In particular for the endorsement of the latter Standard, EFRAG notes that within the EU a carve out option including a sunset clause (end of 2027) is being considered. EFRAG suggests therefore to discuss the PIR of IFRS 17 timely enough.

409 It is important that, as indicated, the requirements of the IFRS Due Process Handbook, reviews of major new IFRSs Standards or amendments are conducted at about 30 to 36 months after their effective date[†]. As a consequence, EFRAG agrees that the IASB only adds a limited number of projects to its agenda.

4110 Although we understand the capacity constraints indicated by the IASB, EFRAG considers that the projects should always be selected on the basis of their relevance and urgency rather than based on their resource needs.

4211 We note that after the 2015 agenda consultation a total of eight research projects were placed on hold in 2016 in an inactive project pipeline (for lack of available

[†] The due process handbook indicates that PIRs are normally carried out two years after the new requirements have become mandatory. The 30- to 36-month period referred to in the same document, factors in the effects of statutory year-ends differing across jurisdictions.

resources) and that, five years later, four of these projects[‡], have not been started and their priority is being re-assessed as part of the 2021 agenda consultation. EFRAG considers that, to avoid creating gap frustration among stakeholders, it is always preferable to 'under-promise and over-deliver' than the other way round.

1312 Finally, EFRAG considers that the IASB should set aside capacity to react to emerging and unforeseen issues that can arise over the next five years. These could arise as a consequence of the PIRs, issues referred by the IFRS Interpretations Committee or any other sources. It is important that the IASB keeps some flexibility to address such issues if and when they arise.

1413 Finally, EFRAG notes that the potential impact of the current developments around sustainability reporting and that a new board to set sustainability reporting standards that the IFRS Foundation may establish, can impact the activities of the IASB by drawing on its resources. This potential impact is currently unknown, as acknowledged in the RFI but could further limit the IASB's capacity and consequently will also limit the focus on the active projects in the current work plan and the PIRs on several major Standards.

14 Hence, EFRAG is of the view that the IASB should have the capacity to maintain alignment with the future work of the ISSB when it starts to move beyond its initial focus on climate. Given the inherent complexity, the IASB should identify whether key sustainability-related risks are already captured within the current IFRS Standards before considering the introduction of a new standard or a significant change to existing standards.

Criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan

Note to constituents

~~15—The following criteria (contained in Table 2 of the RFI) are considered by the IASB when deciding whether to add a potential project to its work plan:~~

- ~~(a)—The importance of the matter to investors;~~
- ~~(b)—Whether there is any deficiency in the way companies report the type or transaction or activity in financial reports;~~
- ~~(c)—The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others;~~
- ~~(d)—How pervasive or acute the matter is likely to be for companies;~~
- ~~(e)—The potential project's interaction with other projects on the work plan;~~
- ~~(f)—The complexity and feasibility of the potential project and its solutions; and~~
- ~~(g)—The capacity of the IASB and its stakeholders to make timely progress on the potential project.~~

~~16—In addition to the primary criteria listed in paragraph 15, the IASB also considers the work streams of other major standard-setters.~~

[‡] PIR of IFRS 5, Hyper-Inflation (Scope of IAS 29), Pollutant pricing mechanisms and Variable and contingent consideration.

Question 2 - Criteria for assessing the priority of financial reporting issues that could be added to the IASB’s work plan

4715 Paragraph 21 discusses the criteria the IASB proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

- (a) Do you think the IASB has identified the right criteria to use? Why or why not?*
- (b) Should the IASB consider any other criteria? If so, what additional criteria should be considered and why?*

EFRAG's response

~~EFRAG considers that the fourseven criteria contained in the Due Process handbook are appropriate when deciding whether to add a potential project to its work plan.~~

~~However, EFRAG observes that, in addition to these four criteria, the IASB has developed and used three additional criteria of its own (the last threesuggested in the RFI list) as it considered them to be practical.~~

~~Although EFRAG considers that could be useful. However, it is not clear to EFRAG why additional criteria than those included in the Due Process Handbook have been added. If the IASB would choose to apply the additional practical criteria may be useful to identify relevant projects, we are concerned about this situation as these additional criteria were never submitted to proper due process. We observe that the last consultation of the IFRS Due Process Handbook, which took place in 2018, provided a missed opportunity to ask constituents as to whether additional criteria should be introduced.~~

~~We therefore suggest for the sake of transparency to:~~

- ~~— Give precedence, in selecting projects, to the 'official' criteria as containedthree criteria that are included in the RFI, but not in the Due Process Handbook; and~~
- ~~— Consider, EFRAG would recommend the IASB to consider whether thesethe additional criteria couldshould be considered for the inclusion intoadded to the Due Process Handbook as part ofand whether the next consultation that will be conducted on this document.~~

~~In addition to the new criteria identified by should be given the same importance as the IASB,existing criteria. EFRAG also similarly thinks that the IASB should explain why it suggests only considering a number of secondary additional factors, in particular the 'investors' when deciding whether to add a potential project to the IASB's workplan instead of 'those who use financial reports' as stated in the Due Process Handbook.~~

~~EFRAG also suggests that when assessing whether there is any deficiency in the way companies report the type of transaction or activity in financial reports. The IASB could consider:~~

- ~~(c) Whether the proliferation of non-GAAP information and whether measures is indicative of the fact that some Standards are not considered to reflect the economic reality of transactions.~~
- ~~(e)(d) Whether evidence of structuringrestructuring opportunities exists and needs to be addressedto achieve an accounting outcome.~~

~~Finally, as mentioned already in EFRAG's comment letter in response to the IASB's 2015 Agenda Consultation, it is not always obvious how the IASB applied these criteria for specific projects in defining its work plan. While EFRAG does not advocate the introduction of a formalised assessment, an explanation of how the IASB assesses and reconsiders priorities would be helpful.~~

18—~~EFRAG considersobserves that in addition to the four criteria containedincluded in the IFRS Due Process Handbook, are appropriate for new IFRS Standards or major~~

~~amendments, the RFI lists three additional criteria to be used when deciding whether to add a potential project to its work plan.~~

~~19— In addition, EFRAG, however, observes that the IASB is effectively using three additional criteria that they considered practical. Although EFRAG considers that these practical one of the suggested criteria may be useful, we are concerned about the use of criteria that are not part of the IFRS Due Process Handbook and therefore have not been subject to is narrower than the corresponding criterion in the appropriate due process. This is all the more important as we understand that the IASB considers these seven criteria in combination with the other, and no particular weight or priority is assigned to each of them.~~

~~20— EFRAG considers that precedence should always be given, in agenda-setting, to the four 'official' criteria.~~

~~2116 EFRAG considers that the 2018 consultation on the IFRS Due Process Handbook. The Due Process Handbook offered a missed opportunity thus refers to 'the importance of the matter to ask constituents as to whether additional criteria should be introduced. EFRAG recommends considering whether the additional criteria could be included as part of the next consultation by the IFRS Foundation on the IFRS Due Process Handbook those who use financial reports' while the RFI refers to 'the importance of the matter to investors'.~~

~~22— EFRAG also suggests to the IASB to consider whether the following additional secondary factors can be used to prioritise financial reporting issues:~~

~~17 EFRAG considers that the seven criteria suggested in the RFI could be useful. However, it is not clear to EFRAG why additional criteria than those included in the Due Process Handbook have been added. If the IASB would choose to apply the additional three criteria that are included in the RFI, but not in the Due Process Handbook, EFRAG would recommend the IASB to consider whether the additional criteria should be added to the Due Process Handbook and whether the new criteria should be given the same importance as the existing criteria.~~

~~18 EFRAG similarly considers that the IASB should explain why it for deciding whether to add a potential project to its workplan suggests only to consider 'investors' instead of 'those who use financial reports' as stated in the Due Process Handbook.~~

~~19 While EFRAG does not suggest any additional criteria than those listed in the RFI to be used when the IASB is deciding whether to add a potential project to its workplan, EFRAG suggests that some factors the that could be considered when assessing the criterion 'whether there is any deficiency in the way companies report the type of transaction or activity in financial reports'. In this regard, EFRAG suggests that IASB to consider:~~

- ~~(a) Whether the proliferation of non-GAAP measures is indicative of the fact that some Standards are not considered to reflect the economic reality of transactions.~~
- ~~(b) Whether evidence of restructuring opportunities exists to achieve an accounting outcome.~~

~~23— These factors could be included in the consideration of the existing criteria without creating new ones in particular criterion (2) 'Whether there is any deficiency in the way companies report the type or transaction or activity in financial reports'.~~

2420 EFRAG also suggest the IASB emphasises the importance of the relevance and urgency of the matter to preparers as well as the consideration of the importance to ~~investors,those who use financial reports.~~

2521 Finally, as mentioned in EFRAG’s comment letter in response to the IASB’s 2015 Agenda Consultation, it is not always obvious how the IASB applied these criteria for specific projects in defining its work plan. While EFRAG does not advocate the introduction of a formalised assessment, an explanation of how the IASB assesses and reconsiders priorities (in particular in ~~situationsituations~~ in which where some but not all of the criteria are met) would be helpful.

Financial reporting issues that could be added to the IASB’s work plan

Note to constituents

~~26— The RFI seeks feedback on which financial reporting issues the IASB could add to its work plan for 2022 to 2026 that would result in new IFRS Standards or major amendments to IFRS Standards.~~

~~27— In preparation of this agenda consultation, the IASB has conducted outreach (mainly with its advisory bodies and standing consultative groups) to identify potential projects to describe in the RFI. Appendix B of the RFI lists these identified potential projects (including an estimate of its size) and Appendix C of the RFI lists financial reporting issues suggested by only a few stakeholders, which are not described in detail in the RFI.~~

~~28— Appendix B of the RFI also includes some projects that arose from the 2015 Agenda Consultation but have not been started yet (PIR of IFRS 5, Inflation, Pollutant pricing mechanisms and Variable and contingent consideration).~~

~~29— EFRAG has tentatively identified a number of projects with high priority and is seeking the views of constituents on both the project priority assignment and the proposed scope for the project. EFRAG will consider the feedback received from constituents in forming its final recommendation to the IASB (a reduced number of projects from Attachment A or other suggestions by constituents will be considered).~~

Question 3 - Financial reporting issues that could be added to the IASB’s work plan

3022 Paragraphs 24–28 of the RFI provide an overview of financial reporting issues that could be added to the IASB’s work plan.

- (a) What priority would you give each of the potential projects described in Appendix B of the RFI—high, medium or low—considering the IASB’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The IASB is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the IASB add any financial reporting issues not described in Appendix B of the RFI to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the IASB’s capacity to add financial reporting issues to its work plan for 2022

to 2026 (see paragraphs 27–28). To help the IASB analyse the feedback, when possible, please explain:

- (i) the nature of the issue; and
- (ii) why you think the issue is important.

EFRAG’s response

EFRAG provides in Attachment A to this letter its assessment of all the high priority projects which are also identified in the RFI (subject to the considerations contained in our response to the first question about the priority to be given to the execution of the current active work plan and the planned PIRs). ~~In addition, EFRAG has identified a number of other projects not in the IASB’s RFI on which it will seek the views of its constituents.~~

Overall, EFRAG has tentatively identified a total of ~~136~~ projects with high priority; ~~of which six are assessed to have the highest priority for the IASB’s Agenda (all contained in the IASB’s RFI but for two EFRAG suggests a broader scope).~~ Furthermore, EFRAG provides in Attachment B its assessment of the priority on the other projects identified in the RFI that have been assessed to have medium or low priorities.

~~31~~³⁴²³ EFRAG has assessed the priority of the 22 projects suggested in the RFI. In addition, EFRAG also identified a number of additional projects which were not included in the IASB’s RFI (or included with a substantially different scope than the one suggested by EFRAG).

~~32~~ EFRAG is seeking the views of respondents about its priority assignments presented in Attachments A and B to this letter.

~~33~~ **Attachment A** identifies a list of 13 projects tentatively considered by EFRAG’s to have high priority. Among these 13 projects, EFRAG has assessed that the following **six projects** should be given the highest priority (projects are presented in alphabetical order):

~~24~~ EFRAG has heard from its constituents that there is less need for new projects but more attention is to be given to maintenance and understandability of existing standards. Also, in selecting new projects, more attention is given to the capacity of the IASB’s stakeholders, a capacity that is constrained by the emergence of sustainability reporting. For these reasons, EFRAG suggests only a limited number of high priority projects to the IASB.

~~25~~ EFRAG considers the following projects as high priority projects:

(a) Intangible assets (large project);

~~(a)~~^(b) Connecting financial and sustainability reporting, starting from climate-related financial implications[§]; (see paragraph 45 for the proposed scope, including pollutant pricing mechanisms) (large project);

~~(b)~~^(c) Crypto-assets and related transactions; liabilities (medium project);

[§] These projects are not included in the proposed list in the IASB’s RFI or included with a different list than the one suggested by EFRAG

- ~~(c)~~(d) Discontinued operations and disposal groups (~~PIR of IFRS 5~~medium project);
- ~~(d)~~ Intangible assets;
- (e) Statement of cash flows and related matters; ~~(large project)~~; and
- (f) Variable- and contingent- consideration- ~~(medium project)~~.

~~34~~ The other seven projects with high priority for the IASB's Agenda include the following (projects are presented in alphabetical order):

- ~~(a)~~ Digital reporting;
- ~~(b)~~ Dynamic risk management other than for interest rate by banks;
- ~~(c)~~ Going concern;
- ~~(d)~~ Hedge accounting for insurers;
- ~~(e)~~ Operating segments;
- ~~(f)~~ Other comprehensive income^{**}; and
- ~~(g)~~ Supply chain financing (including reverse factoring);

Questions to EFRAG TEG

- 26 Considering the request to have less new IFRS standards, do EFRAG TEG members agree with the reduction in number of high priority projects, and if yes, with the projects that have been chosen as high priority ones? Please explain.
- 27 Does EFRAG TEG consider that some of the projects listed in Attachment A, table^o2 should also be promoted as high priority projects or in contrast be demoted as medium or low priority projects? Please explain.

Note to EFRAG TEG members

- 28 Given the reduction in suggested high priority projects, the EFRAG Secretariat has re-organised the structure of the comment letter.
- (a) Attachment A, table 1 contains the suggested six high priority projects;
 - (b) Attachment A, table 2 contains seven other projects for EFRAG TEG to consider in this meeting to either promote to a high priority project or to demote to a medium or low priority project;
 - (c) Attachment B contains all other projects with medium or low priority.

3529 The scopes of all of the above project are described in Attachment A. In case EFRAG suggests a different scope these are explained below.

^{**} These projects are not included in the proposed list in the IASB's RFI or included with a different list than the one suggested by EFRAG

^{**} The IASB is conducting a post-implementation review of the classification and measurement requirements in IFRS 9. It is expected that it will address the treatment of fair value changes presented in OCI for some equity investments.

3630 Attachment B to this letter contains EFRAG's assessment for the other projects contained in the IASB's RFI, which have been considered to have medium or low priority for inclusion into the IASB's work plan for 2022 to 2026.

Reasons for EFRAG's views

Intangible assets

~~37—EFRAG has considered~~considers that the IASB should undertake a number of factors to identify priority projects:

- ~~(a)—Emerging/rising issues and changes in economic conditions or business patterns that are nor or not adequately addressed in current IFRS (climate-related risks; crypto-assets, intangibles, digital reporting, connecting financial and sustainability reporting, starting from climate-related financial implications).~~
- ~~(b)—Known areas of deficiencies in existing IFRS Standards as evidenced by previous IASB agenda consultations (IFRS 5—Discontinued operations) and recent research undertaken by EFRAG (Crypto-assets, Statement of Cash Flows, Variable and contingent consideration);~~
- ~~(c)—Identified needs for improvement in practice (IFRS 5—Discontinued operation); and~~
- ~~(d)—Gaps or known inconsistencies in existing guidance (Supply chain financing including reverse factoring, Going concern, Other comprehensive income—recycling criteria).~~

3831 ~~Research conducted by EFRAG and other organisations can usefully inform the IASB on many~~review of the above-listed projects and we encourage the IASB to consider collaboration whenever possible. EFRAG has performed research, on variable and contingent considerations, crypto-assets, intangible assets Standard, including the recognition and measurement requirements, with the statement of cash flows, intangibles, and non-exchange transactions. In this way the IASB could leverage its own process and create synergies.~~aim to:~~

~~39—These projects are also included in Attachment A. In case of a different scope proposed by EFRAG, an alternative scope description is provided below.~~

- ~~(a) better reflect the ever-increasing importance of intangibles in today's business models, including addressing internally-generated intangible assets, by revising the definitions and capitalisation requirements of IAS 38;~~
- ~~(b) improve comparability between companies that grow organically with those that do so through acquisitions, by reconsidering the conditions for capitalisation. IFRS 3 Business Combinations (IFRS 3) allows recognising identifiable intangible assets from an acquisition, whilst such an option is currently not permitted under IAS 38 for (perhaps very similar) internally-generated intangible assets.~~
- ~~(c) address emerging types of transactions and assets, including emissions trading rights and crypto-assets (i.e. more broadly than just cryptocurrencies).~~

~~32 The project should also propose new disclosures to inform users on how an entity creates, develop and maintain value.~~

~~33 In order to contribute to the ongoing debate on better information on intangibles, EFRAG has recently released a discussion paper on Intangibles, that considers three possible approaches for better information on intangibles: a) Recognition and~~

measurement in the primary financial statements; b) Information on specific intangibles in the notes to the financial statements or in the management report; c) Information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report. The discussion paper is available [here](#) and is open for comments until 30 June 2022. EFRAG confirms its willingness to contribute to the IASB future project on intangibles, on the basis of the feedback obtained in reaction to this discussion paper.

- 34 EFRAG further invites the IASB to investigate the interaction on intangibles with the future content of the sustainability standards, in particular with reference to the disclosure about risks and opportunities that are likely to have an effect on the entity’s value creation.

Connecting financial and sustainability reporting, starting from climate-related financial implications

4035 Developments in ~~e~~ sustainability reporting area are occurring at both the European and global level including the proposed replacement of the Non-financial Reporting Directive (NFRD) by the Corporate Sustainability Reporting Directive (CSRD) and the European Union’s sustainable finance initiatives.

4136 The issue of connecting financial reporting and sustainability reporting will require greater attention in providing a full picture of companies’ reporting. Synergies between financial and sustainability reporting could be explored and may pave the way towards a more holistic and integrated reporting system.

4237 In its March 2021 report^{††}, the EFRAG European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS), called for financial reporting standard setters, including the IASB, to consider ‘anchor points’ between financial and sustainability reporting. An ‘anchor point’ is defined as a data and/or information (quantitative or qualitative) that offers a connection opportunity (e.g., area of overlap) between financial reporting and sustainability reporting, hence the absence of identified anchor points indicates the absence of potential connectivity.

4338 The perspective of such a technical discussion would still be within the scope of the financial reporting. For example, there is growing momentum in sustainable or responsible investments and the question is to what extent IFRSs accommodate the needs of this growing category of primary users (providers of financial capital). In addition, the project could investigate how financial reporting requirements and in particular disclosure could evolve to facilitate the contextualization or reconciliation with selected key performance indicators generally used to report the outcome of an entity’s policies on ESG matters.

4439 Climate-related financial implications are to be considered as a starting point. However, the aim should be to address environmental, social, and governance (ESG) matters comprehensively.

4540 In terms of detailed contents for this project, EFRAG suggests a more ambitious project on climate-related financial implications than the proposals in the RFI. This

^{††} Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard-Setting (available [here](#)).

project would address more holistically the connectivity between IFRS Standards and sustainability reporting. A more holistic approach is supported by the following:

- (a) In the EC consultation on the renewed sustainable finance strategy^{‡‡} one question asked whether stakeholders ‘see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks’. The following in particular could be considered:
 - (i) Disclosure on the alignment of the assumptions used for impairment and amortisation of fixed assets with the implications of the Paris Agreement.
 - (ii) Disclosures about how companies factor climate-related risks into the best estimate of provisioning amounts.
 - (iii) Assessment of IFRS Standards on provisioning for future risks, considering (i) the broader implications of climate transition risk, (ii) significant climate-related contingent liabilities and (iii) the impact of biodiversity.
- (b) A report recently issued by a group of Investors^{§§} called for company accounts to be ‘aligned with the objectives of the Paris Agreement on climate change’. The report notes that ‘there is growing evidence that company accounts are leaving out material impacts linked to accelerating climate change and the associated regulatory response – namely, efforts to decarbonise our economies by 2050 in line with the Paris Agreement on climate change. This means there are risks that both capital and profits associated with activities that are harmful to the climate are overstated, driving excessive investment into damaging activities.’

[4641](#) The project could investigate the reasons for the omissions and whether further standard setting could provide a solution. The project could be combined with the IASB’s envisaged project on Pollutant Pricing Mechanisms (currently in the IASB’s pipeline of inactive projects) which aims at providing accounting guidance for such mechanisms aiming at encouraging a reduction in the production of greenhouse gases.

Crypto-assets and liabilities

[42](#) *EFRAG invites the IASB to consider accounting for crypto-assets and liabilities and not to focus solely on cryptocurrencies. We also suggest to consider the results from the feedback to EFRAG’s Discussion Paper on the accounting for crypto-assets (liabilities) in addressing this topic.*

Digital reporting

[4743](#) EFRAG has recommended that the IASB better considers the effect on technology in standard setting in several of its recent comment letters^{***}. Developments are taking place rapidly with ESEF and other forms of digital reporting. Digitalisation of

^{‡‡} Summary Report of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy (available [here](#)).

^{§§} The Institutional Investor Group on Climate Change (IIGCC) - Letter issued in November 2020 ([available here](#)).

reporting information could be considered to be part of the assessment of IFRS Standards, aiming at incorporation.

[4844](#) To a certain extent we may say that the use of technology is so pervasive in financial reporting that the technologic usability of a given information (from the users' side) and the complexity of incorporating a new datapoint into the existing financial reporting systems (from the preparers' side) may already be considered as relevant aspects in assessing the impacts of proposed new standards or amendments. As such, a technical discussion on how to better structure this assessment would support to better incorporate the digitalisation angle in the IASB due process and, in general, in standard setting.

Dynamic risk management other than for interest rate risk by banks

[4945](#) IFRS 9 *Financial Instruments* introduced improved hedge accounting and disclosure requirements that enable companies to better reflect their risk management. However, those improvements did not cover specific situations in which a company uses dynamic risk management strategies and activities to manage interest rate risk arising in open portfolios, i.e., when the risk position being hedged changes frequently in an open portfolio of changing assets and liabilities.

[5046](#) The IASB is undertaking a research project on Dynamic Risk Management (DRM) which explores whether it can develop an approach that would enable investors to understand a bank's dynamic management of interest rate risk and evaluate the effectiveness of those activities. The IASB has developed a 'core accounting model' which it is discussing with stakeholders before determining how to proceed.

[5147](#) The project suggested by EFRAG, for the IASB agenda consultation, would complement the current research activities of the IASB by considering whether and how the proposed core model could be applied to other situations that the hedging of interest rate by financial institutions. This could address hedging by non-financial companies and hedging risks other than interest rates.

Hedge accounting for insurers

[5248](#) In its endorsement advice on IFRS 17 *Insurance Contracts*, EFRAG identified and assessed a number of challenges with the application of the provisions in IFRS 9 to insurance contracts.

[5349](#) The suggested project would aim at providing more guidance on how to reflect the dynamic nature of the risk management activities of insurers in dealing with financial and insurance related risks inherent to insurance liabilities.

Supply chain financing (including reverse factoring)

[5450](#) IFRS Standards do not provide specific guidance to address reverse factoring and other forms of supply chain financing, although some existing standards may be relevant in determining the appropriate accounting policies (IFRS 9, IAS 1 *Presentation of Financial Statements* and IAS 7). Applying these standards requires significant judgement, particularly, as reverse factoring arrangements can differ significantly.

[5551](#) In its 2020 comment letter in response to the IASB's exposure draft ED/2019/7 *General Presentation and Disclosures*, EFRAG called for further guidance in particular:

- (a) On the presentation of the liabilities arising from such transactions (trade payables versus financial debt/borrowing) in the statement of financial position.
- (b) The presentation in the cash flow statement as an operational cash flow or a financing cash flow in the statement of cash flows.

[5652](#) The IASB’ RFI describes the Statement of Cash Flows project would be limited to cash flow presentation. EFRAG suggested that scope should be broader.

EFRAG’s assessment of the other projects in the IASB’s RFI list

[5753](#) Attachment B contains the other projects described by the IASB with their proposed scopes that are not considered 'high priority' by EFRAG.

[5854](#) EFRAG has assessed their level of priority in Table 3 (as either medium or low and indicates (with a tick mark) which of the scope alternatives proposed in the RFI we would recommend if the project were to be selected by the IASB (recommended scope is underline and in bold).

Question 4 – Other comments

[5955](#) *Do you have any other comments on the IASB’s activities and work plan? Appendix A of the RFI provides a summary of the IASB’s current work plan.*

EFRAG’s response

EFRAG has no other comments on the IASB’s activities and work plan.

Attachment A: EFRAG's identification of priorities for the IASB's projects described in the RFI

- 1 The tables below present the high priority projects identified by EFRAG. For each project, the table indicates the possible scopes identified by the IASB in its RFI and the EFRAG suggested scope.
- 2 The last column of the table indicates the EFRAG's recommended scope (signalled by a tick mark) when the RFI proposed different options

Table 1 - 6 projects with highest priority

Table 1 (continued) - Six projects with highest priority for the IASB’s Agenda

Project name (alphabetical order)	IASB proposed scope (if applicable and estimation of project size (S—small, M—medium, L—large)	EFRAG’s suggested scope for the IASB project
Intangible assets	<ul style="list-style-type: none"> • Require improved disclosures about intangibles not recognised as assets (M) • Require disclosures about the fair value of some intangible assets, especially those held for investment (M) • Undertake a comprehensive review of the intangible assets Standard, including the recognition and measurement requirements (L) 	√ (Large project)
Statement of cash flows and related matters	<ul style="list-style-type: none"> • Develop more effective disclosures about ongoing maintenance expenses and growth expenditure (S) • Consider whether to remove the requirement for financial institutions to produce a statement of cash flows (S) • Undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements (M) • Seek to develop a statement of cash flows for financial institutions (M) • Undertake a comprehensive review of the Standard for cash flow statements (L) 	√ (+ cohesiveness with PFS, review effects of existing presentation options... (Large project))
Variable and contingent consideration	<ul style="list-style-type: none"> • Make targeted changes to the Standards that describe the accounting for transactions that involve variable or contingent consideration (M) • Develop a consistent approach to reporting variable and contingent consideration for all IFRS Standards (L) 	√ (Large project)

Table 2 – Seven other projects with that could be assessed to have a high priority

Project name (alphabetical order)	IASB proposed scope (if applicable and estimation of project size (S— small, M—medium, L—large)	EFRAG's suggested scope for <u>an IASB</u> <u>project</u>
Digital reporting	Not included in the IASB RFI	Proposed description in paragraph 47 to 48. (Large project)
Dynamic risk management other than for interest rate by banks	Not included in the IASB RFI	Proposed description in paragraph 49 to 51 (Medium project)
Going concern	<ul style="list-style-type: none"> • Develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate (M) • Develop enhanced specific disclosure requirements about the going concern assumption (M) • Develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern (L) 	√ (Medium project)
Hedge accounting for insurers	Not included in the IASB's RFI	Proposed description in paragraphs 52 to 53 (Medium project)
Operating segments	Undertake targeted improvements to the segment aggregation criteria and develop enhanced disclosure requirements about operating segments (M)	√ +monitor developments in the PFS project and consider cohesiveness with operating segments. (Medium project)
Other comprehensive income	Consider whether to amend the requirements for income and expenses that are classified in other comprehensive income (L)	√ (Large project)
Supply chain financing (including reverse factoring).	Not included as a separate project (possibly considered as part of the Statement of Cash Flows project)	Proposed description in paragraph 54 to 56.(Small project)

Attachment B: EFRAG’s assessment on the other projects proposed by the IASB

- 1 The table below contains the other projects described by the IASB with their proposed scopes that are not considered ‘high priority’ by EFRAG.
- 2 EFRAG has assessed their level of priority (as either medium or low) and indicates (with a tick mark and bold characters) which of the scope alternatives proposed in the RFI we would recommend if the project were to be selected by the IASB.

Table 3 – Projects in the IASB’s RFI assessed by EFRAG as Medium or Low priorities

IASB Project title	IASB’s Scope description and estimation of project size (S—small, M—medium, L—large)	EFRAG’s level of priority		
		High	Medium	Low
Borrowing costs	<ul style="list-style-type: none"> • Undertake a targeted project to improve, clarify or simplify aspects of the borrowing costs Standard (S) • Undertake a comprehensive review of the Standard (M) 			√
Commodity transactions	<ul style="list-style-type: none"> • Develop requirements for some of the most common types of transactions involving commodities—for example, commodity loans (M) • Undertake a broader project on commodity transactions (L) • Develop a Standard to set out accounting requirements for a range of non-financial tangible or intangible assets held solely for investment purposes (L) 		√	
Discount rates	<ul style="list-style-type: none"> • Reconsider discount rate requirements in all IFRS Standards and, when appropriate, eliminate variations in present value measurement techniques (L) 		√	
Employee benefits	<ul style="list-style-type: none"> • Review the requirements in the employee benefits Standard on the rate used to discount pension liabilities in the absence of a deep market in high-quality corporate bonds (M) • Develop accounting requirements for hybrid pension plans (L) • Undertake a comprehensive review of the Standard (L) 			√
Expenses—inventory and cost of sales	<ul style="list-style-type: none"> • Undertake a comprehensive review of the accounting for inventory costs and cost of sales (L) 		√	
Foreign currencies	<ul style="list-style-type: none"> • Undertake a targeted project to improve aspects of the accounting for foreign currencies (M) • Undertake a comprehensive review of the Standard (L) 		√	

IASB Project title	IASB's Scope description and estimation of project size (S—small, M—medium, L—large)	EFRAG's level of priority		
		High	Medium	Low
Government Grant	<ul style="list-style-type: none"> Undertake a comprehensive review of the accounting requirements for government grants (M) 		√	
Income taxes	<ul style="list-style-type: none"> Develop educational materials Develop accounting requirements for emerging types of taxes (S) Develop enhanced disclosures about income taxes (M) Undertake a comprehensive review of income tax accounting (L) 		√	
Inflation	<ul style="list-style-type: none"> Assess whether accounting requirements for hyperinflationary economies could be extended to economies subject to high inflation (S) Undertake a comprehensive review of the accounting requirements for hyperinflationary and high-inflation economies (L) 			√
Interim financial reporting	<ul style="list-style-type: none"> Develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (S) Clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (S) Address interim accounting issues in each new IFRS Standard or major amendment as it is developed (M) Undertake a comprehensive review of Standard (L) 			√
Negative interest rates	<ul style="list-style-type: none"> Develop specific accounting requirements for negative interest rates (M) 		√	
Pollutant pricing mechanisms	<ul style="list-style-type: none"> Develop accounting requirements for various types of pollutant pricing mechanisms (L) 	This topic would be addressed as part of EFRAG's suggested high priority project on climate-related information (see Table 1)		
Separate financial statements	<ul style="list-style-type: none"> Develop more disclosure requirements in separate financial statements (S) Address some of the specific application questions about separate financial statements (M) Undertake a comprehensive review of the Standard for separate financial statements (L) 		√	

