# Third IASB Agenda Consultation - EFRAG Comment Letter

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

11 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 view is that the balance, as indicated in the RFI, is generally appropriate and should not be substantially modified over the 2022–2026 period. However, EFRAG notes that the IFRS are by now considered to be a mature reporting platform, hence suggests putting more effort on the maintenance and improvement of the existing standards, including their understandability, compared to what is proposed in the RFI.

EFRAG 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 the ongoing 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*.

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.

EFRAG has identified the following high priority projects, ranked in priority order:

- Intangibles;
- Sustainability in financial reporting, starting from climate (including connectivity and pollutant pricing mechanisms); and
- Crypto assets-liabilities.

In addition, EFRAG is of the view that the treatment under IFRS 9 of financial instruments with ESG features is an urgent and prevalent issue and requests the IASB to address this in the short term. This issue is currently treated under the Post-Implementation Review of

IFRS 9, but this might take several years to complete. Hence, EFRAG requests that this issue is lifted from PIR IFRS 9 and treated as an urgent issue separately.

Other high priority projects that have been identified are:

- Discontinued operations and disposal groups;
- Statement of cash flows and related matters; and
- Variable and contingent consideration.

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 that the seven criteria suggested in the RFI are useful. EFRAG also suggests to consider updating the Due Process Handbook to reflect them.

In relation to the seventh criteria suggested in the RFI, EFRAG considers that it could be further elaborated how to consider the capacity of stakeholders to assess the proposals and provide input of a high quality, as an essential element for the IASB to issue high-quality standards. In this regard it could be noted that stakeholders' capacity is limited and in the coming period will also have to be used on sustainability reporting.

EFRAG also suggests some factors 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 RFI are set out in Appendix 1.

Attachment C reports the description of additional projects classified as medium priority.

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

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

1 *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?*

*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. However, it is suggested to focus more on maintenance and improving the existing standards, including their understandability.**

**The activities in relation to digital reporting could also be increased.**

**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.**

**EFRAG is concerned that the high number of PIRs envisaged in the IASB's work plan may slow down the process to finalise some PIR projects. Therefore, it recommends the IASB to revisit the PIR process to improve its efficiency to the extent possible. In addition, application issues that emerge before the PIR is conducted should be addressed in a timely manner.**

**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.**

2 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.

3 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 considers that more attention is to be given to maintenance and improving the existing standards, including their understandability, for example by developing more educational material.

4 Considering the growing 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%.

5 In particular, EFRAG has recommended that the IASB better considers the effect of 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 reporting information could be considered to be part of the assessment of IFRS Standards.

6 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.

7 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 the ongoing developments in financial reporting may facilitate the creation of connectivity between financial and sustainability information (see also our response to Question 3 where we suggest that the IASB undertakes a project on the matter). In addition, 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.

8 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. To avoid that, the IASB should safeguard its own resources to make sure that they are not affected by the ISSB's future activities.

9 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.

10 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. For example, addressing the issue of factoring of trade-receivables as part of the PIR of IFRS 9.

11 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.

12 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).

13 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 review clause (end of 2027) is being considered. EFRAG suggests therefore to discuss the PIR of IFRS 17 timely enough.

14 However, EFRAG is concerned that the high number of PIRs envisaged in the upcoming IASB's work plan may cause bottlenecks and slow completion of the work plan down. Therefore, EFRAG recommends the Trustees to revisit the PIR process to improve its efficiency to the extent possible. In addition, if application issues emerge before the PIR takes place, the IASB should tackle them in a timely manner.

15 It is important that, as indicated within 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[1]. As a consequence, EFRAG agrees that the IASB only adds a limited number of projects to its agenda. Nonetheless, EFRAG acknowledges that in some cases there might be a fine line between activities on maintenance and consistent application of IFRS Standards and on major amendments to IFRS Standard. In this regard, some of the financial reporting issues considered in question 3 to be high priority projects, more than suggesting the creation of new standards, are intended to promote significant improvements to some of the existing standards.

16 EFRAG understands the capacity constraints indicated by the IASB. In the view of EFRAG this means that the IASB will have to prioritise its work to ensure that important, urgent issues can always be considered without undue delay.

[1] 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.

Accordingly, capacity constraints should not be a reason for the IASB for not considering important urgent issues.

17 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 resources) and that, five years later, four of these projects[2], 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.

18 EFRAG also 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.

19 Finally, EFRAG has heard from its constituents some concerns about the functioning of the IFRS Interpretations Committee and its agenda decisions (i.e. whether the agenda decisions solve the issues raised and whether these are clear enough to be applied without ambiguity as they apparently raise questions between stakeholders about how to interpret the decisions). In addition, we wonder whether the high number of issues addressed lately by the IFRS IC, it is an indication that the understandability of existing standards should be improved (see our comment in paragraph 3 above). We therefore believe that a review of the work of the IFRS Interpretations Committee should be considered by the Trustees.

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

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

*20 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?*

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

*EFRAG's response*

**EFRAG considers that the seven criteria suggested in the RFI are useful. EFRAG also suggests considering updating the Due Process Handbook to reflect them.**

**In relation to the seventh criteria suggested in the RFI, EFRAG considers that it could be further elaborated how to consider the capacity of stakeholders to assess the proposals and provide input of a high quality, as an essential element for the IASB to issue high-quality standards. In this regard it could be noted that stakeholders' capacity is limited and in the coming period will also have to be used on sustainability reporting**.

**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:**

(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 structuring opportunities exists to 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.**

21 EFRAG observes that in addition to the four criteria included in the Due Process Handbook 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. EFRAG acknowledges that these additional criteria could reflect that the IASB is not only considering new IFRS Standards and major amendments as potential projects on its workplan.

22 EFRAG assesses that the seven criteria suggested in the RFI are useful and suggests considering updating the Due Process Handbook to reflect them.

23 EFRAG observes that one of the suggested criteria refers to 'the importance of the matter to investors' while the corresponding criterion in the Due Process Handbook refers to 'the importance of the matter to those who use financial reports'. EFRAG acknowledges that the RFI with the term 'investors' refers to the primary users of financial reporting as defined in the *Conceptual Framework for Financial Reporting*. EFRAG would, however, encourage the IASB to be very precise and consistent with its terminology in this regard as with the introduction of sustainability information, some information may have a different, narrower or broader group of users.

24 In relation to the seventh criteria suggested in the RFI, EFRAG considers that it could be further elaborated how to consider the capacity of stakeholders to assess the proposals and provide input of a high quality, as an essential element for the IASB to issue high-quality standards. In this regard it could be noted that stakeholders' capacity is limited and in the coming period will also have to be used on sustainability reporting.

25 While EFRAG does not suggest 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, when assessing the criterion 'whether there is any deficiency in the way companies report the type of transaction or activity in financial reports', EFRAG suggests the 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 structuring opportunities exists to achieve an accounting outcome.

26 EFRAG also suggests the IASB emphasises the importance of the relevance and urgency of the matter to preparers as well as the consideration of the importance to those who use financial reports.

27 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 has 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 situations in which 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**

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

*28 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).**

**Overall, EFRAG has identified 6 projects with high priority. The projects ranked with the highest priority are intangibles, sustainability in financial reporting, starting from climate and crypto assets and liabilities. In addition, the accounting treatment under IFRS 9 of financial instruments with ESG features has been identified as a seventh high priority and urgent issue. 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.**

29 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).

30 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.

31 EFRAG considers the following projects as high priority projects, ranked in priority order:

(a) Intangibles (large project);

(b) Sustainability in financial reporting, starting from climate (including connectivity and pollutant pricing mechanisms);

(c) Crypto assets-liabilities (medium project).

32 In addition to the above projects listed as high priorities, EFRAG proposes financial instruments with ESG[3] features and their treatment under IFRS 9 as an additional, urgent project.

33 This issue is currently treated under the Post-Implementation Review of IFRS 9, but this might take several years to complete. EFRAG requests that this issue is lifted from PIR IFRS 9 and treated as an urgent issue separately.

34 Other high priority projects that have been identified are:

(a) Discontinued operations and disposal groups (medium project);

(b) Statement of cash flows and related matters (large project); and

(c) Variable and contingent consideration (medium project).

35 The scopes of all of the above projects are described in Attachment A and in paragraphs 37 to 48 below.

36 **Attachment B** to this letter contains EFRAG's assessment for both the other projects contained in the IASB's RFI and additional projects not included 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. **Attachment C** to this letter contains scope descriptions of some projects which have been considered to have a medium priority.

*Sustainability in financial reporting, starting from climate (including connectivity and pollutant pricing mechanisms)*

37 Developments in 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.

38 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.

---

[3] ESG: Environmental, Social, Governance

39 In its March 2021 report[4], 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. When considering the scope of the project, the IASB could for example take into consideration the approach proposed in this report, i.e. 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.

40 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.

41 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.

42 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 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[5] 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) The need for additional guidance is immediate. For example, a report issued by a group of Investors[6] 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

---

[4] Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard-Setting (available here).

[5] Summary Report of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy (available here).

[6] The Institutional Investor Group on Climate Change (IIGCC) - Letter issued in November 2020 (available here).

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.' The project could investigate whether there are omissions, the reasons for such potential omissions and whether further standard setting could provide a solution.

43 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*

44 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.

*Intangibles*

45 EFRAG considers that the IASB should undertake a comprehensive assessment of the intangible assets Standard, including the recognition and measurement requirements, with the aim to:

(a) better reflect the ever-increasing importance of intangibles in today's business models;

(b) improve comparability between companies that grow organically with those that do so through acquisitions. 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).

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

47 In order to contribute to the ongoing debate on better information on intangibles, EFRAG has released in August 2021 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.

48 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.

*EFRAG's assessment of the other projects in the IASB's RFI list*

49 Attachment B contains the other projects described by the IASB with their proposed scopes that are not considered 'high priority' by EFRAG.

50 EFRAG has assessed their level of priority in Table 2 as either medium or low (with a tick mark) and indicates 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 underlined and in bold).

**Question 4 – Other comments**

*51 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 (with bold characters) when the RFI proposes different options

**Table 1 - 6 projects with highest 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 <u>for an IASB project</u>** |
|---|---|---|
| Sustainability in financial reporting, starting from climate (including connectivity and pollutant pricing mechanisms) | • Lower the threshold for disclosure of information about sources of estimation uncertainty, including the effect that climate-related risks have on that uncertainty (M)<br>• Broaden the requirements in the Standard on impairment for cash flow projections to be used in measuring value in use when testing assets for impairment (S)<br>• Develop accounting requirements for pollutant pricing mechanisms (L) | Proposed scope description in paragraphs 37 to 43.<br><br>**(**Large project) |
| Crypto-assets and related transactions | • Develop educational materials<br>• Develop additional disclosure requirements for information on the fair value of crypto-currencies (S)<br>• Permit crypto-currencies to be measured at fair value and consider whether recognition of changes in fair value in the statement of profit or loss is appropriate in some circumstances (M)<br>• Consider amending the scope of the Standards for financial instruments to include crypto-currencies (M)<br>• Develop a Standard for a range of non-financial tangible or intangible assets held solely for investment purposes (L) | Consider accounting for crypto-assets (and liabilities) not just crypto-currencies. Consider accounting alternatives explored in EFRAG's 2020 Discussion Paper<br><br>(Medium project) |
| Discontinued operations and disposal groups | • Reconsider the single line-item presentation of discontinued operations and the disclosure requirements (M)<br>• Undertake a comprehensive review of the Standard (M) | (Medium Project) |
| Intangible assets | • Require improved disclosures about intangibles not recognised as assets (M)<br>• Require disclosures about the fair value of some intangible assets, especially those held for investment (M)<br>• **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 | • Develop more effective disclosures about ongoing maintenance expenses and growth expenditure (S)<br>• Consider whether to remove the requirement for financial institutions to produce a statement of cash flows (S) | √ (+ cohesiveness with PFS, review effects of existing presentation options<br>(Large project)) |

| | | |
|---|---|---|
| | • 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)<br>• Seek to develop a statement of cash flows for financial institutions (M)<br>• **Undertake a comprehensive review of the Standard for cash flow statements (L)**<br>• EFRAG suggests also to address cohesiveness with PFS, review effects of existing presentation options. | |
| Variable and contingent consideration | • **Make targeted changes to the Standards that describe the accounting for transactions that involve variable or contingent consideration (M)**<br>• Develop a consistent approach to reporting variable and contingent consideration for all IFRS Standards (L) | √ **(**Medium project) |

# Attachment B: EFRAG's assessment on the other projects proposed by the IASB and additional projects suggested by EFRAG

1 The table below contains the other projects described by the IASB, as well as some suggested by EFRAG, 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 2 – 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 | • **Undertake a targeted project to improve, clarify or simplify aspects of the borrowing costs Standard (S)**<br>• Undertake a comprehensive review of the Standard (M) | | | √ |
| Commodity transactions | • **Develop requirements for some of the most common types of transactions involving commodities—for example, commodity loans (M)**<br>• Undertake a broader project on commodity transactions (L)<br>• Develop a Standard to set out accounting requirements for a range of non-financial tangible or intangible assets held solely for investment purposes (L) | | √ | |
| Digital reporting | • Not included in the IASB RFI<br>• Proposed description in paragraph 52. (Large project) | | √ | |
| Discount rates | • **Reconsider discount rate requirements in all IFRS Standards and, when appropriate, eliminate variations in present value measurement techniques (L)** | | √ | |
| Dynamic risk management other than for interest rate by banks | • Not included in the IASB RFI<br>• Proposed description in paragraph 53 to 55 | | √ | |
| Employee benefits | • 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)<br>• **Develop accounting requirements for hybrid pension plans (L)**<br>• Undertake a comprehensive review of the Standard (L) | | | √ |
| Expenses—inventory and cost of sales | • **Undertake a comprehensive review of the accounting for inventory costs and cost of sales (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 |
| Foreign currencies | • **Undertake a targeted project to improve aspects of the accounting for foreign currencies (M)**<br>• Undertake a comprehensive review of the Standard (L) | | √ | |
| Government grant | • Undertake a comprehensive review of the requirements for government grants (M) | | √ | |
| Going concern | • **Develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate (M) •**<br>• Develop enhanced specific disclosure requirements about the going concern assumption (M) •<br>• Develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern (L) | | √ | |
| Hedge accounting for insurers | • Not included in the IASB's RFI<br>• Proposed description in paragraphs 56 to 57 (Medium project)<br>• This project received support by the associations of preparers (banks and insurers) in EFRAG consultation. | | √ | |
| Government Grant | • Undertake a comprehensive review of the accounting requirements for government grants (M) | | √ | |
| Income taxes | • Develop educational materials<br>• Develop accounting requirements for emerging types of taxes (S)<br>• Develop enhanced disclosures about income taxes (M)<br>• **Undertake a comprehensive review of income tax accounting (L)** | | √ | |
| Inflation | • Assess whether accounting requirements for hyperinflationary economies could be extended to economies subject to high inflation (S)<br>• **Undertake a comprehensive review of the accounting requirements for hyperinflationary and high-inflation economies (L)** | | | √ |
| Interim financial reporting | • Develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (S)<br>• Clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (S)<br>• Address interim accounting issues in each new IFRS Standard or major amendment as it is developed (M)<br>• **Undertake a comprehensive review of 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** |
| Negative interest rates | • **Develop specific accounting requirements for negative interest rates (M)** | | √ | |
| Operating segments | • Undertake targeted improvements to the segment aggregation criteria and develop enhanced disclosure requirements about operating segments (M) | | √ | |
| Other comprehensive income | • Consider whether to amend the requirements for income and expenses that are classified in other comprehensive income (L) | | √ | |
| Supply chain financing (including reverse factoring). | • Not included as a separate project (possibly considered as part of the Statement of Cash Flows project)<br>• Proposed description in paragraph 58 to 62.(Small project) | | √ | |
| Pollutant pricing mechanisms | • **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 | • Develop more disclosure requirements in separate financial statements (S)<br>• Address some of the specific application questions about separate financial statements (M)<br>• **Undertake a comprehensive review of the Standard for separate financial statements (L)** | | √ | |

# Attachment C: Description of some medium priority projects

*Digital reporting*

52 Please refer to paragraphs 4 to 6 of the comment letter. This project could help the IASB to define the approach to be used at project level for incorporating further digital reporting considerations in standard setting.

*Dynamic risk management other than for interest rate risk by banks*

53 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.

54 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.

55 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*

56 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.

57 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. We believe it is appropriate to consider the need to reduce residual accounting volatility in OCI/P&L. Currently, insurers have mechanisms under IFRS 4 and IAS 39 to avoid accounting mismatches that may not be available in the future.

*Supply chain financing (including reverse factoring)*

58 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.

59 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.

60 The IASB' RFI describes the Statement of Cash Flows project would be limited to cash flow presentation. EFRAG suggested that scope should be broader.

61 In preparing for the Post Implementation Review of IFRS 9 *Classification and Measurement* two further issues were identified with these transactions:

(a) Need for additional guidance on the principal-agent area; and

(b) How to apply the derecognition requirements in IFRS 9 when becoming part of a reverse factoring arrangement.

62 EFRAG appreciates that the IASB has recently started work on *Supplier Finance Arrangements* with the aim of narrow-scope standard setting. However, while the tentative decisions focus on improving disclosures for some of these transactions, EFRAG points out that wider important areas of attention are being reported as problematic and therefore proposes an additional project on this issue.