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Update on IASB decisions after its Third agenda consultation Issues Paper

Objective

- 1 The purpose of this paper is to provide EFRAG FR TEG with an update on the IASB's decisions following from its Third Agenda Consultation. The IASB decision on its agenda is an essential input for deciding EFRAG's proactive agenda as further discussed in agenda paper 11-03.

Background

- 2 On 30 March 2021 the IASB issued its request for information [Third Agenda Consultation](#) (RFI) with a comment period ending 27 September 2021. In May 2021, EFRAG launched its consultation [\(here\)](#) on the IASB's RFI and its proactive research agenda.

The IASB Request for Information and EFRAG's responses

Third IASB Agenda Consultation

- 3 The IASB sought feedback on the overall balance of its main activities, the criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan and the financial reporting issues that would be added to the IASB's work plan.
- 4 The RFI provided a list of 22 financial reporting issues that were suggested to the IASB during outreach conducted to help prepare it as well as the potential scope of these issues. It was not an exhaustive list of potential projects as respondents were welcomed to suggest other financial reporting issues for the IASB to explore.
- 5 The RFI described the IASB's main activities and the current level of focus 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) Improving the understandability and accessibility of the Standards (current level of focus: 5%); and

- 6 The RFI identified the following criteria in deciding whether to add a potential project to the IASB's workplan:
- (a) The importance of the matter to investors;
 - (b) Whether there is any deficiency in the way companies report the type of 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;
 - (g) The capacity of the Board and its stakeholders to make timely progress on the potential project.

EFRAG's comment letter

- 7 In its [final comment letter](#), EFRAG considered that the overall balance of the activities of the IASB was generally appropriate and should not be substantially modified over the 2022-2026 period. However, EFRAG noted that the IFRS were considered to be a mature reporting platform, hence suggested putting more effort on the maintenance and improvement of the existing standards, including their understandability, compared to what was proposed in the RFI.
- 8 EFRAG further suggested that the IASB should identify a separate area of its activity to address the connectivity between financial reporting and sustainability reporting and increases the resources devoted to digital reporting.
- 9 EFRAG considered that the seven criteria suggested in the RFI were useful. EFRAG also suggested that the IASB should consider updating the Due Process Handbook to reflect them (the three last criteria were not currently in the Due Process Handbook).
- 10 EFRAG identified the following high priority projects, ranked according to their priority:
- (a) Intangibles;
 - (b) Sustainability in financial reporting, starting from climate (including connectivity and pollutant pricing mechanisms); and
 - (c) Crypto assets-liabilities.
- 11 In addition, EFRAG was of the view that the treatment under IFRS 9 of financial instruments with ESG features was an urgent and prevalent issue and requested the IASB to address this in the short term. Other high priority projects were:
- (a) Discontinued operations and disposal groups;
 - (b) Statement of cash flows and related matters; and
 - (c) Variable and contingent consideration.

IASB's decisions

- 12 The IASB discussed the comments received in response to its RFI at its [December 2021](#), [February 2022](#), [March 2022](#), and [April 2022](#) meetings. A summary of each of these meetings is included in the Appendix.

Strategic direction and balance of the IASB's activities

- 13 The IASB decided to begin no new activities within the current scope of its work.

- 14 The IASB also decided to leave its current level of focus on its main activities largely unchanged but to:
- (a) slightly decrease the current level of focus on new Accounting Standards and major amendments to Accounting Standards;
 - (b) slightly increase the current level of focus on digital financial reporting; and
 - (c) slightly increase the current level of focus on understandability and accessibility of Accounting Standards, which will indirectly support consistent application of Accounting Standards.

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

- 15 The IASB decided not to make any changes to the list of criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan but to proceed with the list as proposed in the Request for Information.
- 16 The IASB noted that they would share with the IFRS Foundation Trustees' Due Process Oversight Committee comments about the criteria relating to the IFRS Foundation's due process (see paragraph 9 above).

Financial reporting projects added to the IASB's work plan

- 17 The IASB had **shortlisted the following projects** that were considered by most respondents to be of the highest priority
- (a) climate-related risks;
 - (b) cryptocurrencies and related transactions;
 - (c) going concern disclosures;
 - (d) intangible assets;
 - (e) operating segments;
 - (f) pollutant pricing mechanisms; and
 - (g) statement of cash flows and related matters.
- 18 From the shortlisted projects, the IASB decided the following:
- (a) **To add the project on climate-related risks to its work plan** on maintenance and consistent application.
 - (b) **To add to the research pipeline projects on:**
 - (i) Intangible assets (to be decided whether the project should cover more than intangible assets); and
 - (ii) The statement of cash flows and related matters.
 - (c) **To create a reserve list of projects** that could be added to the work plan only if additional capacity becomes available and include on that list projects on:
 - (i) Operating segments; and
 - (ii) Pollutant-pricing mechanisms.
- 19 The scope of the projects will be discussed in the upcoming meetings of the IASB's Board. Nonetheless, the initial scope proposed by the IASB's staff is included below:
- (a) **Climate-related risks.** Respondents to the IASB's RFI affirmed that there are deficiencies in reporting about climate-related risks relating to inconsistent application of the IFRS Standards and insufficient disclosures. However, the IASB is unclear about the underlying causes of these deficiencies and the best way to address them, without further investigation. Therefore, the IASB

decided to add a 'maintenance and consistent application' project on climate-related risks that aim to investigate the underlying causes of such deficiencies and consider whether any narrow-scope action might be needed.

- (b) **Intangible assets.** The IASB's staff considered that a project on intangible assets should aim to comprehensively review IAS 38. Furthermore, one key issue to consider in such a project is whether it should be limited to intangible assets or whether the project should aim to address intangible items more broadly. The project could be undertaken in stages which could comprise:
- (i) the development of enhanced disclosure requirements, including disclosures about unrecognised intangible assets;
 - (ii) a review of the scope of IAS 38 to consider whether some recognised intangible assets should remain within IAS 38 or move to another Accounting Standard;
 - (iii) a review of the definition of an intangible asset and recognition criteria in IAS 38, including the definition of an asset in IAS 38, the recognition criteria for internally generated assets, comparability between companies that grow organically and those that grow through acquisitions and other specific practice issues; and
 - (iv) a review of the measurement requirements for intangible assets within the scope of IAS 38, including the criteria for when the revaluation model is permitted.

They also acknowledged that the project stages could be carried out in a different order. For example, instead of considering disclosure requirements first, the project could start with reviewing the definition of an intangible asset and recognition criteria in IAS 38.

Furthermore, the interaction between the IASB's project and the work of the ISSB on related topics would need to be considered as part of that project planning, especially in relation to the disclosure of sustainability related financial information.

- (c) **Statement of cash flow and related matters.** The scope of such a project should initially include all matters raised by respondents to the IASB's Agenda Consultation. Some supported a comprehensive review of IAS 7 Statement of Cash Flows while other respondents were in favour of a targeted approach on specific issues. Those issues include both presentation issues (such as the classification of cash flows into operating, investing and financing activities) and other issues (such as improved disclosures about non-cash financing). Also, the project could include some issues relating to the statement of cash flows that arose in the Primary Financial Statements project but were outside the scope of that project.

Subsequently, in the research phase of the project, they could consider those issues further, to determine whether all such issues should remain within the project's scope.

- (d) **Operating segments.** The objective of a project on operating segments should be to conduct research into:
- (i) the underlying causes of users' concerns about the granularity of segment information that entities provide; and
 - (ii) the feasibility (including costs to preparers) of potential solutions that could be implemented without reconsidering the use of the management approach to determine an entity's operating segments.

- (e) **Pollutant-pricing mechanisms.** The IASB would need to consider in the research phase of the project whether to address:
- (i) all types of pollutant pricing mechanisms, or only some, such as emission trading schemes; and
 - (ii) accounting by traders and scheme administrators, or limit the project to entities that are required to (or choose to) participate in such schemes.

Questions for EFRAG FR TEG

- 20 Does EFRAG FR TEG have any comments to the IASB's decisions related to:
- (a) The strategic direction and balance of its activities (see paragraphs 13 –14 above)?
 - (b) Criteria for assessing the priority of financial reporting issues that could be added to its work plan (see paragraphs 15 – 16 above)?
 - (c) The projects it has added to its work plan (see paragraphs 17 – 19 above)?

Appendix: Summary of IASB's discussions on the responses to the Third Agenda Consultation

- 1 This Appendix summarises the discussions of the IASB in relation to its decisions on its research agenda.

December 2021 meeting

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

- 2 The IASB met to complete its discussion of the feedback and to finalise the criteria that the IASB used when assessing the priority of financial reporting issues to be added to its work plan.
- 3 The IASB decided not to make any changes to the list of criteria but to proceed with the list as proposed in the Request for Information. 11 of 12 IASB members agreed with this decision.
- 4 One IASB Board member suggested that the IASB should add an additional criteria that captures the needs and concerns of preparers. He shared the view that the importance of an issue to preparers should be equally weighted as the importance of an issue to users. If projects that enhance entities' internal financial reporting were added, it would result in external financial reporting improvements.
- 5 Some IASB Board members noted that in practice they would not turn down a project supported by a majority of stakeholders other than users as the selection of a financial reporting issue was a subjective assessment despite of these criteria. Nonetheless, they supported the IASB's staff recommendations as they preferred not to over-engineer the criteria to select financial reporting issues.

February 2022 meeting

Projects on the current work plan – proposed response to feedback

- 6 The IASB decided not to reprioritise projects on its current work plan, but to continue working on those projects (except for a maintenance project discussed in Agenda Paper 12A—Availability of a Refund (Amendments to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)).
- 7 All 12 IASB members agreed with this decision.

Availability of a refund

- 8 One IASB Board member preferred to keep the maintenance project on Availability of a Refund as an active project. She noted that some read the IFRIC 14 requirements in a restrictive way so not to have to recognise an additional liability.
- 9 Another IASB Board member noted that the right to wind up a defined benefit plan will require negotiations between trustees and the employer and the many different outcomes cannot be covered by a simple change to IFRIC 14.
- 10 Others noted that when 8 years of work are needed for a small amendment there is a question of cost-benefit and therefore supported to remove the project from the priority list.

IAS 37 - Provisions

- 11 IASB Board members noted the risk that this could become a large project, in particular because IAS 37 is not aligned with the Conceptual Framework. However, cautious that the Board will be able to avoid potential scope creep, they decided to keep the project on the priority list.

Strategic direction and balance of the IASB's activities from 2022 to 2026

- 12 The IASB decided to begin no new activities within the current scope of its work.
- 13 All 12 IASB members agreed with this decision.
- 14 The IASB also decided to leave its current level of focus on its main activities largely unchanged but to:
 - (a) slightly decrease the current level of focus on new Accounting Standards and major amendments to Accounting Standards;
 - (b) slightly increase the current level of focus on digital financial reporting; and
 - (c) slightly increase the current level of focus on understandability and accessibility of Accounting Standards, which will indirectly support consistent application of Accounting Standards.
- 15 Nine of 12 IASB members agreed with this decision.
- 16 The analysis of the IASB staff in relation to connectivity with the ISSB was supported by several IASB Board members. Others wanted to understand more what it entails. Also it was noted that stakeholders got used to the term, so careful wording about how to work together with the ISSB was required.
- 17 While there was a need to take capacity issues into account, it should not become the main decisive factor. As the IASB has a full work program there was a need to make hard choices upfront, in order to avoid an overload of the work program. It was stressed that connectivity was more about the product that needs to be delivered (and how the IASB products interact with the ISSB products) not about the process.
- 18 Some IASB Board members noted that the PIR process was massively misunderstood by some stakeholders, it was seen by some as a form of either governance, rubberstamping the text or picking up the things that were not done at the time. Some stakeholders see it as maintenance and consistent application which is then interpreted as part of that activity stream. Instead, reference was made to the PIR process as described in paper 24B to be more precise on what its role was. One IASB Board member noted that there was some inconsistency in concluding that a standard works as intended and subsequently taking on a long list of amendments to a standard.
- 19 Several IASB Board members stressed the importance of continuing work on the IFRS for SMEs Standard.
- 20 The reserve list was found a useful instrument as academics and NSS use it to prepare their inputs to future projects. However, it was suggested to keep the reserve list short – a call for hard choices – in order to keep manoeuvrability on the agenda.
- 21 It was noted that setting a 5-year plan was not what most organisations do. These work with yearly or even shorter timelines and adapt them when conditions change. This way of flexibility should also be incorporated in looking at the IASB agenda.
- 22 The proposed slight decrease in standard setting activities was discussed intensively. Few IASB Board members did not want a decrease given the heavy agenda that exists. It was noted that the decision about the activities was not mathematical; the IASB would keep the possibility to apply flexibility in deciding its work.

March 2022 meeting

- 23 At its March 2022 meeting, the IASB discussed which new financial reporting issues should be short listed for its 2022 to 2026 workplan.

- 24 The IASB tentatively decided to shortlist these projects for discussion at a future meeting (in alphabetical order):
- (a) climate-related risks;
 - (b) cryptocurrencies and related transactions;
 - (c) going concern disclosures;
 - (d) intangible assets;
 - (e) operating segments;
 - (f) pollutant pricing mechanisms; and
 - (g) statement of cash flows and related matters.
- 25 All IASB members that were present agreed with this decision. Although the project mentioned above were all chosen for the short list, the projects on climate-related risks, intangible assets and statement of cash flows and related matters received most support in the discussion by Board members.
- 26 In relation to the project on cryptocurrencies, it was noted that the issue was currently not particularly pervasive (it was acknowledged that this could change), that there was not a lack of guidance (although the current guidance might not result in the most optimal outcome) and that making standards on how to account for cryptocurrencies might be seen as an endorsement of a product that might not have any value. On the other hand, one IASB member also noted that if the IASB would not consider cryptocurrencies now, the IASB would again be too late with providing requirements on an important topic. In this regard, the IASB member noted that the IASB, when providing requirements on cryptocurrencies, could benefit from the work done by EFRAG.
- 27 On going concern disclosures, it was noted that projects on this issue in the past had not been particularly successful and it was also considered whether educational material would be a better manner to deal with the issue than standard-setting activities.
- 28 On operating segments doubts were, for example, expressed that the IASB would want to move away from a management approach and accordingly what the benefits of such a project could be. On the other hand, it was also noted that some minimum requirements on what should be reported could be included.
- 29 On pollutant pricing mechanism it was, for example, noted that the IASB in the past had tried to do something (IFRIC 3 *Emission Rights*), but it had to withdraw this. This past failure was considered to be indicative on what would happen if a new project would be launched.
- 30 On the project on intangible assets several members thought the reference to 'intangible assets' was too narrow. It could be that the project should consider 'intangible items' or 'intangible resources'. A first step of the project would thus be to agree on the problem definition.
- 31 In relation to the projects not included on the short list. One IASB member noted that it was important to communicate to stakeholders that they could be included in the future. The IASB did not think that other projects were not important, but it, and stakeholders, would only have resources to deal with a few of them for the moment. It was mentioned that some standard-setters had done work on variable consideration, which was something that could be included on the IASB's agenda in the future.
- 32 At the meeting, it was also noted that the IASB was currently busy with dealing with many projects. Including the projects on the agenda would thus only mean that they would initiate the project before the end of 2026.

April 2022 meeting

- 33 At its April 2022 meeting, the IASB decided to:
- (a) add to its work plan a maintenance and consistent application project on climate-related risks;
 - (b) add to the research pipeline projects on:
 - (i) intangible assets; and
 - (ii) the statement of cash flows and related matters;
 - (c) create a reserve list of projects that could be added to the work plan only if additional capacity becomes available;
 - (d) add to the reserve list projects on:
 - (i) operating segments; and
 - (ii) pollutant-pricing mechanisms; and
 - (e) not to add to its work plan projects on:
 - (i) cryptocurrencies and related transactions; or
 - (ii) going concern disclosures.
- 34 Although all IASB members present at the meeting agreed with this decision, some Members provided some comments on the decision.
- 35 One IASB member would thus have preferred a stricter approach with only two projects. However, the IASB member thought the decision summarised in paragraph 33 above reflected the IASB's discussions. Also, the member agreed with the proposal as a package. The member also noted that in relation to the project on intangibles, the member thought the first step would be to consider how intangibles should be classified and measured. The first step should thus not be to consider disclosures. The member thought the classification and measurement could have an impact on the disclosures. However, the member acknowledged that the order would be discussed when the project would start.
- 36 Another IASB member welcomed the package summarised in paragraph 33 above because deciding which projects to include was about making relative choices. The member noted that on intangibles, it would be necessary to have some cooperation with the ISSB. The IASB member thought the project on cash flows was more urgent than the intangibles project with non-cash financing and other non-cash transactions.
- 37 Another IASB member thought it was important not to include too much on the workplan. It was better to include too little. There were many projects that needed to be finalised first so most of the projects discussed would come in towards the end of the period. On the project on the statement of cash flows, the member thought that there were many suggestions to consider from the primary financial statement project. Similar to another IASB member, the member thought that it had to be considered whether a project on operating segments could be sufficient successful if such a project would not reconsider the management approach to identification of operating segments. That would have to be considered if the project would be started. The member also thought that although a project on going concern was not added to the work plan, it was an issue to consider when the IASB would look at accessibility and understandability.
- 38 One member had preferred if disclosures on going concern had been included on the reserve list. The IASB member thought that issue had a strong link with understandability issue.

- 39 One member was concerned about not including a project on crypto currencies. The member noted that the issue had the potential to be significant in the future and the IASB would then be too late on that. The member noted that the issue would not be addressed as part of the review of IAS 38. The member did not think IAS 38 was the right standard for crypto currencies. If it was in IAS 38 it would over-complicate the intangibles project and if they excluded crypto currencies from IAS 38, there would be no guidance and accordingly more diversity in practice. The IASB Chair noted that if crypto currencies would no longer fall under a revised IAS 38, it would mean that it would be valid reason for the IASB to think about how to account for cryptocurrencies.
- 40 One member noted that the ISSB would also build their standards around the going concern assumption, so it was important that the IASB and the ISSB had a common understanding on this issue. ISSB's project would be monitored and there would be an exchange of point of views. By doing so, they could respond to some of the feedback received on this issue.