

IASB's Third Agenda Consultation Project Update for Discussion

Purpose

1. The purpose of this paper is to introduce board members to IASB's Third Agenda Consultation (the Agenda Consultation), invite early views on the IASB's consultation questions, share our initial views, and share our planned project approach.

Decision

2. This paper does not require decisions. However, we would welcome questions, comments and views from Board members on the following:
 - a) the questions in IASB's Request for Information (RFI) for the Agenda Consultation and our initial views on them;
 - b) our planned project approach; and
 - c) how board members might support the development of our response to the Agenda Consultation?

Background

3. The IASB undertakes a public consultation on its activities and its work plan every five years. On 30 March 2021, the IASB published a RFI for its Third Agenda Consultation¹ with comments due by 27 September 2021.
4. IASB's objectives for its Agenda Consultation are to seek feedback on:
 - a) Its strategic direction and the balance of its activities.
 - b) The criteria it uses to decide whether potential projects are added to its work plan.
 - c) The projects which should be given priority in setting IASB's 2022 – 2026 work plan.
5. As context, in the RFI IASB states that:
 - a) its current scope is financial statements and management commentary for profit-oriented companies. Therefore, the agenda consultation is not seeking feedback

¹ The IASB's RFI for its Third Agenda Consultation can be found here:
<https://www.ifrs.org/content/dam/ifrs/project/third-agenda-consultation/rfi-third-agenda-consultation-2021.pdf>

on wider issues, e.g. those related to sustainability reporting, except to the extent that those issues relate to the current scope of the board's work.²

- b) its resource levels are not expected to change significantly for the period 2022 – 2026.
- c) it expects to complete projects on its current work plan. Appendix 3 lists these projects.

IASB Questions in RFI and tentative views

- 6. The Agenda consultation gives stakeholders the opportunity to help shape the balance and focus of the IASB's work programme over the coming five-year period.
- 7. Our view is that, given the difficulty of predicting the impact for economies and companies of global events and trends such as the pandemic, climate change, and technology developments, it is important that the IASB's work programme over the coming five years retains some flexibility to be able to address the resulting impacts for financial reporting.
- 8. The remainder of this section considers the questions in the IASB's RFI and our tentative views on these to aid discussion. We expect our views to evolve over the coming months as we undertake further work and perform outreach with stakeholders.

RFI Question 1: Balance of IASB's activities

- 9. Question 1 in the RFI asks whether the board should change its current level of focus for each of its main activities, and whether it should undertake additional activities within the current scope of its work.
- 10. IASB's conducts its activities under the following six main categories:
 - a) New IFRS standards and major amendments to IFRS standards;
 - b) Maintenance and consistent application of existing IFRS standards;
 - c) The IFRS for SMEs standard;
 - d) Digital financial reporting;
 - e) Understandability and accessibility of IFRS standards; and
 - f) Stakeholder engagement.

² However, the RFI for the Agenda Consultation notes that the Trustees of the IFRS Foundation are considering the expansion of the Foundation's role through the possible creation of a new board to set sustainability reporting standards, and that the Trustees decision will be taken into account in finalising IASB's work plan. If a sustainability standards board requires support from IASB, IASB's 2022 – 2026 work plan will be amended to reflect this.

11. Appendix 1 to this paper shows for each main IASB activity category: its objective, the approximate current allocation of resource, and additional activities which could be undertaken if the allocation of resource was increased.
12. Our initial views are that: the focus on different activities is broadly correct; and the focus on digital financial reporting should increase over the coming work cycle as we expect technology to play a greater role in financial reporting.

RFI Question 2: IASB's criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan

13. Question 2 in the RFI asks whether IASB has identified the right criteria to use when assessing the priority of financial reporting issues that could be added to its work plan, and whether it should consider any other criteria.
14. IASB's proposed criteria for assessing the priority of financial reporting issues that could be added to its work plan are:
 - 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; and
 - g) The capacity of the Board and its stakeholders to make timely progress on the potential project.
15. Our initial views are that these criteria are appropriate. We intend to seek stakeholder input on whether convergence or alignment with US GAAP and cost-benefit analysis of implementation should be added to the IASB's list of criteria for assessing the priority of financial reporting issues.

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

16. Question 3 in the RFI asks for stakeholder views on the financial reporting issues that could be added to the IASB's work plan.
17. The RFI includes a list of 22 potential projects for inclusion in its 2022–2026 work plan. These have been identified from initial outreach and from the IASB's existing research pipeline. IASB's existing research pipeline consists of projects identified during the Second Agenda Consultation in 2015 but not yet started.

18. The RFI also classified those 22 potential projects as large, medium, or small projects. IASB has indicated that it has capacity to add 2 – 3 large projects, 4 – 5 medium projects, 7 – 8 small projects, or any similar combination in terms of overall resource requirements, to its work programme. It is seeking stakeholders' views on whether each project is high, medium or low priority. Where a respondent ranks a project as high or low, IASB asks the respondent to provide the rationale for that conclusion.
19. Our initial views are that the high priority projects are:
 - a) Climate-related risks and other emerging risks;
 - b) Intangible assets; and
 - c) Statement of cash flows and related matters.
20. We also think there may be scope to combine projects on similar themes and we tentatively support IASB's application of this approach to some of the proposals. For example, one option proposed by IASB is a large project on intangible assets which incorporates financial reporting for pollutant pricing mechanisms. We intend to perform further work to consider whether a thematic approach could help the IASB use its resources more effectively in addressing any likely future changes to financial reporting, for example those arising from any post-pandemic adjustment to economies and companies.
21. The potential projects, the IASB's assessment of their indicative size and our initial views on their priority are shown in appendix 2.

RFI Question 4: Other comments

22. Question 4 in the RFI asks if respondents have any other comments on IASB's activities and work plan. Appendix 3 of this paper provides a summary of IASB's current work plan.
23. Our initial views are that:
 - a) Our response should consider the feasibility and desirability of combining projects on similar themes. Projects could be grouped on themes such as group accounting, presentation and disclosure, liabilities, and changes to financial reporting necessary to underpin any non-financial reporting. These groups could combine projects from the existing work plan and from the list of 22 potential projects. Our outreach could explore whether this approach would be expected to deliver efficiency benefits.
 - b) Although IASB has stated its intention to complete projects on the current work plan, our response should consider whether all pre-existing projects should be retained.
 - c) Our response should also consider any additional financial reporting issues which are not on IASB's current work plan or on its list of 22 potential projects and could be suggested as replacement items.

Proposed UKEB objective for this project and UKEB Secretariat Project Approach

24. We suggest that the UKEB's objectives for this project should be to:
- a) Influence the IASB's forward agenda so that it reflects UK interests and priorities.
 - b) Establish UKEB's profile and reputation by demonstrating UKEB's guiding principles in our approach.
 - c) Engage with key stakeholders to develop our understanding of their key areas of concern.
 - d) Identify potential research projects for the UKEB to take forward.
25. Our intended work plan includes both desk-based research and outreach with stakeholders. We will bring a more detailed work plan for approval at the May Board meeting. However, we have already started desk-based research to rank the IASB's 22 potential projects (see Appendix 2 to this paper) and to identify any changes we can recommend to the IASB's 2022 – 2026 work plan.
26. The desk-based research will include:
- a) Gathering empirical evidence from FTSE 350 data and financial statement reviews.
 - b) Review of IFRS standards, application guidance, academic and other literature.
 - c) Following the discussion in other fora including GPF, ASAF, IFASS, and CMAC.
27. We applied the following criteria to establish our initial ranking (included in Appendix 2):
- a) Whether a deficiency in financial reporting exists, by reference to IASB's Conceptual Framework.
 - b) Whether there is potential for a principles-based solution to the financial reporting deficiency.
 - c) Whether the deficiency is significant for UK stakeholders, considering prevalence and pervasiveness by reference to external trends such as economic growth, predicted sector performance, government intervention in business etc.
 - d) Whether the deficiency is likely to remain significant at the end of the IASB's next work cycle i.e. in 2026.

Next Steps

28. We intend to bring a formal work plan to the UKEB's May board meeting for decision. Our initial high-level work plan is:
- a) May / June: develop initial views through further desk-based research.
 - b) June: hold stakeholder roundtables to discuss initial views and develop draft response to bring to June UKEB board meeting for decision.
 - c) July: publish draft response and hold joint outreach event with IASB.
 - d) September: prepare final response for decision at UKEB September board meeting and submission to IASB.
 - e) As we develop the formal work plan we will seek to accommodate board members' preferences for supporting the project, for example as project sponsors or through sharing particular areas of expertise and insight.

Appendices

Appendix 1:

Summary of IASB's main activities, resource allocation, objectives and examples of potential additional activities

Activity / current resource allocation	IASB's objective	Examples of additional activities
New IFRS standards and major amendments to IFRS standards / 40% - 45%	Research issues and, if appropriate, develop major new financial reporting requirements	New projects to address financial reporting issues
Maintenance and consistent application of existing IFRS standards / 15% - 20%	Help stakeholders obtain a common understanding of financial reporting requirements	Work more with stakeholders to identify challenges in applying IFRS Standards Address these application challenges through agenda decisions, narrow scope amendments and interpretations Support high-quality and consistent application by providing more educational material
The IFRS for SMEs standard / 5%	Provide financial reporting requirements tailored for companies that do not have public accountability (SMEs)	Work with auditors, national standard-setters (NSS) and regulators to support consistent application Provide more educational material Work more with NSS and others to increase global adoption of the IFRS for SMEs Standard
Digital financial reporting / 5%	Facilitate the digital consumption of financial information	Explore how advances in technology are changing the way information is consumed and assess which improvements are needed to the IFRS Taxonomy Work more with regulators and others to increase global adoption of the IFRS Taxonomy Work more with stakeholders to improve the quality of electronic data and consistency in application of the IFRS Taxonomy Provide more educational material
Understandability and accessibility of IFRS standards / 5%	Improve the understandability and accessibility of our financial reporting requirements	Identify and address areas of unnecessary complexity Improve accessibility by using technology and other tools to help stakeholders find the most relevant materials to them

Activity / current resource allocation	IASB's objective	Examples of additional activities
Stakeholder engagement / 20% - 25%	Obtain views to support the development of high-quality financial reporting requirements and promote acceptance of the Standards	Increase engagement with a broad range of stakeholders through standing consultative groups and informal events Increase engagement on formal consultations through use of digital-friendly approaches Arrange more investor-focused educational materials

Appendix 2:

List of potential projects identified by IASB for inclusion in 2022–2026 work plan, presented in alphabetical order.

	Potential Project	Description	IASB indicative size / other comments	UKEB secretariat initial priority ranking
1	Borrowing costs	Review definition of borrowing cost and qualifying asset in IAS 23	Small	Low
2	Climate-related risks and other emerging risks	Address any gaps in current requirements that may apply to recognition and disclosure of climate-related and other emerging risks	Small, medium or large depending on approach taken	High
3	Commodity transactions	Develop accounting guidance for commodity loan transactions and other transactions involving commodities	Medium or large depending on approach taken	Low
4	Cryptocurrencies and related transactions	Develop accounting guidance for crypto-currencies and related transactions	Medium or large depending on approach taken	Medium
5	Discontinued operations and disposal groups*	Post-implementation review of IFRS 5	Medium	Low
6	Discount rates and related matters	Consider making requirements relating to discount rates consistent across all standards	Large	Medium
7	Employee benefits	Develop accounting requirements for hybrid pension plans; consider removing the prohibition on recycling of actuarial gains and losses presented in OCI	Large	Medium
8	Expenses	Develop an IFRS standard for cost of sales, using the principles of IFRS 15; develop detailed guidance on classification of expenses by function in profit or loss; develop enhanced disclosures about expenses, so users can distinguish between maintenance and growth expenditure	Large	Low
9	Foreign currencies	Develop enhanced disclosures on foreign currencies and clarify the accounting for foreign currency derivatives	Medium or large, depending on approach taken	Medium
10	Going concern	Develop enhanced disclosure requirements for the going concern assumption; develop accounting requirements for entities that are no longer a going concern	Medium or large, depending on approach taken	Low
11	Government grants	Revise accounting for government grants using principles from IFRS 15 and Conceptual Framework	Medium	Medium

	Potential Project	Description	IASB indicative size / other comments	UKEB secretariat initial priority ranking
12	Income taxes	Improve tax disclosures and develop accounting guidance for emerging types of taxes	Small, medium or large depending on approach taken	Medium
13	Inflation*	Assess whether it would be feasible to extend the scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> to cover economies subject to only high inflation, without amending other requirements of IAS 29.	Small or large, depending on approach taken	Low
14	Intangible assets	Review accounting for intangible assets, including the definition of intangible assets and inconsistencies between the treatment of acquired and internally generated intangible assets	Medium or large, depending on approach taken	High
15	Interest rates	Develop accounting guidance for negative interest rates	Medium	Low
16	Interim reporting	Clarify the definition of an interim period and review IAS 34 for inconsistencies with other standards	Small, medium or large, depending on approach taken	Low
17	Operating segments	Review aggregation criteria and improve disclosures	Medium	Low
18	Other comprehensive income	Apply Conceptual Framework principles to the classification of income and expenses in OCI and recycling consistently across all standards	Large	Medium
19	Pollutant pricing mechanisms*	Consider addressing any diversity that may exist in accounting for pollutant pricing mechanisms (including emissions trading schemes).	Large	Medium
20	Separate financial Statements	Review of IAS 27 Separate Financial Statements; clarify the accounting in separate financial statements for some transactions between a parent and its subsidiaries; develop more effective disclosures.	Small, medium or large depending on approach taken	Medium
21	Statement of cash flows and related matters	Undertake a review of the presentation and disclosure of information about cash flows including information about factoring, supply chain financing arrangements, capital expenditure and cash flows linked to operating expenses; consider developing a standardised definition of and disclosures about free cash flows	Small, medium or large depending on approach taken	High

	Potential Project	Description	IASB indicative size / other comments	UKEB secretariat initial priority ranking
		a separate statement of cash flows for financial institutions		
22	Variable and contingent consideration*	Consider how to account for variable and contingent payments for asset purchases outside of a business combination	Medium or large, depending on approach taken	Low

* Project is in IASB's current research pipeline, as it was identified as a priority in the IASB's previous agenda consultation. However, work has not yet commenced on the project, so IASB is seeking views on whether these projects are still priorities.

Appendix 3:

List of projects on IASB's current work plan

Project	Type of project
Sustainability reporting	
Disclosure initiative – targeted standards level review of disclosures	Standard setting
Primary financial statements	Standard setting
Goodwill and impairment	Research
Business combinations under common control	Research
Post implementation review of IFRS 10, IFRS 11 and IFRS 12	Research
Management commentary	Standard setting
Dynamic risk management	Research
Post implementation review of IFRS 9 classification and measurement	Research
Extractive activities	Research
Rate-regulated activities	Standard setting
Pension benefits that depend on asset returns	Research
Availability of a refund (amendments to IFRIC 14)	Maintenance
Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)	Maintenance
Disclosure initiative – subsidiaries that are SMEs	Standard setting
Equity method	Research
Financial instruments with characteristics of equity	Standard setting
Lack of exchangeability (amendments to IAS 21)	Maintenance
Lease liability in a sale and leaseback	Maintenance
Provisions – targeted improvements	Maintenance
Second comprehensive review of the IFRS for SMEs standard	Research