

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## **EFRAG's joint consultation on the IASB's Third Agenda Consultation and on EFRAG's Proactive Research Agenda**

### **Notes to constituents**

*In March 2021, the IASB published the Request for Information Third Agenda Consultation ('the RFI'), covering the period 2022-2026. This document asks for constituents' views on EFRAG's draft response (EFRAG's draft comment letter) to the RFI.*

*In addition, this document asks for constituents' input on EFRAG's own proactive research agenda from 2022 onward.*

*EFRAG is combining the consultation on its draft comment letter in response to the IASB's RFI with its own proactive research agenda consultation in order to foster synergies between the two consultations and alleviate the burden for respondents.*

*The selection of EFRAG proactive research projects to be carried out from 2022 will be based mainly on European constituents' views on the importance of the various projects considered for the IASB's agenda consultation as well.*

*Importantly, both the IASB and EFRAG are consulting on their future agendas based on their current roles and scope of activities in financial reporting and assuming that the current level of resources will remain substantially unchanged over the considered period. The consultations do not anticipate on the future possible roles of the respective organisations in sustainability reporting.*

*This consultation document is structured as follows:*

**Part A** – EFRAG's draft response to the IASB's Agenda Consultation - pages 3 to 22.

**Part B** – EFRAG's request for input on its proactive consultation- pages 23 and 24.

**You can submit your comments on EFRAG's draft comment letter and EFRAG's request for input on its proactive agenda by:**

- Submitting a formal comment letter by using the '[Express your views](#)' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

- Responding to the online survey [\[Add link\]](#)

**Comments should be submitted by 6 September 2021.**

## **Foreword**

A fundamental part of our work is understanding how EFRAG can best serve the European public interest in prioritising its activities and foster debate at European and international level.

Since the creation of EFRAG, proactive research activities have been a cornerstone of our work. EFRAG can provide a valuable and important contribution to the global debate on accounting, financial and corporate reporting, but we need to make sure that we focus on the right issues.

EFRAG serves European public interest by influencing the work of the IASB, including by responding to its agenda consultations.

This time, EFRAG is combining the consultation on its proactive research agenda with its tentative response to the IASB’s Third Agenda Consultation. We hope that this will foster synergies in identifying high priority projects, for both the IASB and our agenda, while alleviating the burden for respondents in responding to a single consultation.

Since the last agenda consultation conducted by EFRAG in 2018, the world has continued to change ever more rapidly around us. The COVID-19 pandemic is affecting our agendas including our financial and corporate reporting agenda and interconnectivity between financial and sustainability reporting has become even more important.

New types of transactions and assets and emerging business models may require new and innovative solutions. Technological developments are impacting accounting as they do with all aspects of our lives.

At the same time, there are still areas of improvement in terms of enhancing clarity and the need to review existing IFRS Standards as well as areas that need fresh consideration in light of actual developments and trends.

Your input on the IASB agenda and on the EFRAG research agenda will help to ensure that the work in the next years will be effective and efficient and focuses on topics important for Europe.

This is an objective that I am sure is shared by all our constituents – preparers, users, accountants and all parties with an interest in better reporting and communication.

Jean-Paul Gauzès



**DRAFT**

## Draft Comment Letter on Third Agenda Consultation

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

[XX September 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, as indicated in the RFI, is appropriate and should not be substantially modified over the 2022–2026 period.

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 a number of priority projects in its response to Question 3 below.

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

EFRAG considers the four criteria contained in the Due Process Handbook are appropriate when deciding whether to add a potential project to its work plan. However, EFRAG observes that, in addition to these four criteria, the IASB has developed on its own, three additional criteria (the last three in the RFI list) that it considers to be practical filters.

EFRAG is concerned about this situation as the additional criteria have not been submitted to a proper due process. EFRAG observes that the last consultation of the IFRS Due Process Handbook which took place in 2018 provided a missed opportunity to ask constituents whether additional criteria should be introduced.

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

*PART A – EFRAG’s response to the IASB Third Agenda Consultation*

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

In addition to the criteria identified by the IASB, EFRAG also suggests considering additional factors which are detailed in Appendix 1.

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

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli, Sedat Saritas or me.

Yours sincerely,

Jean-Paul Gauzès  
**President of the EFRAG Board**

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

### Strategic direction and balances of the IASB’s activities

#### Note to constituents

- 1 The IASB seeks feedback on the overall balance of the main activities of the IASB. Input is requested on whether the IASB should increase, leave unchanged or decrease its current ‘level of focus’ on each activity. The level of focus reflects the IASB’s estimates of the resources allocated to each main activity over the past three years (technical resources including the IASB and technical staff). The RFI describes the IASB’s main activities and the current level of focus<sup>1</sup> as follows:
- (a) developing new IFRS Standards and major amendments to IFRS Standards (current level of focus: 40%-45%);
  - (b) maintaining IFRS Standards and supporting their consistent application (current level of focus: 15%-20%);
  - (c) developing and maintaining the IFRS for SMEs Standard (current level of focus: 5%);
  - (d) supporting digital financial reporting by developing and maintaining the IFRS Taxonomy (current level of focus: 5%);
  - (e) improving the understandability and accessibility of the Standards (current level of focus: 5%); and
  - (f) engaging with stakeholders (current level of focus: 20%-25%).
- 2 The IASB assumes, in its consultation, that its current level of resources will remain substantially unchanged from 2022 to 2026. Therefore, an increase in the allocation of resources to one activity would mean that fewer resources would be available for other activities.

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

- 3 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?

---

<sup>1</sup> The level of focus has been determined by the IASB using estimates of the resources allocated to each main activity over the past three years.

EFRAG’s response

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

**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*.**

**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.**

- 4 EFRAG considers that the overall balance of the main activities of the IASB, as indicated in the RFI, is appropriate and should not be substantially modified over the 2022-2026 period.
- 5 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.
- 6 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.
- 7 EFRAG notes the number and importance of projects that are already on the IASB’s work plan which are either close to standard setting (such as Primary Financial Statements, Rate-regulated Activities, Equity Method, the first phase of the PIR of IFRS 9 and Management Commentary) or in the research phase but already well advanced (Dynamic Risk Management, Goodwill and Impairment and Financial Instruments with Characteristics of Equity).
- 8 EFRAG also emphasises the importance of the forthcoming PIRs of several major Standards including IFRS 9 *Financial Instruments* (phases II and III on impairment, and hedge accounting, respectively), IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* and, towards the end of the 2022-2026 period, IFRS 17 *Insurance Contracts*. It is important that, as indicated, the requirements of the IFRS Due Process Handbook, reviews of major new IFRSs Standards or

amendments are conducted at about 30 to 36 months after their effective date<sup>2</sup>. As a consequence, EFRAG agrees that the IASB only adds a limited number of projects to its agenda.

- 9 Although we understand the capacity constraints indicated by the IASB, EFRAG considers that the projects should always be selected on the basis of their relevance and urgency rather than based on their resource needs.
- 10 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<sup>3</sup>, 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.
- 11 Finally, EFRAG considers that the IASB should set aside capacity to react to emerging and unforeseen issues that can arise over the next five years. These could arise as a consequence of the PIRs, issues referred by the IFRS Interpretations Committee or any other sources. It is important that the IASB keeps some flexibility to address such issues if and when they arise.
- 12 Finally, EFRAG notes that the potential impact of the current developments around Sustainability Reporting and that a new board to set Sustainability Reporting standards that the IFRS Foundation may establish, can impact the activities of the IASB by drawing on its resources. This potential impact is currently unknown, as acknowledged in the RFI but could further limit the IASB’s capacity and consequently will also limit the focus on the active projects in the current work plan and the PIRs on several major Standards.

---

<sup>2</sup> 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.

<sup>3</sup> PIR of IFRS 5, Hyper-Inflation (Scope of IAS 29), Pollutant pricing mechanisms and Variable and contingent consideration.



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

*Note to constituents*

- 13 *The following criteria (contained in Table 2 of the RFI) are considered by the IASB when deciding whether to add a potential project to its work plan:*
- (a) *The importance of the matter to investors;*
  - (b) *Whether there is any deficiency in the way companies report the type or transaction or activity in financial reports;*
  - (c) *The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others;*
  - (d) *How pervasive or acute the matter is likely to be for companies;*
  - (e) *The potential project’s interaction with other projects on the work plan;*
  - (f) *The complexity and feasibility of the potential project and its solutions; and*
  - (g) *The capacity of the IASB and its stakeholders to make timely progress on the potential project.*
- 14 *In addition to the primary criteria listed in paragraph 13, the IASB also considers the work streams of other major standard-setters.*

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

- 15 *Paragraph 21 discusses the criteria the IASB proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.*
- (a) *Do you think the IASB has identified the right criteria to use? Why or why not?*
  - (b) *Should the IASB consider any other criteria? If so, what additional criteria should be considered and why?*

EFRAG’s response

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

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

**EFRAG is concerned about this situation as these additional criteria were never submitted to proper due process. We observe that the last consultation of the IFRS Due Process Handbook, which took place in 2018, provided a missed opportunity to ask constituents as to whether additional criteria should be introduced.**

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

- **Give precedence, in selecting projects, to the ‘official’ criteria as contained in the Due Process Handbook; and**
- **Consider whether these additional criteria could be considered for the inclusion into the Due Process Handbook as part of the next consultation that will be conducted on this document.**

**In addition to the criteria identified by the IASB, EFRAG also suggests considering a number of secondary additional factors, in particular the use of non-GAAP information and whether evidence of structuring opportunities exists and needs to be addressed.**

**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.**

- 16 EFRAG considers that the four criteria contained in the IFRS Due Process Handbook, are appropriate when deciding whether to add a potential project to its work plan.
- 17 EFRAG, however, observes that the IASB is effectively using three additional criteria that they considered practical. EFRAG is concerned about the use of criteria that are not part of the IFRS Due Process Handbook and therefore have not been subject to the appropriate due process. This is all the more important as we understand that the IASB considers these seven criteria in combination with the other, and no particular weight or priority is assigned to each of them.
- 18 EFRAG considers that precedence should always be given, in agenda-setting, to the four ‘official’ criteria.
- 19 EFRAG considers that the 2018 consultation on the IFRS Due Process Handbook offered a missed opportunity to ask constituents as to whether additional criteria should be introduced. EFRAG recommends considering whether the additional criteria could be included as part of the next consultation by the IFRS Foundation on the IFRS Due Process Handbook.
- 20 EFRAG also suggests to the IASB to consider whether the following additional secondary factors can be used to prioritise financial reporting issues:
  - (a) Whether the proliferation of non-GAAP measures is indicative of the fact that some Standards are not considered to reflect the economic reality of transactions.

- (b) Whether evidence of restructuring opportunities exists to achieve an accounting outcome.
- 21 These factors could be included in the consideration of the existing criteria without creating new ones in particular criterion (2) ‘Whether there is any deficiency in the way companies report the type or transaction or activity in financial reports’.
- 22 EFRAG also suggest the IASB emphasises the importance of the relevance and urgency of the matter to preparers as well as the consideration of the importance to investors.
- 23 Finally, as mentioned in EFRAG’s comment letter in response to the IASB’s 2015 Agenda Consultation, it is not always obvious how the IASB applied these criteria for specific projects in defining its work plan. While EFRAG does not advocate the introduction of a formalised assessment, an explanation of how the IASB assesses and reconsiders priorities (in particular in situation in which where some but not all of the criteria are met) would be helpful.

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

#### *Note to constituents*

- 24 *The RFI seeks feedback on which financial reporting issues the IASB could add to its work plan for 2022 to 2026 that would result in new IFRS Standards or major amendments to IFRS Standards.*
- 25 *In preparation of this agenda consultation, the IASB has conducted outreach (mainly with its advisory bodies and standing consultative groups) to identify potential projects to describe in the RFI. Appendix B of the RFI lists these identified potential projects (including an estimate of its size) and Appendix C of the RFI lists financial reporting issues suggested by only a few stakeholders, which are not described in detail in the RFI.*
- 26 *Appendix B of the RFI also includes some projects that arose from the 2015 Agenda Consultation but have not been started yet (PIR of IFRS 5, Inflation, Pollutant pricing mechanisms and Variable and contingent consideration).*

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

- 27 *Paragraphs 24–28 of the RFI provide an overview of financial reporting issues that could be added to the IASB’s work plan.*
- (a) *What priority would you give each of the potential projects described in Appendix B of the RFI—high, medium or low—considering the IASB’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The IASB is particularly interested in explanations for potential projects that you rate a high or low priority.*
- (b) *Should the IASB add any financial reporting issues not described in Appendix B of the RFI to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the IASB’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the IASB analyse the feedback, when possible, please explain:*
- (i) *the nature of the issue; and*
- (ii) *why you think the issue is important.*

EFRAG’s response

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

**Overall, EFRAG has tentatively identified a total of 14 projects with high priority; of which six are assessed to have the highest priority for the IASB’s Agenda (all contained in the IASB’s RFI but for two EFRAG suggests a broader scope). Furthermore, EFRAG provides in Attachment B its assessment of the priority on the other projects identified in the RFI that have been assessed to have medium or low priorities.**

- 28 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).
- 29 EFRAG is seeking the views of respondents about its priority assignments presented in Attachments A and B to this letter.
- 30 **Attachment A** identifies a list of 14 projects tentatively considered by EFRAG’s to have high priority. Among these 14 projects, EFRAG has assessed that the following **six projects** should be given the highest priority (projects are presented in alphabetical order):
- (a) Climate-related information;
  - (b) Crypto-assets and related transactions;
  - (c) Discontinued operations and disposal groups (PIR of IFRS 5);
  - (d) Intangible assets;
  - (e) Statement of cash flows and related matters; and
  - (f) Variable and contingent consideration.
- 31 The other eight projects with high priority for the IASB’s Agenda include the following:
- (a) Connectivity between financial and non-financial information;
  - (b) Digital Reporting;
  - (c) Dynamic risk management other than for interest rate by banks;
  - (d) Government grants;
  - (e) Hedge accounting for insurers;
  - (f) Operating segments;
  - (g) Other comprehensive income; and
  - (h) Reverse factoring.
- 32 Points (a), (b), (f) and (h) in paragraph 31 could be potential candidates for EFRAG’s proactive research considering their importance for European stakeholders.
- 33 The scopes of all of the above project are described in Attachment A.

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

*Reasons for the suggestions*

- 35 EFRAG has considered a number of factors to identify priority projects:
- (a) Emerging/rising issues and changes in economic conditions or business patterns that are nor or not adequately addressed in current IFRS (climate-related risks; crypto-assets, intangibles, digital reporting, connectivity between financial and non-financial reporting);
  - (b) Known areas of deficiencies in existing IFRS Standards as evidenced by previous IASB agenda consultations (IFRS 5 – Discontinued operations) and recent research undertaken by EFRAG (Crypto-assets, Statement of Cash Flows, Variable and contingent consideration);
  - (c) Identified needs for improvement in practice (IFRS 5 – Discontinued operation); and
  - (d) Gaps or known inconsistencies in existing guidance (Accounting for reverse factoring, Government grants, Other comprehensive income – recycling criteria).
- 36 Research conducted by EFRAG and other organisations can usefully inform the IASB on many of the above-listed projects and we encourage the IASB to consider collaboration whenever possible. EFRAG has performed research, on variable and contingent considerations, crypto-assets, the statement of cash flows, intangibles, and non-exchange transactions. In this way the IASB could leverage its own process and create synergies.
- 37 These projects are also included in Attachment A. In case of a different scope proposed by EFRAG, an alternative scope description is provided below.

*Projects suggested by EFRAG which are not in the IASB’s RFI*

- 38 Among EFRAG’s tentative list of 14 priority projects (referred to in paragraphs 30-31) the following six identified financial reporting projects are not included in the IASB’s list or included with a substantially different scope than the one suggested by EFRAG:
- (a) Climate-related information;
  - (b) Connectivity between financial and non-financial information;
  - (c) Crypto-assets (the IASB’s RFI project is limited to crypto-currencies);
  - (d) Digital reporting;
  - (e) Dynamic risk management other than for interest rate risk by banks;
  - (f) Hedge accounting for insurers; and
  - (g) Reverse factoring (the IASB’s RFI project is on cash flow statements only).
- 39 The reasons for the high priority assignments and the proposed scopes for these possible additional projects are described below.

*Climate-related information*

- 40 EFRAG suggests that a more ambitious project than the proposals in the RFI would address more holistically the interconnection between IFRS Standards and sustainability related information. A more holistic approach is supported by the following:

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

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

*Connectivity between financial and non-financial reporting*

- 42 Developments in the non-financial reporting area are occurring at both the European and global level including the revision of the Non-financial Reporting Directive (NFRD) and the European Union’s sustainable finance initiatives.
- 43 The issue of interconnection between financial and non-financial reporting will require greater attention in providing a full picture of companies’ reporting. Synergies between financial and non-financial reporting could be explored and may pave the way towards a more holistic and integrated reporting system.
- 44 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.

*Digital reporting*

- 45 EFRAG has recommended that the IASB better considers the effect on technology in standard setting in several of its recent comment letters<sup>4</sup>. 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, aiming at incorporation.

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

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

- 47 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.
- 48 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.
- 49 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*

- 50 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.
- 51 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.

*Reverse factoring*

- 52 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.
- 53 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.

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

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

- 55 Attachment B contains the other projects described by the IASB with their proposed scopes that are not considered 'high priority' by EFRAG.
- 56 EFRAG has assessed their level of priority in Table 3 (as either medium or low and indicates (with a tick mark) which of the scope alternatives proposed in the RFI we would recommend if the project were to be selected by the IASB (recommended scope is underline and in bold).

**Question 4 – Other comments**

- 57 *Do you have any other comments on the IASB’s activities and work plan? Appendix A of the RFI provides a summary of the IASB’s current work plan.*

*EFRAG’s response*

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



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

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

**Table 1 - 6 projects with highest priority**

Project name (alphabetical order)	IASB proposed scope (if applicable and estimation of project size (S—small, M—medium, L—large)	EFRAG’s suggested scope for the IASB project
<b>Climate-related<sup>5</sup> risks</b>	<ul style="list-style-type: none"> <li>• Lower the threshold for disclosure of information about sources of estimation uncertainty, including the effect that climate-related risks have on that uncertainty (M)</li> <li>• 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)</li> <li>• Develop accounting requirements for pollutant pricing mechanisms (L)</li> </ul>	Proposed alternative scope description in paragraph 40 to 41 of this draft comment letter
<b>Crypto-assets and related transactions</b>	<ul style="list-style-type: none"> <li>• Develop educational materials</li> <li>• Develop additional disclosure requirements for information on the fair value of crypto-currencies (S)</li> <li>• 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)</li> <li>• Consider amending the scope of the Standards for financial instruments to include crypto-currencies (M)</li> <li>• <b>Develop a Standard for a range of non-financial tangible or intangible assets held solely for investment purposes (L)</b></li> </ul>	Consider accounting for crypto-assets (and liabilities) not just crypto-currencies. Consider accounting alternatives explored in EFRAG’s 2020 Discussion Paper <a href="#">Accounting for Crypto-assets (Liabilities) – Holder and issuer perspectives</a>
<b>Discontinued operations and disposal groups</b>	<ul style="list-style-type: none"> <li>• Reconsider the single line-item presentation of discontinued operations and the disclosure requirements (M)</li> <li>• Undertake a comprehensive review of the Standard (M)</li> </ul>	Undertake a Post-implementation review

<sup>5</sup> This potential project is separate from the strategic review being conducted by the IFRS Foundation considering a potential expansion in the role of the Foundation through the possible creation of a new board to develop global sustainability reporting standards.

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

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

**Table 2 - Eight other projects with high priority**

Project name (alphabetical order)	IASB proposed scope (if applicable and estimation of project size (S—small, M—medium, L—large)	EFRAG’s suggested scope for the IASB project
Connectivity between financial and non-financial reporting	Not included in the IASB RFI	Proposed scope description in paragraphs 42 to 44. Considering the importance of this topic, this project is considered a candidate for possible EFRAG proactive research (see paragraph 4(b) of Part B below)
Digital reporting	Not included in the IASB RFI	Proposed description in paragraph 45 to 46. Considering the importance of this topic, this project is considered a candidate for possible EFRAG proactive research (see paragraph 4(b) of Part B below)
Dynamic risk management other than for interest rate by banks	Not included in the IASB RFI	Proposed description in paragraph 47 to 49
Government grants	Undertake a comprehensive review of the accounting for government grants (M)	√
Hedge accounting for insurers	Not included in the IASB’s RFI	Proposed description in paragraphs 50 to 51
Operating segments	Undertake targeted improvements to the segment aggregation criteria and develop enhanced disclosure requirements about operating segments (M)	√ +monitor developments in the PFS project and consider cohesiveness with operating segments.  Considering the importance of this topic, this project is considered a candidate for possible EFRAG proactive research (see paragraph 4(b) of Part B below)
Other comprehensive income	Consider whether to amend the requirements for income and expenses that are classified in other comprehensive income (L)	√
Reverse factoring	Not included as a separate project (possibly considered as part of the Statement of Cash Flows project)	Proposed description in paragraph 52 to 54. Considering the importance of this topic, this project is considered a candidate for possible EFRAG proactive research (see paragraph 4(b) of Part B below)

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

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

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

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

PART A – EFRAG’s response to the IASB Third Agenda Consultation

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
Going concern	<ul style="list-style-type: none"> <li>• <b>Develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate (M)</b></li> <li>• Develop enhanced specific disclosure requirements about the going concern assumption (M)</li> <li>• Develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern (L)</li> </ul>		√	
Income taxes	<ul style="list-style-type: none"> <li>• Develop educational materials</li> <li>• Develop accounting requirements for emerging types of taxes (S)</li> <li>• Develop enhanced disclosures about income taxes (M)</li> <li>• <b>Undertake a comprehensive review of income tax accounting (L)</b></li> </ul>		√	
Inflation	<ul style="list-style-type: none"> <li>• Assess whether accounting requirements for hyperinflationary economies could be extended to economies subject to high inflation (S)</li> <li>• <b>Undertake a comprehensive review of the accounting requirements for hyperinflationary and high-inflation economies (L)</b></li> </ul>			√
Interim financial reporting	<ul style="list-style-type: none"> <li>• Develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (S)</li> <li>• Clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (S)</li> <li>• Address interim accounting issues in each new IFRS Standard or major amendment as it is developed (M)</li> <li>• <b>Undertake a comprehensive review of Standard (L)</b></li> </ul>			√
Negative interest rates	<ul style="list-style-type: none"> <li>• <b>Develop specific accounting requirements for negative interest rates (M)</b></li> </ul>		√	
Pollutant pricing mechanisms	<ul style="list-style-type: none"> <li>• <b>Develop accounting requirements for various types of pollutant pricing mechanisms (L)</b></li> </ul>	This topic would be addressed as part of EFRAG’s suggested high priority project on climate-related information (see Table 1)		
Separate financial statements	<ul style="list-style-type: none"> <li>• Develop more disclosure requirements in separate financial statements (S)</li> <li>• Address some of the specific application questions about separate financial statements (M)</li> <li>• <b>Undertake a comprehensive review of the Standard for separate financial statements (L)</b></li> </ul>		√	

**PART B – EFRAG’s REQUEST FOR INPUT ON ITS PROACTIVE AGENDA -**

DRAFT

## PART B - EFRAG's Request for Input on its Proactive Research Agenda

### The purpose of EFRAG's proactive research activities

- 1 EFRAG undertakes proactive research activities with four strategic aims:
  - (a) Engage with European constituents to ensure we understand their issues and how financial reporting affects them;
  - (b) Influence the development of global financial reporting standards;
  - (c) Provide thought leadership in developing the principles and practices that underpin financial reporting; and
  - (d) Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.
- 2 EFRAG conducted its prior agenda consultation in 2018. Based on the input received, EFRAG added the following projects to its proactive agenda:
  - (a) Better information on intangibles;
  - (b) Accounting for Crypto-Assets (Liabilities); and
  - (c) Variable consideration.
- 3 As these projects are being finalised, EFRAG will initiate new proactive activities. EFRAG accordingly welcomes views on which projects it should perform proactive activities.

### Selection of proactive research projects

- 4 EFRAG initially considers that its decision on which proactive projects to initiate, should be based mainly on:
  - (a) European constituents' views on the importance of the various projects considered for the IASB's agenda consultation (that is the projects listed in Attachment A (on page 18 above in Part A) and Attachment B (on page 21 above in Part A) accompanying EFRAG's (draft) comment letter to the RFI and any additional projects suggested by constituents).
  - (b) A short list of four projects which are important to European constituents and for which European input is particularly important. The projects on this list are:
    - (i) Connectivity between financial and non-financial reporting (with the scope described in paragraphs 42–44 in Part A above);
    - (ii) Digital reporting (with the scope described in paragraphs 45–46 in Part A above);
    - (iii) Improving segment disclosures (Revision of IFRS 8 *Operating Segments*); and
    - (iv) Reverse factoring (with the scope described in paragraphs 52–54 in Part A above).

EFRAG will only be able to select a limited number (in this case less than five) of the projects that would result from (a) and (b) above.

- 5 Among the projects resulting from the selection criteria in (a) and (b), EFRAG could choose for its own proactive agenda those projects that will not be selected for inclusion on the IASB's workplan. In this manner EFRAG would focus its resources for proactive activities mainly on projects that would influence the IASB's work post 2026. In doing so, EFRAG could provide thought leadership on these areas which could be included on the IASB's future workplan. EFRAG would in any case work

## PART B - EFRAG pro-active agenda consultation

on the other projects selected by the IASB in its Agenda as part of EFRAG work on influencing the IASB's activity.

- 6 This approach would mean that new EFRAG proactive research activities would not begin before mid-2022. In the period until mid-2022, EFRAG would focus on the current research projects listed in paragraph 2 above including possible follow-up on published discussion papers on these projects.
- 7 When the IASB has decided which projects to add to its workplan, EFRAG will then add to its proactive research agenda new projects based on the importance for European constituents, how suitable it is to do proactive activities on the project, and to achieve a balance between influencing projects on the IASB's 2022 – 2026 workplan and projects that should influence future workplans and projects of the IASB. EFRAG would first finalise projects that would aim at providing input to the projects to be included on the IASB's 2022 – 2026 workplan.

### EFRAG resource allocation reactive/proactive work

- 8 The efforts allocated to the proactive research projects normally account for approximately one third of the total internal secretariat staff. In 2020 several parallel consultation processes by the IASB (including big projects such as on the ED *General Presentation and Disclosures* and on the DP *Business Combinations – Disclosures, Goodwill and Impairment*) resulted in the need for EFRAG to intensify the efforts to run outreaches and engage in dialogue with stakeholders, also in consideration of the pandemic conditions. Urgent and not planned projects such as the IBOR reform Phase 2 and the Amendments to IFRS 16 *Covid-19 Related Rental Concessions* absorbed as well resources, as well as the activities required for the urgent finalization of the endorsement of IFRS 17. As a result, the effort dedicated to proactive research activities has recently been lower than usual. EFRAG considers that the target of one third share should be confirmed also for the future.

### Questions to constituents

- 9 Do you agree that the most important projects for which EFRAG should perform proactive activities, would be those:
  - (a) European constituents consider most important to address in relation to the IASB's agenda consultation (that is the projects listed in Attachment A (on page 18 above) and in Attachment B (on page 21 above); and/or
  - (b) Those projects that are considered important by European constituents and for which European input is particularly important.If you do not agree, how should EFRAG select the projects for its proactive agenda?
- 10 Do you agree with the list of projects in paragraph 4(b) above that are particularly important to provide European input on? Do you agree with the list of projects in paragraph 4(b) above that are particularly important to provide European input on? If not, what four projects would you include on the list?
- 11 Do you agree that EFRAG should follow the procedure described in paragraphs 4 - 7 when selecting projects to be included on its proactive agenda? If not, why?
- 12 On average, what do you think the ratio between resources EFRAG spend on proactive work and reactive work should be?