

EFRAG FEEDBACK STATEMENT

IASB'S THIRD AGENDA CONSULTATION REQUEST FOR INFORMATION AND EFRAG'S
PROACTIVE RESEARCH AGENDA

AGENDA CONSULTATION

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EFRAG CONSULTATION
ON IASB AGENDA
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IASB's Third Agenda Consultation Request for Information and EFRAG's Own Research Agenda – EFRAG's Feedback statement

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the *Request for Information regarding the IASB Third Agenda Consultation* ("the RFI") on 11 October 2021. This feedback statement summarises the main comments received by EFRAG on its draft comment letter issued on

20 May 2021 and explains how these comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter. It also summarises constituents' feedback and the EFRAG Financial Reporting Board ("the EFRAG FRB") decisions on new projects for the EFRAG's proactive research agenda.

Background

The International Accounting Standards Board ("the IASB") has a public consultation on its activities and its work plan every five years (agenda consultation). The objective of this agenda consultation was to gather views on:

- (a) the strategic direction and balance of the IASB's activities;
- (b) the criteria for assessing the priority of financial reporting issues that could be added to the work plan; and
- (c) new financial reporting issues that could be given priority in the IASB's work plan. To provide a common understanding of the issues that could be addressed, the RFI included a non-exhaustive list of 22 possible projects and approaches that could be made towards these projects.

EFRAG combined its consultation on its tentative response to the IASB's RFI with its own proactive research agenda consultation to foster synergies and alleviate the burden for respondents. For that purpose, on 20 May 2021, EFRAG issued a joint consultation document consisting of:

- (a) Part A- EFRAG's draft comment letter in response to the IASB's request for information (RFI) on its agenda consultation; and
- (b) Part B-EFRAG's own proactive research agenda.

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In addition, a survey was released on 4 June 2021 allowing constituents to submit their comments either by comment letter or electronically via the survey.

EFRAG's draft comment letter (Part A-EFRAG joint consultation document)

EFRAG's preliminary view was that the balance of IASB activities, as indicated in the RFI, was appropriate and should not be substantially modified over the 2022–2026 period.

EFRAG suggested that the IASB identifies a separate area of its activity to address the connectivity between financial reporting and sustainability reporting and increases the resources devoted to digital reporting.

EFRAG considered 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 IFRS 17 *Insurance Contracts*. EFRAG noted that, in adding projects to its agenda, the IASB should primarily consider their relevance and urgency rather than the level of resources involved.

EFRAG identified the following six projects as those of the highest priority for European constituents:

- Connecting financial and sustainability reporting, starting from climate-related financial implications;
- Crypto-assets and related transactions;
- Discontinued operations and disposal groups (PIR of IFRS5);
- Intangible assets;
- Statement of cash flows and related matters; and
- Variable and contingent consideration.

In addition to these, EFRAG suggested seven other projects that could be selected as high-priority projects.

EFRAG strongly encouraged the IASB, in its research activities, to continue to build on the work of other organisations and create synergies. EFRAG considered the four criteria contained in the Due Process Handbook were appropriate for deciding whether to add a potential project to its work plan. EFRAG observed that, in addition to those four criteria, the IASB had developed on its own, three additional criteria. EFRAG was concerned the additional criteria were not subject to a proper due process.

EFRAG recommended that, in selecting projects for the IASB's agenda, precedence should be always given to the four criteria defined in the Due Process Handbook and suggested the IASB considers whether the additional criteria could be included in the Due Process Handbook.

EFRAG's own proactive research agenda (Part B- EFRAG joint consultation document)

The joint consultation document identified the following topics as suitable for EFRAG research:

- Connecting financial and sustainability reporting, starting from climate-related financial implications;
- Digital reporting;
- Operating segments;
- Supply chain financing (including reverse factoring).

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Comments received from respondents

EFRAG received sixteen comment letters from respondents of which one was in draft format. Of the 16 comment letters received, nine included comments on EFRAG's proactive agenda consultation.

In addition, seven responses to the survey were received. These comment letters are available on the EFRAG [website](#).

The comment letters received came from national standard setters, accountant and audit organisations, preparer organisations, user organisations, individual users, and a regulator.

EFRAG's final comment letter

EFRAG issued its final comment letter on 11 October 2021. In its final comment letter EFRAG identified the following high-priority projects, ranked according to their priority:

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

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:

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

IASB's decision on its 2022 – 2026 workplan

After its February, March and April 2022 meetings, the IASB's Board made the following decisions:

- (a) Leave its current level of focus on its main activities largely unchanged except for a slight change;
- (b) Leave the list of criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan as proposed in the RFI;
- (c) Add the project on climate-related risks to its work plan on maintenance and consistent application;
- (d) Add to the research pipeline projects on intangible assets and the statement of cash flows and related matters; and
- (e) 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 operating segments and pollutant-pricing mechanisms.

Decisions on EFRAG's proactive research agenda

On 1 June 2022, after considering both constituents' feedback to the EFRAG joint consultation document and the IASB decisions on its workplan, the EFRAG FRB decided to add two new projects to EFRAG's proactive agenda, namely; the connectivity between financial and sustainability reporting; and cash flow reporting. The project on connectivity will begin with an initial problem-definition phase to be followed by a detailed phase.

EFRAG FRB also approved the addition of a reserve list of pollutant pricing mechanisms and operating segment reporting, with pollutant pricing mechanisms being tentatively ranked as the priority.

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EFRAG FRB recommended that before the commencement of any of the research projects, EFRAG should ensure its work will be complementary to and synergistic with any potential project by the IASB. Thus, EFRAG should work closely with the IASB to ensure no duplication and only value-adding efforts occur on the two selected projects and two reserve list projects. This will include reaching out to users to understand the issues faced on segment reporting and the solutions that could be proposed without changing the use of the management approach to determine an entity's operating segment.

EFRAG FRB approved other non-research work including possible bulletins on the completed research projects, such as intangibles and crypto-assets (liabilities), and the outreach on hedge accounting for insurers.

Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

Strategic Direction and balances of the IASB activity

Proposals in the RFI

The IASB sought feedback on the overall balance of its main activities. The RFI describes 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) engaging with stakeholders (current level of focus: 20%-25%).

The IASB assumed that its current level of resources would remain substantially unchanged from 2022 to 2026.

EFRAG's tentative position

EFRAG considered that the overall balance of the main activities of the IASB, as indicated in the RFI, is appropriate. The activities in relation to digital reporting could be increased. EFRAG also suggested undertaking a project on the effect of technology on standard setting.

EFRAG suggested that the connectivity between financial reporting and

EFRAG final comment letter position

EFRAG retained its initial position on the overall balance of the main activities of the IASB. However, as the IFRS Standards were considered to be a mature reporting platform by several of its constituents, EFRAG suggested that the IASB should focus more on maintaining and improving the understandability of existing standards.

EFRAG retained the rest of its tentative views expressed in its draft comment letter. However, in relation to the upcoming Post-implementation Reviews ('PIR'), EFRAG shared the concern that given the high number of PIRs envisaged in the IASB's work plan, the process to finalise some PIR projects may slow down. Therefore, EFRAG recommended the IASB revisit the PIR process to improve its efficiency to the extent possible.

Finally, EFRAG highlighted the importance of the PIR of IFRS 17 *Insurance Contracts* for European Stakeholders. For the endorsement of this standard in the European Union ("EU") a carve-out option including a review clause (end of 2027) is being considered. Thus, this PIR is time-critical in the EU.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

sustainability reporting should be identified as an additional and separate area of activity of the IASB. EFRAG noted that the IASB should give priority to finalising the major projects and, conducting timely Post-implementation Reviews of major standards.

EFRAG noted that, in adding projects to its agenda, the IASB should primarily consider their relevance and urgency rather than the level of resources involved. Finally, EFRAG considered that the IASB should set aside a capacity to react to emerging and unforeseen issues that can arise over the next 5 years.

Respondents' comments

Many respondents noted that the IASB's level of activity on 'New IFRS Standards and major amendments to IFRS Standards' should be decreased while increasing the activity on 'Maintaining and upgrading existing IFRS Standards'. They noted that a period of calm is needed. Many respondents also supported an increase in the understandability and accessibility of the Standard.

Many respondents agreed that the connectivity between financial reporting and sustainability reporting should be identified as an additional and separate area of activity. Many respondents also agreed with EFRAG on increasing the 'Digital financial reporting' activity.

Many respondents considered that the IASB should give priority to active projects on the IASB's current work plan and on performing PIRs of recent major projects.

Three respondents noted that the IFRS 17 PIR needs to be firmly included in the IASB's work plan to allow for an alignment with the carve-out review to be conducted by the EU Commission.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Criteria for assessing priority of financial reporting issues

Proposals in the RFI

The ED identified the following criteria in deciding whether to add a potential project to the IASB's workplan:

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

EFRAG's tentative position

In its consultation document, EFRAG considered the four criteria contained in the Due Process handbook (the first four criteria above) to be appropriate when deciding whether to add a potential project to its work plan.

Although EFRAG considered that the additional practical criteria might be useful to identify relevant projects, it was concerned about applying

EFRAG's response to respondents' comments

EFRAG final comment letter position

Based on constituents' feedback, EFRAG amended its position and supported all the seven criteria in the RFI and recommended these should all be reflected in the Due Process Handbook.

EFRAG noted the comment that the criterion of 'capacity of the IASB and its stakeholders' should be given more importance than the other criteria. This criterion is a necessary condition for high-quality standards and would be further limited as a result of stakeholders having also to consider sustainability reporting.

EFRAG considered the comment from some constituents that some of the criteria should be more important than others but thought that it would not be possible to attach different weights to different criteria. In addition, it was noted that considering the first four criteria to be more important than the last three criteria would be inconsistent with the recommendation to emphasise the importance of the capacity of stakeholders.

EFRAG noted the comment of some respondents that the reference to 'investors' in the criterion of 'importance of matters to investors' was too narrow. EFRAG noted that the Due Process Handbook for the same criterion refers to 'those who use financial reports'. EFRAG encouraged the IASB to be very precise and consistent with its terminology as with the introduction of sustainability information, some information may have a different, narrower or broader group of users.

EFRAG agreed with the argument of one respondent that the additional factors suggested by EFRAG could be covered by the current criterion: 'Whether there is any deficiency in the way companies report the type

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

criteria that were never submitted to proper due process.

In addition to the criteria identified by the IASB, EFRAG suggested 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.

Respondents' comments

While some respondents supported EFRAG's tentative position, more respondents supported the seven criteria suggested by the IASB. Some of the constituents supporting the seven criteria suggested by the IASB thought that the additional three criteria should be added to the due process handbook.

Some respondents commented that the 'capacity of the IASB and its stakeholders' criterion should be given more importance than the other criteria. It was also noted by some constituents that some of the criteria should be more important than others.

Some respondents thought that the reference to 'investors' in one of the criteria in the RFI was too narrow.

One respondent noted that the additional factors suggested by EFRAG could be covered by the current criterion: 'Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports'.

EFRAG's response to respondents' comments

of transaction or activity in financial reports'. Accordingly, EFRAG amended its comment letter to suggest that the IASB should consider whether the additional factors could be used to assess, among other factors, whether there is a significant deficiency in the way companies report a transaction or activity in financial reports.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Financial reporting issues to be added to the work plan

Proposals in the RFI

The IASB conducted outreach to identify potential projects to describe in the RFI. The IASB's objective was to provide a common understanding of financial reporting issues that could be addressed in a potential project to elicit more focused feedback. Therefore, the RFI included a non-exhaustive list of 22 possible financial issues.

EFRAG's tentative position

EFRAG considered the following six projects as the highest priority:

- (a) Connecting financial and sustainability reporting, starting from climate-related financial implications
- (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
- (f) Variable and contingent consideration

In addition to these, EFRAG suggested seven other projects that could be selected as high-priority projects.

Respondents' comments

Respondents considered the following projects as the highest priority:

- (a) Intangible assets;
 - (b) Climate-related risks;
 - (c) Crypto assets/liabilities;
 - (d) Discontinued operations and disposal groups;
 - (e) Variable and contingent consideration; and
-

EFRAG's response to respondents' comments

EFRAG final comment letter position

EFRAG considered the view supporting the selection of fewer new projects and proposed the following projects as high-priority, 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

In addition, EFRAG noted that the treatment under IFRS 9 of financial instruments with ESG features is an urgent and prevalent issue and requested the IASB to address it 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.
-

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

(f) Statement of cash flows.

Two respondents noted that the list of highest-priority projects should be reviewed and narrowed down. Many respondents supported the call for a more ambitious project on climate-related financial implications than the proposal in the RFI.

Many respondents proposed that the IASB undertakes a comprehensive review of IAS 38 to better reflect the increasing importance of intangibles in today's business models.

Many respondents suggested the IASB broadens the scope of cryptocurrencies to crypto-assets/liabilities.

A project on Discontinued operations and disposal groups was seen by several respondents as either a high- or medium-priority project.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Other matters

Proposals in the RFI

EFRAG's tentative position

EFRAG had no other comments on the IASB's activities and work plan.

Respondents' comments

Respondents provided very limited feedback on this question. Comments provided were on various matters like the need for the IASB to thoroughly evaluate the cost-benefit relation of new projects or that digitalisation should be properly considered along the standard-setting process but should not lead to technology driving the content of the standards.

EFRAG's response to respondents' comments

EFRAG final position

Given that the limited feedback provided was mainly taken into consideration in other questions, EFRAG did not modify its tentative position.

EFRAG's proactive research agenda consultation

EFRAG's views expressed in the joint consultation document

EFRAG's response to respondents' comments

EFRAG's proactive research agenda

EFRAG's tentative position

EFRAG initially considered 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; and
- (b) A short list of four projects which were considered important by European constituents and particularly suitable for an EFRAG proactive research project.
 - (i) Connecting financial and sustainability reporting, starting from climate-related financial implications
 - (ii) Digital reporting
 - (iii) Operating segments
 - (iv) Supply chain financing (including reverse factoring).

EFRAG could include in its proactive research agenda projects that are not in the IASB workplan. In doing so, EFRAG could provide thought leadership on those areas which could be included in the IASB's future workplan. This approach would mean that new EFRAG proactive research activities would not begin before mid-2022 (after IASB's consultation process is finalized).

Respondents' comments

A majority of respondents agreed with the process suggested by EFRAG to select the most important projects for which EFRAG should perform proactive activities. Respondents considered the above projects to be the

EFRAG decisions

EFRAG included the topic of the connectivity between financial and sustainability reporting as the first additional topic of its research agenda.

In light of the IASB decision on its research agenda, it was recommended that the statement of cash flows be added to the EFRAG proactive agenda as the second new project as it could encompass supply financing arrangement which was deemed suitable as a proactive research project. This is consistent with EFRAG's comment letter to the ED/2021/10 Supplier Finance Arrangements EFRAG included "Further recommendations on arrangements related to working capital and liquidity management" a number of issues to be addressed. It was considered particularly important to avoid duplication with the IASB's work on such a topic.

EFRAG also added a reserve list of pollutant pricing mechanisms and operating segment reporting, with pollutant pricing mechanisms being tentatively ranked as the priority.

EFRAG considered that pollutant-pricing mechanisms might be addressed in considering climate-related risks in the context of a project on the connection between financial and sustainability reporting. However, EFRAG observed that the pollutant pricing mechanisms topic does not fit with the connectivity project as envisioned and should therefore be treated as a separate project on the reserve list.

The operating segment project was broadly supported by constituents during the consultation process. Thus, the topic was considered

EFRAG's views expressed in the joint consultation document

highest priority for EFRAG's proactive agenda. A majority of respondents considered a third of EFRAG's technical resources on proactive research projects to be appropriate.

The number of respondents supporting a particular proactive research project can be summarised as below (based on how many respondents supported the project):

	Outreach	Survey	Comment letters	Total
Number of respondents	19	6	10	35
Connecting financial and sustainability reporting	14	5	7	26
Digital reporting	10	4	5	19
Supply chain financing	5	3	3	11
Segment reporting	3	2	4	9
Statement of cash flows	2	1		3
Discontinued operations	1	1		2
Discount rate disclosures	n/a	1		1
Going concern	n/a		2	2

EFRAG's response to respondents' comments

suitable for inclusion in the reserve list of projects. Before starting a project, EFRAG will conduct research into the causes of users' concerns about the information on segment reporting that entities provide and what changes in identifying segments are possible while retaining the management approach to determine an entity's operating segment.

Subject to the availability of resources, EFRAG will conduct other non-research work including possible bulletins on the completed research projects, such as crypto-assets (liabilities), and a targeted study or outreach on hedge accounting for insurers.

EFRAG decided to not include digital reporting as a research topic as it was not clear what should be the appropriate scope of the project given the variety of existing initiatives set up by the IASB. However, this should not preclude EFRAG from monitoring and capacity building on digital reporting including through the publication of EFRAG Secretariat Bulletins related to specific aspects of digitisation in corporate reporting.

Appendix 1: List of respondents

Table 1: List of respondents

Name of respondent¹	Country	Type / Category
Accountancy Europe	Europe	Accountant and/or audit organisation
European Federation of Accountants and Auditors for SMEs (EFAA)	Europe	Accountant and/or audit organisation
Swedish Financial Reporting Board (SFRB)	Sweden	National Standard Setter
German Insurance Association (GDV)	Germany	Preparer organisation
Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
Insurance Europe	Europe	Preparer organisation
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	National Standard Setter
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation
Association of Chartered Certified Accountants (ACCA)	UK	Accountant and/or audit organisation
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	National Standard Setter
The European Federation of Financial Analysts Societies (EFFAS)	Europe	User organisation
Accounting Standards Committee of Germany (ASCG/DRSC)	Germany	National Standard Setter
European Savings and Retail Banking Group (ESBG)	Europe	Preparer organisation
L'Autorité des normes comptables (ANC)	France	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
Draft comment letter	Europe	Preparer organisation
Responses received to the survey		
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
Comissão de Normalização Contabilística (CNC)	Portugal	National Standard Setter
Jed Wrigley	UK	User
RVA consulting	Sweden	User
UK Shareholder Association	UK	Preparer organisation
Climate Disclosure Standards Board (CDSB)	Germany	Other
Anonymous	Germany	Other

¹ Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.