

STAFF PAPER

October 2020

IASB[®] Meeting

Project	2020 Agenda Consultation		
Paper topic	Financial reporting issues to be included in the Request for Information		
CONTACT	Rafal Markowski	rmarkowski@ifrs.org	+44 (0) 20 7246 6930

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Approach to obtaining feedback on financial reporting issues to be included in the Request for Information

1. As specified in the Due Process Handbook, one of the objectives of an agenda consultation is to seek input on financial reporting issues that should be given priority. At its September 2019 meeting, the Board indicated its support for the staff's proposed approach which was to conduct outreach before the Board publishes a Request for Information. The objective of the outreach was to develop descriptions of potential projects to include in the Request for Information.
2. The Board's objective in describing potential projects in the Request for Information is to provide stakeholders and the Board with a common understanding of the issues that could be addressed in a potential project. Including such background information in the Request for Information will help:
 - (a) stakeholders provide feedback; and
 - (b) the Board obtain sufficient evidence to make sound prioritisation decisions.
3. The list of potential projects that will be included in the Request for Information is not intended to be exhaustive nor does it represent a draft work plan for the Board. The list is also not intended to constrain stakeholders' feedback; respondents to the Request for Information will have the opportunity to suggest other financial reporting issues that the Board should address, regardless of the size or scope of the potential project.

4. The IFRS Advisory Council supported this approach to the 2020 Agenda Consultation ('the agenda consultation') when they discussed it at their meeting in September 2019.

Purpose and structure of this paper

5. The purpose of this paper is to:
- (a) summarise the outreach undertaken to develop the list of potential projects to be included in the Request for Information and the messages heard; and
 - (b) ask whether the Board has:
 - (i) any comments or questions on the outreach performed;
 - (ii) any comments on how the feedback received during the outreach should be reflected in the Request for Information;
 - (iii) any comments or questions on the list of potential projects to be described in the Request for Information; and
 - (iv) any comments on the content and level of detail included in the example of a potential project description in Appendix B.
6. This paper is structured as follows:
- (a) Overview of the outreach process (paragraphs 7–13).
 - (b) Overview of feedback (paragraphs 14–17).
 - (c) Projects to be described in the Request for Information (paragraphs 18–22).
 - (d) Questions for the Board.
 - (e) Appendix A—Information about other financial reporting issues suggested to the Board.
 - (f) Appendix B—Example of a potential project description to be included in the Request for Information.

Overview of the outreach process

7. The outreach was mainly conducted with our advisory bodies and standing consultative groups:
 - (a) the IFRS Advisory Council (see [September 2019 Agenda Paper AP7](#));
 - (b) the Global Preparers Forum (see [October 2019 Agenda Paper AP6](#) and [October 2019 Agenda Paper AP6A](#));
 - (c) the Capital Markets Advisory Committee (see [October 2019 Agenda Paper AP4](#) and [October 2019 Agenda Paper AP4A](#));
 - (d) the Emerging Economies Group (see [December 2019 Agenda Paper AP7](#) and [December 2019 Agenda Paper AP7A](#));
 - (e) the Accounting Standards Advisory Forum (see [October 2019 Agenda Paper AP5A](#) and [December 2019 Agenda Paper API](#)); and
 - (f) the IASB Investors in Financial Reporting (1-on-1 meetings).
8. We also sought feedback from the IFRS Interpretations Committee (see [November 2019 Agenda Paper AP2A](#) and [November 2019 Agenda Paper AP2D](#)) and the International Organization of Securities Commissions Committee 1.
9. In advance of each meeting, members of the groups were provided with a description of our planned approach to the agenda consultation and asked to suggest a limited number of potential new projects within the current scope of the Board's work (see paragraph 3 of Agenda Paper 24) that should be included in the Request for Information. We did not ask about the Board's current or planned projects (for example: post-implementation reviews of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*)—see Agenda Paper 24C.
10. Groups were also asked for comments on the overall balance of the Board's activities and any other comments on the agenda consultation process.
11. In most cases, we prepared a summary of the suggestions for the potential projects to be included in the Request for Information and sent it to members of the groups in advance of the meeting. In the meeting, to help us develop descriptions of these potential projects, the group was asked to comment on the potential projects

suggested by the members of the group. We did not seek a consensus view from the group.

12. We conducted outreach in the last quarter of 2019 and in the first quarter of 2020 with a view to publishing the Request for Information in the third quarter of 2020. To assist stakeholders affected by the covid-19 pandemic, the publication of the Request for Information has been postponed to March 2021.
13. We do not think it is necessary to conduct further outreach to update the list of projects to be described in the Request for Information. The objective of the outreach was to identify and develop descriptions of potential projects. We do not expect the list of potential projects to have changed because of the covid-19 pandemic. However, we acknowledge that priorities among that list may have changed. If so, this will be captured when the Board deliberates formal feedback to the Request for Information in the second half of 2021.

Overview of feedback

14. The Board received 58 individual responses to its request for suggestions. The number of comments made was in excess of 250. Around 100 of these comments related to the overall balance of the Board’s activities (see Agenda Paper 24A), criteria for selecting projects (see Agenda Paper 24B) and the Board’s current or planned projects (see Agenda Paper 24C). The remaining comments were grouped into 30 suggested potential projects.
15. Of the 30 suggested potential projects, three relate to areas that we believe are outside the current scope of the Board’s work (see paragraph 3 of Agenda Paper 24):
 - (a) accounting requirements for not-for-profit entities;
 - (b) accounting requirements for micro entities; and
 - (c) aspects of sustainability reporting.
16. The remaining 27 suggested potential projects are discussed in paragraphs 18–19.
17. We think, however, that describing all the suggested potential projects in the Request for Information would lead to a very long document that stakeholders would find difficult to read and respond to. Consequently, we tried to identify

those projects that were most commonly raised by stakeholders during the outreach and, hence, would likely be raised in the agenda consultation. The table in paragraph 18 lists those potential projects which we recommend describing in the Request for Information.

Projects to be described in the Request for Information

18. We recommend describing the following projects in the Request for Information (paragraphs 20–22 explain what information we propose to include in each project description):

Potential projects identified in the outreach	Overview
Borrowing costs	Review definitions of borrowing costs and qualifying asset in IAS 23 <i>Borrowing Costs</i> . Provide additional guidance on capitalisation of borrowing costs, including foreign currency borrowings.
Climate-related risks and other emerging risks	Address any gaps in current requirements that may apply to how climate-related risks and other emerging risks should be reflected in the amounts recognised and disclosed in the financial statements.
Commodity transactions	Develop accounting guidance for commodity loan transactions and other transactions involving commodities. ¹
Cryptocurrencies and related transactions	Develop accounting guidance for cryptocurrencies and related transactions.
Discount rates and related matters	Consider making requirements relating to discount rates consistent across IFRS Standards. Develop accounting guidance for negative interest rates.
Employee benefits	Develop accounting requirements for hybrid pension plans. Review the prohibition on recycling of actuarial gains and losses presented in other comprehensive income.

¹ See [Agenda Paper 12F](#) for the April 2020 Board meeting.

Potential projects identified in the outreach	Overview
Expenses: Cost of sales, classification of expenses and disclosure	<p>Develop an IFRS Standard for cost of sales (including cost of goods sold and the cost of providing services), using the principles from IFRS 15 <i>Revenue from Contracts with Customers</i>. Improve the accounting for inventory.</p> <p>Develop detailed guidance on classification of expenses by function in the statement of profit or loss.</p> <p>Develop enhanced disclosures about expenses, so that users of financial statements (users) can distinguish ongoing maintenance spend from the growth spend.</p>
Foreign currencies	<p>Undertake a review of IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> and consider:</p> <ul style="list-style-type: none"> • developing enhanced disclosures about the effect of changes in foreign exchange rates on the financial statements. • reviewing the factors used to determine an entity’s functional currency and improving disclosures about those factors. • clarifying the accounting for foreign currency derivatives within the scope of IAS 21.
Going concern	<p>Develop enhanced disclosures about the going concern assumption.</p> <p>Develop accounting requirements for entities that are no longer a going concern.</p>
Government grants	<p>Revise IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> using principles from IFRS 15 and the <i>Conceptual Framework for Financial Reporting</i>.</p>
Income taxes	<p>Review the requirements for recognition of deferred tax liabilities considering the revised definition of a liability in the <i>Conceptual Framework for Financial Reporting</i>.</p> <p>Develop better disclosures to facilitate reconciliation of deferred, current and paid tax.</p> <p>Develop accounting guidance for emerging types of taxes.</p> <p>Develop disclosure requirements about an entity’s tax planning and tax structures.</p>
Intangible assets	<p>Appendix B includes an illustrative draft description for this project (see paragraphs 20–22).</p>

Potential projects identified in the outreach	Overview
Interim reporting	<p>Review IAS 34 <i>Interim Financial Reporting</i> for inconsistencies with other IFRS Standards.</p> <p>Clarify the definition of interim period.</p>
Operating segments	<p>Review the aggregation criteria for operating segments.</p> <p>Develop enhanced disclosures about segment assets and equity to help users calculate return on equity by segment.</p> <p>Develop enhanced disclosures about revenue, capital expenditures and business combinations by segment.</p>
Other comprehensive income	<p>Apply the principles from the <i>Conceptual Framework for Financial Reporting</i> for the classification of income and expenses in other comprehensive income and recycling consistently across IFRS Standards.</p>
Separate financial statements	<p>Undertake a review of IAS 27 <i>Separate Financial Statements</i>.</p> <p>Develop additional requirements and clarify the accounting in separate financial statements for some transactions between a parent and its subsidiaries.</p> <p>Develop more effective disclosures, driven by the information needs of primary users of separate financial statements (for example: disclosures on distributable profits or intragroup guarantees).</p>
Statement of cash flows and related matters	<p>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.</p> <p>Consider developing:</p> <ul style="list-style-type: none"> • a standardised definition of and disclosures about free cash flows. • a separate statement of cash flows for financial institutions.

19. Appendix A includes a list of projects which we do not recommend describing in the Request for Information because they were suggested by very few stakeholders. For completeness, we recommend that this list should be included as an appendix to the Request for Information.

Description of a potential project in the Request for Information

20. In the Request for Information, we propose to describe for each project:
 - (a) issues raised.
 - (b) estimate of indicative size of the potential project.
21. When developing descriptions of potential projects, we will try to strike a balance between providing enough information for stakeholders to understand the issue and the need to keep the description concise. Consequently, the length of the description and the amount of detail included will vary among potential projects. The descriptions will not discuss any perceived merits or challenges in undertaking the project; the Board will deliberate this subsequent to analysing feedback from the Request for Information.
22. Appendix B includes an example description of one potential project—Intangible assets. This project was most frequently mentioned by stakeholders during the outreach and several different possible approaches to the project were suggested. Consequently, we think that this project description is likely to be one of the longest and most detailed in the Request for Information.

Questions for the Board**Questions for the Board**

1. Do you have any comments or questions on the outreach performed?
2. Do you have any comments on how the feedback received during the outreach should be reflected in the Request for Information?
3. Do you have any comments or questions on the list of potential projects to be described in the Request for Information (paragraph 18)?
4. Do you have any comments on the content and level of detail included in the example of a potential project description in Appendix B?

Appendix A—Information about other financial reporting issues suggested to the Board

- A1. This appendix includes a list of projects which we do not recommend describing in the Request for Information because they were suggested by very few stakeholders.
- A2. For completeness, we recommend that this list should be included in an appendix to the Request for Information.

Other financial reporting issues suggested to the Board
Align the definition of cost across IFRS Standards.
Clarify the accounting for transactions with owners (including government owners) acting in their capacity as owners.
Converge IFRS 13 <i>Fair Value Measurement</i> with International Valuation Standards.
Develop accounting guidance for assets acquired at no cost (from related and third parties).
Develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied.
Develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements.
Review the accounting for shares bought back to replace shares granted in stock option plans.
Review the requirements of IAS 33 <i>Earnings per share</i> in light of changes to the business environment and the <i>Conceptual Framework for Financial Reporting</i> .
Review the requirements of IAS 36 <i>Impairment of Assets</i> .
Review the requirements of IAS 41 <i>Agriculture</i> , focusing on immature biological assets that cannot be sold in their current condition.

Appendix B—Example of a potential project description to be included in the Request for Information

Intangible assets²

B1 Many stakeholders have noted that IAS 38 *Intangible Assets* is an old Standard that covers a variety of transactions and assets, many of which were not envisaged when the Standard was developed. Concerns raised by stakeholders include:

- (a) IAS 38 fails to provide useful information about some new types of transactions and assets, including intangible assets that are routinely sold or held for investment purposes (for example: cryptocurrencies or emission rights). They have said that the scope of IAS 38 captures assets that would be better addressed within the scope of another IFRS Standard.
- (b) The Standard is restrictive about both when internally generated intangible assets can be recognised and when subsequent measurement of intangible assets at fair value is permitted. Yet, with economies becoming more knowledge-based, resources, such as brands, efficient business processes or big data, are playing a greater role in creating value. Therefore, stakeholders have expressed concerns that these restrictions result in financial statements of limited relevance.
- (c) Different treatment of internally generated intangible assets and certain intangible assets recognised as part of an acquisition results in a lack of comparability between companies that grow organically and those that grow through acquisitions. On the other hand, some stakeholders have commented that recognition of more internally generated intangible assets would give rise to operational difficulties and uncertainties associated with measurement. They have said that the subjectivity involved and costs needed to provide such information may not be justified by the benefits of reporting that information.
- (d) Some stakeholders, mainly users of financial statements and standard-setters, have said that disclosures about expenditures on intangible resources that are not recognised on the balance sheet are insufficient and do not provide useful information.

B2 We note that one possible solution to address the difference in accounting between acquired and internally generated intangible assets could be to

² This potential project would not involve developing disclosures about metrics on sustainability matters. The Trustees of the IFRS Foundation are undertaking a separate consultation on sustainability reporting.

reconsider the requirements in IFRS 3 *Business Combinations* on the recognition of some acquired intangible assets separately from goodwill. The Board began exploring this possible solution as part of its project on *Business Combinations: Disclosures, Goodwill and Impairment*. However, due to mixed feedback, the Board has tentatively decided not to develop these proposals as part of that project.

- B3 As part of its project to revise IFRS Practice Statement 1 *Management Commentary* the Board is proposing that management commentary should provide information about key resources, including intangibles not recognised as assets in the entity's financial statements. However, unlike a requirement in IAS 38, compliance with the practice statement is not required to assert compliance with IFRS Standards.

Indicative size of the project

- B4 To further address concerns raised:
- (a) Many stakeholders have advocated a fundamental review of the Standard, including the definition of intangible assets (large project).
 - (b) Some stakeholders have suggested that instead of a fundamental review of IAS 38, it may be possible to provide disclosures that compensate for the lack of balance sheet recognition (medium project).
 - (c) Some stakeholders have said that additional disclosures about fair value of some intangible assets (especially those held for investment) would also be useful (medium project).
- B5 National accounting standard-setters and other professional bodies have already conducted research in this area, which could be used to inform the Board's thinking.