Chairman's Report
IFRS Advisory Council
January 2022

1. The Advisory Council met on 11 January 2022 by videoconference. In addition to the Advisory Council members, the meeting was attended by several International Accounting Standard Board® (IASB) members and IFRS Foundation staff.

2. The agenda and papers for the meeting and the meeting recording are available at:
https://www.ifrs.org/news-and-events/calendar/2022/january/ifrs-advisory-council/

3. The Advisory Council Chair, Mr. Bill Coen, welcomed new IFRS Advisory Council members to the meeting.

IASB's Third Agenda Consultation

4. Ms. Nili Shah, Executive Technical Director, provided some introductory remarks (Agenda Paper 1) and said the objective of the first part of this meeting on the IASB's Third Agenda Consultation is to seek the IFRS Advisory Council members' advice on:
   - the staff's possible recommendations about the IASB's strategic direction and balance for 2022 to 2026;
   - how to navigate uncertainties relating mainly to the IASB's interaction with the International Sustainability Standards Board (ISSB); and
   - how to communicate the IASB's decisions to its stakeholders.

5. Ms. Shah provided an overview of the IASB's Request for Information *Third Agenda Consultation* (Request for Information) and the feedback received (Agenda Paper 1A), highlighting the key stakeholder messages on each of the three aspects of the consultation:
   - **Strategic direction and balance of the IASB's activities:**
     o The IASB's strategic direction is about right – the IASB should consider some minor changes to rebalance the level of focus on some of its main activities;
     o The IASB should set aside capacity for interactions with the ISSB and to respond to emerging issues; and
     o Partnering with national standard-setters could help increase the IASB's capacity in some areas.
   - **Criteria (considerations) for assessing the priority of accounting issues:**
     o Stakeholders generally agreed with the criteria proposed by the IASB.
     o At its December 2021 meeting, the IASB tentatively decided not to make any changes to the list of criteria but to proceed with the list as proposed in the Request for Information.
   - **Financial reporting issues that could be added to the work plan**—some of the most commonly suggested issues include:
     o climate-related risks (including pollutant pricing mechanisms);
     o cryptocurrencies and related transactions;

- o going concern;
- o intangible assets; and
- o statement of cash flows and related transactions.

6. Ms. Shah provided staff analysis on the first of the two cross-cutting themes arising from the feedback—**connectivity between the IASB and the ISSB** and its implications for the IASB's capacity (Agenda Paper 1B)—and said that staff:

- Believe that connectivity will involve four of the IASB's six main activities: (i) research and standard setting projects, (ii) digital financial reporting, (iii) understandability and accessibility of IFRS Accounting Standards, and (iv) stakeholder engagement.
- Recognise that there will be some need for the IASB to support the interactions with the ISSB, but the staff do not expect it to significantly affect the IASB's capacity.
- Recognise that the extent of possible interactions between the work of the IASB and the ISSB is difficult to judge at this stage. However, the staff think that this difficulty should not prevent the IASB from making decisions about its priorities for 2022 to 2026.

7. Many Advisory Council members commented on the staff analysis. Of those who commented, almost all agreed with staff conclusions listed in paragraph 6, but noted there are still significant uncertainties about the possible areas of connectivity. A few members said the impact of connectivity should not be underestimated and there may be more capacity implications than presented by the staff. A few others said the impact will not always be negative and there will also be some synergies from connected work, for example, on climate-related risks or if the ISSB took a lead on Management Commentary, which would free up some of the IASB's resources. The Advisory Council members' comments and questions relating to capacity implications of connectivity included:

- One member asked whether the ISSB will be supported by the IASB technical staff or have its own staff. Ms. Shah clarified that connectivity means areas of potential mutual interests and benefits to both boards. It is not expected that IASB technical staff would support ISSB-only projects. Ms. Shah further noted that operational matters, such as staffing, are still evolving and will be determined at a later stage.
- Another member asked whether the staff analysis of capacity implications considered lessons learnt from the IASB's work with the FASB on convergence projects. Ms. Shah said the staff did consider some similarities and differences with convergence projects and factored them into the analysis.
- A few members suggested that there will be more capacity implications than identified in the staff analysis. Ms. Shah said one possible solution to support the interaction with the ISSB would be to extend a related project's timeline rather than allocate resources to support the interaction.
- One member said it will be important to determine the scope of any related or joint project to ensure that the requirements in IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are consistent, coherent and compatible.
- Another member suggested that there is potential connectivity between the ISSB and the IASB's work relating to the maintenance of the *IFRS for SMEs* Standard.

Ms. Shah acknowledged that this may be the case in the longer term, but the ISSB's main focus initially is likely to be on publicly accountable entities.

- One member commented that the IASB needs to consider how to balance the feedback that interaction with the ISSB should not adversely affect the IASB's work on improvements to financial reporting with the need to allocate resources to support ISSB connectivity.
- One member suggested that the ISSB could take the lead on the IASB's project on Management Commentary, freeing up some resources for the IASB.
- Another member said the implications of connectivity with the ISSB may not always reduce the IASB's available resources. There are also likely to be some synergies for the IASB from interconnected work on potential projects, such as climate-related risks and pollutant-pricing mechanisms. Connectivity with the ISSB may decrease the IASB's workload in some areas.
- A few members commented that the IASB needs to be mindful of stakeholders' limited capacity to engage with both boards and provide high-quality feedback on each board's proposals.

8. The Advisory Council members' other comments and questions relating to connectivity included:
   - One member asked whether the concept of materiality will be aligned between the two boards. Ms. Shah and Ms. Sue Lloyd (IASB member) said that the two boards will apply the same concept.
   - Another member asked if and when the IASB will reconsider the requirements for financial instruments with sustainability-linked issues. Ms. Shah noted that stakeholders raised this matter in the Post-implementation Review of IFRS 9 *Financial Instruments* and the IASB is seeking stakeholders' views on this matter.
   - One member suggested that how connectivity will work and be operationalised will be more important than the capacity implications of connectivity. However, it is probably too soon to know how connectivity will be operationalised.
   - Another member commented that procedures need to be in place to enable the two boards to reach agreements and make progress on joint or related projects.
   - One member said ongoing dialogue between the two boards will be important. The IASB and the ISSB should establish an effective relationship, define roles and set clear boundaries. It will require continuous coordination and will not be limited to potential joint projects or other areas included in staff analysis; it will go beyond connectivity.
   - A few members provided governance-related comments, such as funding of the IASB and the ISSB.

9. Ms. Shah presented staff analysis of the other cross-cutting theme arising from the feedback—suggestions to partner further with **national standard setters** (Agenda Paper 1B)—and noted:
   - stakeholders informed the IASB that partnering further with national standard setters (NSS) could alleviate some of the IASB's capacity constraints and enable the IASB to add more projects to its work plan;
   - the IASB already has a significant partnering relationship with NSS who provide expertise and share views from stakeholders in their jurisdictions;

- the staff will explore how to strengthen the relationship, but the IASB needs to be mindful of NSS's and stakeholders' limited capacity; and
- rather than starting more new projects, the staff is considering recommending to the IASB that partnerships with NSS may help the IASB to:
  - improve the quality of the IASB's work; and
  - speed up the standard-setting process.

10. Some members who commented agreed with the staff's likely recommendation and:
- asked about the types of respondents who suggested that the IASB should partner further with NSS. Ms. Shah clarified that that feedback was received mainly from national standard setters.
- said secondments of NSS staff to the IASB staff are a good way of using NSS's resources. One member said the IASB should consider expanding this initiative to include staff from other organisations.
- suggested NSS could provide support during the initial phase of a project, helping the IASB undertake research.

11. Ms. Shah summarised possible staff recommendations on the strategic direction and balance of the IASB's activities (Agenda Paper 1C) and said the staff are considering recommending some limited changes:
- a small decrease in the current level of focus on new IFRS Accounting Standards and major amendments to IFRS Accounting Standards to:
  - focus more on other high priority areas indicated by stakeholders; and
  - decrease demands on stakeholders, who may also need to respond to ISSB projects.
- a small increase in the current level of focus on digital financial reporting to:
  - ensure that the IFRS Taxonomy provides high-quality data that users need;
  - consider the implications of technological trends on IFRS Accounting Standards; and
  - work more closely with partners in the digital ecosystem, so that the global comparability we have on paper translates to digital reporting.
- a small increase in the current level of focus on understandability and accessibility of IFRS Accounting Standards, which could help maintain the consistent application of the Standards and support the potential connectivity with the ISSB.

12. Many members commented on the possible staff recommendations. Some members agreed, whereas some other members said:
- it is unclear where the capacity to support the interaction with the ISSB will come from. Ms. Shah explained that there will be some synergies between the work of the IASB and the ISSB with respect to (i) engaging with stakeholders, (ii) understandability and accessibility and (iii) digital financial reporting. However, interactions with the ISSB may affect the number of projects that the IASB could take on (included in Agenda Paper 1D).
- the IASB should be flexible and should set aside capacity for emerging or urgent issues that may arise after the agenda consultation, for example, from regulatory developments. At times, this may require reprioritising some of the IASB's activities or projects. One member said the staff should also be flexible, so that the IASB can move staff between the IASB's activities. Ms. Shah said there are some

roles that are specialised but it is expected that the staff can be assigned to various roles.

- the IASB should clearly communicate the current stage of ongoing projects and should consider whether some projects on the current work plan should be discontinued.
- the current scope of the IASB's work is quite focused, so it is difficult to decrease the current level of focus on any activity. However, greater involvement of national standards setters in post-implementation reviews and securities regulators in consistent application of IFRS Accounting Standards could have a positive effect on the IASB's capacity. Ms. Shah said that the IASB needs to be mindful of stakeholders' limited capacity.
- the IASB should:
  o focus more on the *IFRS for SMEs* Standard to increase the global adoption of the Standard. Another member said there is not much interest from preparers or major investors in the Standard.
  o increase its current level of focus on the maintenance and consistent application of IFRS Accounting Standards, offset by reducing stakeholder engagement.
  o seek synergies between its various activities to free up resources—for example, using technological tools to improve the accessibility of IFRS Accounting Standards could be a part of digital financial reporting.
  o not decrease its current level of focus on new IFRS Accounting Standards and major amendments to IFRS Accounting Standards. However, a few members believed IASB should decrease focus on this activity to reduce the pace of change in IFRS Accounting Standards and provide a stable platform period for the stakeholders to cope with both the IFRS Accounting Standards and IFRS Sustainability Standards.

13. Ms. Rachel Knubley, a member of the IASB technical staff, provided an overview of possible staff recommendations on priority accounting issues that the IASB could add to its work plan (Agenda Paper 1D) and said the objective of this part of the meeting is to seek the IFRS Advisory Council members' advice on:
    - how to deal with uncertainties about the number of projects that the IASB could add to its work plan. Ms. Knubley said determining the number of projects that the IASB can add to its work plan is a highly judgmental exercise. This is because (i) actual timetables for ongoing projects may differ from expectations, (ii) some urgent projects may arise after the agenda consultation and (iii) the capacity implications of connectivity with the ISSB are evolving. Ms. Knubley explained that one way to navigate these uncertainties is to identify projects to add to the IASB's work plan based on today's estimate of capacity from 2022 to 2026 (for example, two large projects), but revisit this decision in one to two years. If, at that time it appears that capacity is available, the IASB can add further project(s);
    - how the IASB should communicate its decisions to stakeholders, considering the tension between the number of priority accounting issues identified by stakeholders and the IASB's capacity to add new projects to its work plan; and
    - which projects the IASB should prioritise and add to its agenda from 2022 to 2026.

14. Many Advisory Council members commented on the possible approach to navigating uncertainties about the number of projects that can be added to the IASB's work plan. Most members who commented agreed with the possible approach. These members said:
    - the approach is practical, realistic and sensible, and would provide the IASB with some flexibility;
    - it is important to be transparent about the IASB's decision-making process, so that stakeholders clearly understand the rationale behind the IASB's decisions. In these members' view, it is better to 'under promise and over deliver'.
    - the IASB should consider developing contingency plans and various scenarios for addressing issues that may arise in the future, for example, if central banks make a cryptocurrency a legal tender.

15. Some other members expressed concerns about the proposed approach and said:
    - revisiting the priorities not only drags out decision making and frustrates stakeholders, but also works against the objectives of agenda setting;
    - uncertainties will continue to be the case for some time;
    - the proposed approach may raise unnecessary expectations and may not provide the IASB with sufficient flexibility to respond to emerging issues; and
    - a 2-yearly reconsideration of the agenda would consume a lot of resources. Ms. Knubley explained that the IASB would not undertake another full agenda consultation in two years' time, but would use information from this agenda consultation together with revised capacity information.

16. Some Advisory Council members commented on how the IASB should communicate its decisions to stakeholders. They said the IASB should:
    - clearly explain its decision-making process and how it has applied the criteria to potential projects;
    - be honest, open and transparent in its communication with stakeholders; and
    - consider using the national standard setters and regional standard-setting communities as a channel to communicate its decisions.

17. Many members commented on potential projects. Of those who commented:
    - many members rated a potential project on climate-related risks as high priority. Comments from these members included:
      - recently issued educational materials should be incorporated in the Standards.
      - this project will be a high priority also for the ISSB; it will be important for the IASB to coordinate its work with the ISSB.
      - this project should reconsider the requirements in IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*
      - it will not be a large project.
    - many members rated a potential project on intangible assets as high priority. Comments from these members included:
      - current requirements do not provide useful information about some new types of assets and transactions.
      - disclosure requirements do not meet users' information needs.
      - recognition requirements in IAS 38 *Intangible Assets* are too restrictive.

- - a large project on intangibles could also address cryptocurrencies and pollutant pricing mechanisms.
  - some members said a project on cryptocurrencies and related transaction is high priority.
  - a few members suggested a project on:
    - operating segments;
    - pollutant-pricing mechanisms;
    - statement of cash flows and related transactions;
    - commodity transactions (such as commodity loans); and
    - discontinued operations and disposal groups.

18. A few Advisory Council members commented on a post-implementation review of IFRS 17 *Insurance Contracts*. One of these members suggested the IASB should prioritise the project and start it before the next consultation cycle. Another member said in some jurisdictions the effective date of the Standard has been deferred and entities needs some time to develop expertise, so the IASB should consider starting the project later, perhaps in 2027.

Post-implementation reviews

19. Ms. Shah provided an overview of the second part of the meeting on how to prioritise projects arising from post-implementation reviews (PIRs) (Agenda Paper 2) and shared some introductory comments about a possible staff recommendation:
    - In deciding if action is required, the IASB could consider whether:
      - the objective of the requirements is not being met;
      - the information is not meeting users' needs;
      - there is diversity in application of requirements; and
      - the cost of preparing, auditing, enforcing or using information differ from expectations.
    - In deciding when to take action, the IASB could consider whether:
      - the consequences of the question are significant/severe.
      - the matter arising from the PIR is pervasive.
      - the matter can be addressed by the IASB.
      - the benefit of standard setting would outweigh the cost.
    - A possible prioritisation framework for questions arising from a PIR might take the following form:
      - high-priority matters: begin work immediately.
      - medium-priority matters: add the topic to the research pipeline.
      - low-priority matters: consider the topic only if it is identified as a priority in the next agenda consultation or when the Accounting Standard is next amended.
      - 'no action' matters.

20. Most Advisory Council members agreed with the approach to prioritise matters arising from PIRs.

21. One member questioned whether there is a need for a medium prioritisation category. The member thought issues should either be resolved immediately or be added to the next Agenda Consultation.

22. Some members suggested the following refinements to the approach:
    - one member said the analysis should include quantitative measures on how many jurisdictions fully adopt the standards without amendments.
    - one member asked whether some characteristics will be prioritised in assessing whether and when to take action, for example, information not meeting users' need may be more important than diversity in application.
    - one member recommended the considerations for determining the priority of matters arising from PIRs should align with the criteria for assessing new projects in the agenda consultation.

23. A few members expressed more general observations about PIRs:
    - one member expressed concern about the timing of PIRs, observing that the PIR of IFRS 8 *Operating Segments* took a long time to complete. Ms. Shah acknowledged this feedback and note that the PIR of IFRS 8 was the IASB's first PIR. Since that time, the IASB's process has evolved to include more timely undertaking of PIRs.
    - one member said that PIRs should focus on major issues of the Standards and other issues could be addressed through other process of the IASB and IFRS Interpretations Committee.

Meeting close

24. Mr. Coen thanked the Advisory Council members for their valuable feedback on the topics discussed and noted its importance for the staff, the IASB and the Trustees.