International Acccounting Standards
Board (IASB)
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Canary Wharf
London E14 4HD
United Kingdom

27 September 2021

Dear Board Member,

Re: Request for Information, Third Agenda Consultation

BUSINESSEUROPE is pleased to have the opportunity to respond to the IASB Third Agenda Consultation (the Consultation). As we stated in our response to the 2015 Agenda Consultation, it is important that IFRS continues to provide a stable platform for financial reporting. Future developments of IFRS should therefore be restricted to essential projects.

This should also be seen in the light of developments regarding corporate reporting in a broader perspective. Increased demands for e.g. Environmental, Social, and Governance (ESG) reporting from stakeholders as well as regulatory and standard-setting activities both globally and in the EU in this area place a significant burden on preparers, including Finance departments, who are increasingly involved in all of these activities, be they financial or non-financial, because of their expertise in external reporting. As a consequence of this workload, we would expect to be less available to participate in purely accounting debates than in the past.

Reponses to the individual questions of the Consultation are included in the appendix.

If you require any further information upon these matters, please do not hesitate to contact us.

Yours sincerely,

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<u>Appendix</u>

Question 1—Strategic direction and balance of the Board's activities

The Board's main activities include:
• developing new IFRS Standards and major amendments to IFRS Standards;
• maintaining IFRS Standards and supporting their consistent application;
• developing and maintaining the IFRS for SMEs Standard;
• supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
• improving the understandability and accessibility of the Standards; and
• engaging with stakeholders.

Paragraphs 14–18 and Table 1 provide an overview of the Board'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 Board 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 Board should increase or decrease, including your reasons for such changes.

As we said in our reply to the 2015 Agenda Consultation, we are concerned about the level of activity involving the IFRS Interpretations Committee. Whilst we acknowledge that the IFRS Interpretations Committee has determined that a large proportion of the issues raised did not merit standard-setting or interpretative work, the number of issues raised appears to us to be too high. We wonder whether this is an indication that the filtering process for IFRIC issues is not functioning optimally or whether it is an indication of other problems, such as the possibility that the IFRS standards have been published prematurely, i.e. without sufficient field-testing or external review, or that the perceived diversity of interpretation and application is not as prevalent or as unacceptable as those who raised the issues appear to believe. We suggest therefore that the IFRS Foundation carries out a review to assess how the process of developing the standards may be improved in this area.

We are also concerned about how agenda decisions are interpreted. Even though the IFRS Interpretations Committee now explains the scope of the agenda decisions, we have heard that agenda decisions raise questions between preparers and auditors about how to interpret the decisions. This is an indication that agenda decisions are not drafted in such a way that they fulfil their purpose. We therefore believe that a review of the work of the IFRS Interpretations Committee should be performed to assess both whether resources are well spent and to what extent agenda decisions help stakeholders in their interpretation of IFRS standards. It is of fundamental importance that the body of IFRS remains a set of principle-based standard and that this is not eroded by numerous and detailed agenda decisions.

Overall, we think that the Board should aim to keep its activity of developing new standards and major amendments at the lower end of the suggested scale and to increase the activity devoted to ensuring that the quality and understandability of the standards is such that they facilitate consistent application and the avoidance of the frequent amendment of standards.

(b) Should the Board undertake any other activities within the current scope of its work?

We do not have any suggestions for other activities to be performed by the IASB.

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board´s work plan

Paragraph 21 discusses the criteria the Board 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 Board has identified the right criteria to use? Why or why not?

We stated in our response to the 2015 Agenda Consultation that we believe that the likelihood of reaching a successful conclusion of a project is an important criterion for a project to be considered on the Board's agenda. We believe that criteria 6 and 7 in the 2021 Agenda Consultation include this aspect in the assessment of which projects should be given priority and on this understanding, we believe that the criteria identified by the IASB are adequate. We recommend including these criteria in the due process handbook to base agenda consultation on a sound basis.

c) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

In the Board's presentations of the agenda consultation the criteria are accompanied by the "Overarching consideration – whether the potential project will meet investors' needs while taking into account the costs of producing the information". As preparers, we think that this is a very important criterion for all the activity the Board undertakes. We feel that the cost/benefit analyses that accompany many of the standard-setting projects are sometimes more of a "pro-forma" justification of the project rather than a real analysis of the need for the project and a convincing justification of the conclusions reached. Whether this view is fair is a matter of opinion, but we do think that the Board should be very thorough in presenting the evidence for and against the need for a project before adding it to its work programme. It is always difficult to place a value on the expected benefits, but we think projects should have a clear and widely recognised positive cost / benefit result before being commenced or finalized.

We do not have any other criteria to propose.

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Question 3—Financial reporting issues that could be added to the Board´s work plan

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

(a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board'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 Board is particularly interested in explanations for potential projects that you rate a high or low priority.

(b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:

(i) the nature of the issue; and

(ii) why you think the issue is important.

We agree with the Board's view that current projects already on the workplan should be continued. Our list of projects to be undertaken is based on the assumption that projects that are currently are on the workplan will be finalized.

We support the intention to perform the required post-implementation reviews (PIRs).

We abstain from attempting to rank all the projects listed in Appendix B because it is difficult and time-consuming for us to assess such a broad range of projects and their importance to our many members. Instead, when suggesting which items could be added to the workplan, BusinessEurope has tried to identify those projects that in our view should be given priority on the basis of those which we believe would have the biggest impact and usefulness and are most likely to be successful.

Discontinued operations and disposal of groups (IFRS 5) (item 5 Appendix B)

A review of IFRS 5 was mentioned by BusinessEurope as a possible project in our response to the 2015 Agenda Consultation. As mentioned by us in 2015, a fundamental review of users´ needs should aim to identify the purpose and the scope of the standard and the type of information required. We note that the IASB after the 2015 Agenda Consultation decided to do a PIR on IFRS 5. However, this project has not yet started. We believe that the arguments for a review of IFRS 5 are still valid and that this project should be given high priority.

Issues include:

- The scope of the presentation requirements of discontinued operations

When presenting discontinued operations, IFRS 5 refers to a component of an entity that is either a separate major line of business or a geographical area. A reportable segment would usually meet these criteria. In cases where reporting entities have segments that cooperate with other segments (e.g. a financial services segment that provides captive financing for all other segments). If a segment that meets the criteria of a separate major line of business is to be disposed along with a part of the other segment (which would not meet the definition of a separate major line of business), the presentation requirements of discontinued operations would only apply to that segment. This seems to provide confusing information given the aim of IFRS 5 to provide information that enables users to assess the effects of the continued operations.

- Guidance on the presentation of discontinued operations (i.e. allocation of eliminations)

While IFRS 10 applies and requires that only fully eliminated amounts are presented in the statements of financial position and performance, there is diversity in practice on where the amounts of elimination are presented. This could be either in the continued operations, the discontinued operations or depending on whether a transaction is expected to continue in the future.

- The characteristic of the notes disclosures requirements of IFRS 5 (i.e. does it override all disclosure requirements of other standards except for those on measurement?)

Especially when it comes to segment reporting, there are diverging views on whether a segment that meets the criteria of a discontinued operation must or can still be presented as a segment within segment reporting.

- The boundaries of disposal groups (i.e. when is a transaction a *single transaction*?)

It seems unclear whether a single transaction can involve multiple transaction dates (e.g. when a buyer agrees to acquire multiple items in one agreement but the actual transaction dates of the individual items vary) or if a single transaction can only occur when there is only one buyer (e.g. when multiple items are sold at one point in time to multiple buyers).

Discount rates (item 6 Appendix B)

We note that some research has been performed by the IASB and that amendments have been proposed, e.g. in the DP *Business Combinations – Disclosures, Goodwill and Impairment*. But, as stated in our response to the 2015 Agenda consultation, we consider that a review of the use of discount rates across the whole set of IFRSs still is necessary. We therefore think that the IASB ought to reach out to stakeholders to enable them to form an opinion on whether a more comprehensive project on discount rates should be taken further.

Intangible assets

IAS 38 is now an old standard which has been modified very little. In contrast, companies appear to be constantly developing new ways of doing business and new transactions which blur the boundaries between intangible assets, financial instruments and inventory. The recent IFRIC consideration of the costs of access to cloud computing arrangements is one example of new business models which call into question the current approaches to intangible assets.

In addition, the trend in Non-Financial Information reporting standards is to require more information to be provided about the existence and value of intangible assets, including those which are not currently recognised.

Finally, if, as a result of the project in process at present, the IASB should decide to pursue the principle of amortization of goodwill, the question of the separation or integration of goodwill and other intangibles will probably have to be considered once again.

We would therefore suggest that the IASB undertakes a fundamental review of intangibles accounting with the aim of determining whether current accounting models are still appropriate.

Variable and contingent consideration (item 22 Appendix B)

BusinessEurope mentioned this issue in the reply to the 2015 Agenda Consultation. We believe that this project still is of high importance.

This is an issue that the IFRS Interpretations Committee has been trying to resolve for a while in respect of both asset purchases and business combinations. We think that the amended Conceptual Framework should provide the principles to deal with this by addressing the question of what the opposite side of the entry should be when there is a variation in a liability or an asset. This is a fundamental question, the answer to which could also provide a route to resolving other matters, such as variations in non-controlling interests.

Equity method of accounting

This issue was mentioned by BusinessEurope as a possible project in our response to the 2015 Agenda Consultation. In addition, in October 2016 the Board discussed a topic raised by the IFRS Interpretations Committee “Interests in associates and joint ventures that, in substance, form part of the net investment” which indicated that the nature of equity accounting and the boundary between it and accounting for financial accounting was unclear and thus the source of some difficulties in understanding the principles involved. We note that equity accounting is included in the PIR for IFRS 10-12 and that a narrow scope project on the application of the equity method is on the workplan of the IASB. However, this is a research project and therefore it is far from certain that a standard-setting project will result.

We think that there are areas of equity accounting which need to be reconsidered, such as, for example:

a) Impairment methodology does not seem to be sound (impairment)

IAS 28.41C refers to the cost of an investment instead of the carrying amounts as the reference for testing for impairment losses. In cases where an investment in an associate or joint venture is profitable but does not distribute its gains, the carrying amount exceeds the costs of the investment. The carrying amount may be overstated when the recoverable amount of that investment is below the carrying amount but above the initial costs. Conversely, if the recoverable amount of an investment has been impaired and that impairment is substantiated by losses reported by the at-equity investment, the loss is recognized twice until there is a reversal.

b) Reclassification of items recognized in OCI when an investment is classified as held for sale is not sound

IAS 28.20 requires a reporting entity that classifies its investment as held for sale in accordance with IFRS 5 to discontinue the application of the equity method. In that case, any amounts recognized in OCI shall be reclassified to P/L or within equity in accordance with IAS 28.22. This is a peculiarity of IAS 28 since reclassification of amounts recognized in OCI usually occur only on the actual disposal of the investment.

NCI puts

There is still an issue on NCI puts as there are diverging views on whether changes in the redemption amount of NCI puts should be recognized in the P/L or in equity. While the IFRS IC has confirmed that both is possible for NCI puts, it has not done so for NCI forwards, although many of the economic characteristics are identical. This has been a lasting issue for preparers and enforcers.

Climate-related risks and pollutant pricing mechanisms

These are topics which have been discussed for many years but not fully dealt with in IFRS. We believe that with the increasing global focus on climate change, sustainable investments, quotas and pollution credit trading schemes, the development of clear accounting methods for these matters will become more pressing. The European Union, in particular, has become very active in its ambitions in the area of the reporting for a sustainable economy.

We therefore think that it would be useful if the Board were to analyse the developments in this area and to be able to identify rapidly those topics which are likely to become an issue and thereby prepare to resolve them in good time.

Question 4—Other comments

Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

We have no further comments.

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