

The Trustees  
IFRS Foundation  
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United Kingdom

27 September 2021

Dear Trustees,

**Invitation to comment - Request for Information: *Third Agenda Consultation***

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the Request for Information - *Third Agenda Consultation* (the RFI).

We would like to draw your attention to the following points:

- Paragraph 4 of the Introduction to the RFI states that 'this agenda consultation does not seek feedback on issues related to sustainability reporting, except to the extent that those issues relate to the current scope of the Board's work'. It is difficult to comment effectively on the Board's technical agenda going forward without considering the collaborative work that will be done alongside the new International Sustainability Standards Board (ISSB). In our view, the remit of the work of the IASB (or Board) over the next five years will realistically include work on sustainability issues, for example, Management Commentary. We believe that it be helpful to defer this agenda consultation until the ISSB is up and running, particularly since the two boards will likely share resources, and we understand from the RFI that the IASB expects its current level of resources to remain 'substantially unchanged' from 2022 - 2026.
- We are concerned by the number of post-implementation reviews (PIRs) the Board 'intends to conduct' between 2020 - 2026. We suggest that the Trustees reassess the overall PIR process, in order to improve timeliness and responsiveness to known practical application issues.
- We recognise that outreach is an important part of the Board's work. We recommend, however, that future outreach is performed in a more focused manner, particularly to investors, so as to identify the specific issues that stakeholders are facing. We also encourage the Board to consider the best way to communicate the results of outreach done, perhaps in the Basis for Conclusions to a new or amended Standard. We believe that stakeholders would benefit from this information and it will provide greater transparency in the standard-setting process.
- In our response to question 3, we have recommended the new projects that we believe the Board should take onto its workplan for 2022 - 2026. In response to question 4, we recommend which projects on the current work plan should either be continued or paused/reconsidered.

Our detailed responses to the specific questions in the RFI are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*

## Appendix

### 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.

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

### Response:

We do not have particular concerns over the Board's main activities or the current level of focus for each of them, as described in the RFI. We do, however, think some of the categories overlap, such as the development of new IFRS Standards and major amendments to IFRS Standards, improving the understandability and accessibility of the standards and engaging with stakeholders. As such, it is difficult to comment on whether the percentage of time spent on each is relevant or not.

We make the following specific points:

- We are concerned by the number of post-implementation reviews (PIRs) that the Board 'intends to conduct' between 2020 - 2026. We believe that PIRs are an important part of the Board's standard setting process and the outcomes are useful to stakeholders. We are aware, however, that PIRs are time-consuming projects, which need to be correctly scoped and involve considerable outreach and research by the Board and its staff, as well as by stakeholders in drafting their response. We also observe that the IFRS Interpretations Committee (the IFRS IC) tends to defer resolving issues if there is an associated PIR planned at some point in the future. Because there is no 'sunset clause' in the Due Process Handbook (DPH) indicating when PIRs should be performed on an IFRS Standard, PIRs and associated outstanding application issues tend to accumulate, as they have now.

We, therefore, suggest that the Trustees reassess the overall PIR process. We would suggest that the Trustees consider including timing provisions for PIRs in the DPH, and also whether more narrow-scope standard setting could be done outside the PIR process, in order to improve timeliness and responsiveness to known practical application issues.

We would encourage the Board continue with the PIR of IFRS 9. We urge the Board to begin the PIRs of IFRS 15 and IFRS 16 as soon as possible. In this regard, we would suggest that the Board consider the work already underway by the US Financial Accounting Standards Board (FASB), to assess whether the outreach performed by the FASB so far could be helpful in accelerating these PIRs.

- In Table 1, the RFI states that the Board could ‘*work more with investors, companies, auditors, regulators and others to identify challenges in applying the Standards.*’ While we appreciate that outreach is an important part of the work done by the Board, performing ongoing, broad outreach activities would likely result in a constant ‘wish list’ of items for the Board to consider, which would not be helpful in focusing the Board’s attention and resources. Gathering issues and considering them in a holistic manner that would drive the Board’s strategy for its activities is, in any event, the purpose of the five-yearly Agenda Consultation process.

Going forward, we would recommend that outreach is performed in a directed and focused manner, particularly to investors, so as to identify the specific issues that stakeholders are facing. We would encourage the Board to consider the best way to communicate the results of outreach done, perhaps in the Basis for Conclusions to a new Standard or amendment to a Standard. We believe that stakeholders would benefit from this information and it will provide greater transparency of the standard-setting process.

- We understand that the *IFRS for SMEs* Standard is used by a number of jurisdictions and we support the Board’s work in developing and maintaining the Standard. We would suggest, however, that the Board consider whether any updates are needed to *IFRS for SMEs* at the same time as new IFRS Standards are being developed or amended, including any standard setting work to be done as a result of a PIR. This would possibly be a more effective and efficient process than performing a five-yearly review of *IFRS for SMEs* as a separate project. We would also encourage the Board to consider how to maximise the time and experience of the SME Implementation Group (SMEIG) in this regard, as well as the suggested collaborations with national standard setters and other bodies in jurisdictions where the use of this Standard is prevalent. Please also refer to our comments under question 4 on the Second Comprehensive Review of the *IFRS for SMEs* Standard project.
- We would support the continuing development and maintenance of the current IFRS Taxonomy, and any efficient ways to increase the quality of electronic data and consistency in application. We think the current level of focus on this activity should not be increased beyond its current level over the next five years, given the Board’s other priorities.

**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?

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

**Response:**

We note that the last three criteria of the seven listed - the potential project's interaction with other projects on the work plan, the complexity and feasibility of the potential project and its solutions and the capacity of the Board and its stakeholders to make timely progress on the potential project - are not included in paragraph 5.4 of the DPH. If all seven criteria are to play a role in setting the Board's future agenda, we would suggest that the Due Process Oversight Committee (DPOC) is consulted to assess whether these additional criteria should be added to the DPH.

**Question 3**

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.

**Response:**

We have included our ranking and related comments for the projects (in alphabetical order) in the table below.

Project	Comments	Ranking
Climate related risks	We consider climate-related risk issues to be a high priority. There is currently no specific guidance on measurement and disclosure of these matters, which are growing in importance for investors and other users of financial statements. We expect the ISSB to take the lead in working on climate related (and other ESG) issues, but that the future work streams would be aligned with those of the IASB in respect of any necessary amendments to	High

<b>Cryptocurrencies and related transactions</b>	<p>IFRSs, where financial reporting is impacted, e.g., disclosures around rehabilitation and impairment issues. We note that the use of cryptocurrencies and related instruments is becoming increasingly common (in El Salvador, by some Nordic central banks, amongst others). We are not, however, convinced that a large standard setting project is the right solution. We would suggest that comprehensive outreach is done with investors, and for that outreach to be published. There is a wide range of issues to be considered in this area, and the correct scoping of the project is therefore very important. We could see the Board potentially tackling 3-5 focused standard setting issues as a start, over the next 5 years.</p>	High
<b>Intangible assets</b>	<p>We think that some standard setting work on intangibles, especially internally generated intangibles, would be useful, for example, improved disclosure requirements for these assets. We would suggest that the Board assess the issues that have already been raised by stakeholders, and also consider whether some disclosure issues could be solved by the ISSB. The Board could consider combining this project with work done on cryptocurrencies and related transactions - please refer to our comments above.</p>	High
<b>Commodity transactions</b>	<p>We believe that this is an area that would benefit from standard setting. We would suggest carrying out targeted outreach in order to identify key areas of concern. The Board could consider combining this project with the project on cryptocurrencies and related transactions, as well as with any work done on pollutant pricing mechanisms - please also refer to our comments on those projects.</p>	Medium
<b>Discontinued operations and disposal groups</b>	<p>In our response to the 2015 Agenda Consultation, we stated that 'In July 2015, several issues relating to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> were discussed at the IASB meeting. As noted in paragraph 33 of the Agenda Consultation, this will be considered as a potential research topic. We support its inclusion as an additional research topic.' Since that time, more issues with IFRS 5 have arisen and have been deferred to the IFRS 5 PIR process by the IFRS IC. Since the IFRS 5 PIR is not planned to begin in the next five years, we would suggest that the IASB and the IFRS IC work together to assess the application issues that have been raised, and work on possible focused and shorter-term solutions.</p>	Medium
<b>Pollutant pricing mechanisms</b>	<p>We believe that this is an area that would benefit from standard setting. We recommend that the IASB and the ISSB work together on the best approach to provide guidance on pollutant pricing mechanisms, particularly in the renewables sector, e.g., trading of carbon emission</p>	Medium

	certificates. The Board could consider combining work on this project with that on commodity transactions - please refer to our comments on that project.	
<b>Statement of cash flows and related matters</b>	We note that there has been recent regulatory scrutiny of cash flow information. We also note that cash flow related matters have recently been submitted to the IFRS IC. We suggest that the Board perform some targeted outreach with regulators and investors to identify key areas of concern. IAS 7 would benefit from targeted updates to make it fit for purpose in the current economic environment.	Medium
<b>Variable and contingent consideration</b>	This has been an issue in practice for some years, and we suggest that it could be addressed by a narrow scope project for certain types of transactions, for example those falling within the guidance of IAS 2, IAS 16 and IFRS 16 (although the PIR of IFRS 16 may include these issues in its scope).	Medium
<b>Borrowing costs</b>	Like other older standards, IAS 23 could do with some maintenance, but this is a low priority for the next five years.	Low
<b>Discount rates</b>	Although there is some diversity in practice due to differences across Standards, we do not think that the IASB should focus its time and efforts on this project in the next five years.	Low
<b>Employee Benefits</b>	There are already three projects relating to IAS 19 on the work plan [Disclosure Initiative–Targeted Standards-level Review of Disclosures, Pension Benefits that Depend on Asset Returns and Availability of a Refund]. We do not think that a further project on IAS 19 is a priority for the IASB during the next five years. Please also refer to our comments on the current work plan projects under Question 4.	Low
<b>Expenses - inventory and cost of sales</b>	Whilst we appreciate that cost is an issue across a number of standards, and that this request came through as a result of implementing IFRS 15, we do not recommend the Board to undertake a large project on this issue in the next five years. We suggest, however, that the IASB considers this issue in the scoping of the PIR of IFRS 15, with some targeted improvements to follow.	Low
<b>Foreign currencies</b>	We do not think that IAS 21 requires a comprehensive review at this time; the Standard is largely fit for purpose. However, we note that foreign currency issues are prevalent in developing countries, and there are issues when applying IAS 21 in jurisdictions experiencing hyperinflation. We suggest that the IASB performs some outreach in those regions to understand what the issues are, and perhaps consider how best those can be solved.	Low
<b>Going concern</b>	While we do not think that the IASB should add a medium or large project to its agenda on this topic, we note that there is a need to align the accounting requirements	Low

	(specifically disclosures) with the auditing requirements around assessing going concern. We would suggest that the IASB liaise with the IAASB to work on a consistent definition and consequences of going concern uncertainty.	
<b>Government grants</b>	Although we note that IAS 20 was written some time ago, is inconsistent with some other IFRS Standards and, as such, needs to be updated, we are not convinced that this should be a priority of the IASB in the next five years. However, we would support targeted amendments to this Standard being made as a consequence of standard-setting work on other Standards, as recommended above.	Low
<b>Income taxes</b>	We do not believe that a medium or large project on income tax is a priority for the IASB for the next five years. IAS 12 broadly works in practice. The IFRS IC could provide guidance on specific tax-related issues when needed.	Low
<b>Inflation</b>	We do not believe that a medium or large project on inflation is a priority for the IASB for the next five years. Guidance in the form of education material could be helpful for economies experiencing high inflation.	Low
<b>Interim financial reporting</b>	We do not believe that this project is a priority for the IASB for the next five years, as the standard broadly works in practice.	Low
<b>Negative interest rates</b>	We do not believe that this project is a priority for the IASB for the next 5 years. The IFRS IC should continue to provide guidance on specific issues when needed.	Low
<b>Operating segments</b>	As for many other standards, IFRS 8 could possibly do with some targeted updates, but we believe that there are other bigger priorities for the IASB. We would suggest, however, than the Board considers any consequential amendments to this standard as a result of the Goodwill and Impairment project.	Low
<b>OCI</b>	We do not believe that this project is a priority for the IASB for the next five years. We agree that the PIR of IFRS 9 may highlight specific application issues, which could then be dealt with as part of the PIR process.	Low
<b>Separate financial statements</b>	Separate financial statements are important in some jurisdictions and not in others, so it is difficult to make this a priority for the IASB for the next five years, given the other more generally applicable issues that the IASB need to deal with. The Board could possibly consider working with local standard setters in those jurisdictions where there are specific issues, and consider ways to provide guidance.	Low



#### Question 4

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.

#### Response:

We set out our comments and suggested actions for the projects on the Board's current work plan in the table below.

Project	Current status and comments	Suggested action
<b>Research programme</b>		
<b>Business combinations under common control</b>	The DP comment period ended on 1 September 2021.	We support continuation of the project. There is no current guidance in IFRS for BCUCC, Therefore, much diversity exists in practice.
<b>Dynamic Risk Management</b>	In May 2021, the Board directed the staff to do further outreach on the main issues, starting with how risk limits and the target profile relate to each other. The Board will then consider whether it can solve the main challenges identified, during future discussions.	We support directed outreach activities, in order to understand the urgency and pervasiveness of the issues. Once this is done, we believe the Board will be in a better position to decide how to proceed with the project, in the context of other priorities. In our view, the Board should either proceed with this project, or transfer the guidance on macro-hedging from IAS 39 to IFRS 9.
<b>Equity method</b>	The Board is undertaking research to assess whether application questions with the equity method can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.	Whilst we believe that the equity method does need a conceptual overhaul, we also do not believe that the Board should invest in such a large project at this time, given other priorities. We would, however, support targeted amendments to IAS 28, if they help to reduce diversity in current practice for known issues. We also encourage the Board to consider the outcomes of the PIR on IFRS 10/11/12, to further inform their work on the equity method project.

Project	Current status and comments	Suggested action
<b>Extractive Activities</b>	The Board is gathering evidence in order to decide on the scope and direction of this project.	We believe that the guidance in IFRS 6 is well understood and practice is established. We are not convinced that the Board should allocate significant resources to this project at this time, given other more pervasive issues for which there is currently no guidance, as noted in our responses to question 2.
<b>Goodwill and Impairment</b>	The Board is currently debating the feedback on the DP.	We would support continuation of this project. A lot of time has already been invested in it and the issues are important and pervasive.
<b>Pension Benefits that Depend on Asset Returns</b>	The Board is gathering evidence to help decide whether to develop proposals to make a narrow-scope amendment to IAS 19 for pension benefits that depend on asset returns.	We would suggest that the Board considers whether to continue with this project at the current time, in the context of other priorities.
<b>PIR of IFRSs 10/11/12</b>	The comment period for the RFI ended in May 2021. The Board is currently discussing the feedback received.	We support continuation of this project. We are hopeful that the project will also address cross-cutting issues with IFRS 15 and IFRS 16. Guidance on accounting for collaborative arrangements would also be welcomed, as these types of risk-sharing arrangements are common in a number of sectors, and there is diversity in practice in how they are accounted for.
<b>PIR of IFRS 9 (1/3) - Classification and Measurement</b>	RFI expected in September 2021	We support the continuation of the IFRS 9 PIR process. Please also note our comments on question 1 on the general PIR process.
<b>Second Comprehensive Review of the IFRS for SMEs Standard</b>	ED is next step; Board is currently debating issues.	Given that the process has begun, we would support continuing with it, however, please note our response to question 1 on the SME Standard, and our comments below on

Project	Current status and comments	Suggested action
<b>Standard setting projects</b>		
<b>Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures</b>	Comment period for ED ends on 31/1/22	<p>the Disclosure Initiative – Subsidiaries without Public Accountability.</p> <p>While we understand the need for relief from full IFRS disclosures for some entities, we are concerned that this project will result in disclosure requirements for a new ‘hybrid’ group of entities that falls between those applying full IFRS, and those applying <i>IFRS for SMEs</i>. Maintenance of three frameworks will be onerous, in our opinion. We suggest that the Board pause work on this project, and consider whether the disclosure relief for entities without public accountability could be provided through existing guidance. For example, the disclosure requirements in existing IFRS Standards could be amended to provide disclosure relief for such entities. Alternatively, the SME Standard could be amended to include recognition and measurement guidance, to complement the existing reduced disclosure requirements.</p>
<b>Disclosure Initiative – Targeted Standards-level Review of Disclosures</b>	Comment period for ED ends on 12/1/22	<p>Since current standards already require entities to provide additional disclosures when prescribed disclosures are not sufficient and do not require disclosures for immaterial items, we do not believe that the proposed approach will solve the greater problem with disclosures. We believe that the Board should pause work on this project and perform some</p>

Project	Current status and comments	Suggested action
<b>Management Commentary</b>	Comment period for ED ends on 23/11/21	directed outreach to refocus its efforts. We believe that the Board should pause work on this project until the ISSB begins its standard setting work. As we noted in our comment letter in response to the ED - <i>Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards</i> , if sustainability disclosures that come out of the work by the ISSB are partly included in the Management Commentary section of the financial statements, then we would expect both Boards will have to have (shared) responsibility in this regard. It would be onerous for stakeholders if the Practice Statement was amended twice in a short space of time.
<b>Primary Financial Statements</b>	The Board is currently deliberating the proposals following feedback on the ED.	We would support the continuation of this project. We would give it a higher priority than the other disclosure initiative projects mentioned above.
<b>Rate-regulated Activities</b>	ED comment deadline was 31/7/21.	We support the continuation of this project.
<b>Financial Instruments with Characteristics of Equity</b>	Board is currently deliberating proposals for an ED.	We would suggest that the Board refocus this project. We would urge the Board to consider splitting it into smaller, more focused areas where application is of concern, and attempt to solve those with directed standard setting.
<b>Maintenance projects</b>		
<b>Availability of a refund</b>	Board will consider project direction at a future meeting.	We do not believe that this is a priority for the Board, and

Project	Current status and comments	Suggested action
<b>Lack of Exchangeability (amendments to IAS 21)</b>	ED comment deadline was 1/9/21.	we suggest that the Board reconsiders proceeding with it, given other priorities. We support continuation of the project, as we believe that these amendments could reduce the existing diversity in practice.
<b>Lease Liability in a Sale and Leaseback</b>	Board will consider project direction at a future meeting.	We support continuation of the project, as we believe that these amendments could reduce the existing diversity in practice.
<b>Provisions–Targeted Improvements</b>	Board will consider project direction at a future meeting.	We do not believe that this is a priority for the Board, and we suggest that the Board reconsiders proceeding with it, as part of the agenda consultation process.