IFRS

STAFF PAPER

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Accounting Standards Advisory Forum

Project	2020 Agenda Consultation		
Paper topic	Suggestions received for potential future projects		
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Introduction

1. In agenda paper 5A, discussed at the October meeting, we set out the Board's approach to the 2020 Agenda Consultation. That consultation will include a Request for Information (RFI) which will be published in September 2020. The RFI will include a description of potential projects for the Board's future work plan for comment by stakeholders.

2. The objective of this session is for ASAF members to help us identify and develop a description of those potential projects. We are not seeking a consensus view from the group.

3. In Appendix A to this paper we have noted the topics suggested by members or the staff of members' organisations for discussion today. Where ASAF members have provided suggested solutions or an indication of size we have included this information.

4. We have not prepared any assessment or added an analysis of the topics suggested; this is a fact-finding session with the aim of letting members describe projects in their own words. We have, however, tried to categorise the topics suggested by theme to give structure to the discussions.

Proposed approach to the discussions

5. We suggest the following agenda for the discussions:

   (a) Discussion of suggestions for potential new topics to add to the work plan described in the appendix – including members reactions to topics; and

   (b) Discussion of the financial reporting environment and other comments received, such as overall balance of the Board’s activities and comments on the agenda consultation process.

Appendix A Suggested topics

This appendix consists of:

a) potential new topics to add to the work plan–for discussion (pages 3–16);

b) suggestions relating to existing or planned projects (pages 17–20);

c) suggestions relating to projects nearing completion (page 20);

d) considerations for planned post-implementation reviews (pages 21–22);

e) comments received on the balance of the Board's activities (pages 22–23).

Where possible, we have retained the wording used by ASAF members to describe each of the issues.

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
POTENTIAL NEW TOPICS TO ADD TO THE WORK PLAN – for discussion		
1. Intangible Assets		
Recognition of, or disclosure for, intangible assets not currently recognized in IAS 38. We think that IAS 38 *Intangible Assets* needs to be modernized to provide information about unrecognized internally generated intangible assets, such as: - Human capital (e.g., workforce culture and employee competencies) that drive towards higher productivity and innovation; - Organizational capital (e.g., innovation, business processes, data, systems and software) that contribute to maintaining competitive advantage; and - Relationship capital (e.g., brand and reputation) with key external stakeholders such as customers and suppliers to ensure future business sustainability.	There are several potential solutions that would provide users with decision-relevant information pertaining to an entity's unrecognized internally generated intangible assets. These include, but are not limited to: a) permit the recognition of some or all internally generated intangible assets (including those that would be recognized if they	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
Problem: The current guidance in IAS 38 *Intangible Assets* does not: a) permit the recognition or measurement of certain internally generated intangible assets; or b) require disclosure about an entities unrecognized internally generated intangible assets or value creation activities We think that this topic is important as an entity's value creation activities are increasingly more intangible in nature. Additionally, we continue to observe a shift in the global economy where intangible assets such as big data, customer relationships, brand, efficient business processes, or the dynamic capability of a workforce, are an important part of how businesses create value. Therefore, we think that information about unrecognized internally generated intangible assets and an entity's other value creation activities is important to users as it provides insight into a company's ability to generate future profits and cash flows. Furthermore, users in our jurisdiction shared a preference to have more information about those activities that an entity has expensed in a period that would impact future profits and cash flows (e.g. research and development costs, training costs, advertising costs). Overall, several members of our User Advisory Council think that some investors consider these costs as investments in future profits and cash flows.	were acquired separately or through a business combination); or b) require enhanced disclosure or disaggregation of information about an entity's value creation activities.	
Intangibles (whether meeting the definition of an asset or not) Although there are some promising ideas under consideration within the IASB's project on Management Commentary, there remains much more that could be considered to improve the quality of information on the generation and maintenance of source of future value. This is probably best approached by supplementing the existing thinking rather than through radical change. Some argue that: - there is insufficient recognition of internally generated intangible assets – are the recognition criteria outdated and too restrictive? - there is too much separate recognition of intangibles on business combination – are they all capable of reliable measurement in practice? Relevant research - FRC Discussion Paper 'Business Reporting of Intangibles: Realistic Proposals' (2019) - Other relevant research is currently being carried out by, for example, EFRAG, ICAS and others.		
Under the new economic environment, more and more enterprises show the characteristics of asset-light. Whether and how to recognize assets without physical form such as customer relationships, human resources, internal brands and client lists etc has become a problem to be solved in practice, which also causes the excessive value of goodwill in mergers and acquisitions to some extent. Stakeholders affected: Preparers, users and regulators.	To revise the standard.	Medium

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
Review of requirement for intangible assets. The suggesting Board's User Advisory Committee noted in particular the consideration of more consistent and comparable disclosure of unrecognised intangible assets.		
IAS 38 is an old standard with a conservative approach to asset recognition and measurements. Yet intangibles have a growing significance in most businesses. Therefore, users are probably obtaining their information on intangible assets from sources other than IFRS-compliant financial statements. That may be fine; however, it would be useful to research where users are getting that information from and the types of information about intangible assets they find most helpful. Given the struggle standard setters have had in developing requirements on intangible assets that are more progressive than the current standards, instead of a fundamental revision of IAS 38, it may be possible to identify key disclosures that could facilitate users' use of information on intangible assets that is sourced outside financial statements. This is particularly the case since the information in the financial statements has credibility through the audit process, which may be lacking in users' other sources of information.	Research and possible selected additional disclosures	
2. Crypto assets		
While the Interpretations Committee's Agenda Decision of June 2019 addressed the accounting for cryptocurrency holders, it is doubtful whether the current IAS 38 faithfully reflects the economic substance of cryptocurrency and provides relevant information. Also, in a case where cryptocurrencies are mined (Initial Coin Offering, ICO), the holder's and the issuer's accounting for the transaction is unclear. A variety of cryptocurrencies continue to appear and the trade volume is increasing. With its extremely high volatility in value, cryptocurrencies are recognized in the market as an investment means just like financial instruments. Thus, if cryptocurrencies are accounted for in accordance with the intangibles standard following the IFRS Interpretations Committee's decision, the accounting transparency of the cryptocurrency intermediary may be doubted. Stakeholders affected: Cryptocurrency intermediaries, regulators and supervisory bodies, entities trading cryptocurrencies and the investors using the financial information of such entities.	Short term: Amend the definition of intangible in IAS 38 so that only intangibles of business use may be included in the application scope; and allow the entity to develop its own accounting policy to account for investment purpose intangibles such as cryptocurrencies. Long term: Develop a separate IFRS standard to address investment purpose intangibles such as cryptocurrencies.	Short term: Small Long term: Large
IAS 38 currently requires cryptocurrency assets to be initially measured at cost, without subsequent remeasurement unless the asset is impaired. We share the same concerns expressed in public meetings by several IFRS Interpretation Committee members and IASB members that under the current IAS 38 model, the most useful information on cryptocurrencies (i.e. fair value) is not provided to users of financial statements. We think that there is urgency to address this issue as the use of cryptocurrencies or similar types of assets is increasing. As such, we encourage the IASB to develop guidance to account for these instruments, or similar instruments.	We've identified several potential solutions that the IASB may consider, including: a) Removing cryptocurrencies from the scope of IAS 38 – this would eliminate the constraints of the current requirement in IAS 38	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
	to measure these assets at either cost or fair value; b) Making targeted amendments to IAS 38 – for example, to permit additional assets (including specifically cryptocurrencies) to be remeasured at fair value; or c) Requiring additional disclosure – this may include information about an entity's holdings in cryptocurrencies, the original cost of those assets, the fair value of the assets as at the reporting date and the source of information used to determine the fair value of the instrument.	
With the rapid development of information technology and financial technology, blockchain-based cryptocurrency has become a new form of wealth and is also a growing field of concern for regulators around the world. However, there are no accounting requirements for its recognition, measurement and presentation in existing IFRSs. Whether it should be accounted for as monetary assets, financial assets or intangible assets is not clear and the accounting practice might be diverse. Stakeholders affected: Preparers, regulators, and issuers and investors of cryptocurrency.	To set a new standard or provide a guidance.	Medium
Virtual currencies – a comprehensive project addressing the accounting by issuers and holders.		
3. Cost of Sales / Expenses		
The objective of this project would be to improve the accounting for inventory and cost of revenues (including both cost of goods cost and services). This project could consider including: - The objective of inventory costing (clear guidance on cost capitalization and classification) - Multiple inventory costing and cost of sales approaches (including industry-specific cost capitalization guidance) and impairment models (including inventory and revenue contract impairment guidance) - Other areas in which there is a lack of guidance.		
The notion of cost is often taken for granted, but it is an elusive concept that merits careful examination, as evidenced by the 1981 publication 'LSE Essays on Cost'. It is arguable that the recent proposal to clarify the identification of 'onerous contracts' under IAS 37 did not demonstrate a clear and convincing concept of 'cost'.		

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Given that we now have a standard on 'revenue' it is timely to consider whether IFRS Standards provide adequate guidance on the other component of 'gross profit'—that is, cost of sales. Clarification of cost would also assist in the following issues: - Does a single notion of 'cost' serve for all purposes, or at least all purposes within general purpose financial statements? - Where assets are exchanged, is the cost of the acquired asset ever, or sometimes, adequately reflected by the book value of the asset given up? - What it is the justification for assuming that the recoverable amount of an asset is at least as great as its historical cost (adjusted for consumption and impairment)? Or is there an alternative justification for historical cost? Relevant research - LSE Essays on Cost (1981) - Conceptual Framework: Measurement (paper presented to IFASS in March 2015, paper 8.2)		
IFRS Standards include different definitions of cost. ▪ On one hand, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property* define the cost as "the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRS Standards, eg IFRS 2 *Share-based Payment*; ▪ On the other hand, IAS 2 *Inventories* states that "The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition". ▪ The *Conceptual Framework for Financial Reporting* states that "The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs". • IAS 27 does not define the cost of an investment in a subsidiary, joint venture or associate. • The main issues identified so far are the following: - It is not clear whether the cost of an asset includes variable and contingent payments, ie whether the cost of an asset should include payments that are probable but not certain. - It is not clear whether the cost of an asset includes the fair value of a derivative on settlement date (see IFRIC Agenda decision on *Physical Settlement of Contracts to Buy or Sell a Non-financial Item* in the March 2019 IFRIC Update) - When a subsidiary is acquired in stages, it is not clear whether the cost of the investment in the subsidiary includes the fair value of the initial investment at the date of obtaining control of the subsidiary (see IFRIC Agenda decision *Investments in a subsidiary accounted for at cost: Step acquisition* in the January 2019 IFRIC Update).	This project could be done in parallel with the submitter's proposed project on Expenses (above).	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
• IFRS Standards include a standard on revenues (IFRS 15) but not a standard on expenses. • During the implementation of IFRS 15 some of our stakeholders questioned whether a purchaser should apply, in a symmetric way, some of the requirements of IFRS 15 to account for its expenses. • This lack of guidance, in our view, has the potential to generate divergence in practice, because some entities might start applying the requirements of IFRS 15 to account for expenses from contracts with suppliers using a "mirroring approach", while others may apply a different approach. • The main issues identified so far are the following: - Identifying performance obligation: IFRS 15 requires that at contract inception, a seller shall identify as a performance obligation each promises in a contract. Some companies question whether the purchaser should identify and account for separately the goods and services included in a supply contract. - Variable consideration: IFRS 15 requires that when determining the transaction price, an entity shall consider the effects of variable consideration including contingent consideration. It is not clear whether the purchaser should estimate an amount of variable consideration applying the IFRS 15 guidance (ie the expected value method or the most likely amount method). - Existence of a significant financing component: IFRS 15 requires that when determining the transaction price, an entity shall consider the existence of a significant financing component. It is not clear whether the purchaser should discount the advance payments made when there is a significant financing component in a supply contract. - Expenses recognition: IFRS 15 requires that an entity shall recognise revenues when the customer obtains control of the goods or services promised in the contract. Control may be transferred "at point in time" or "over time". It is not clear whether the purchaser should recognise expenses using the same approach, ie distinguishing between goods and services transferred "at point in time" or "over time".		
4. Employee Benefits		
OCI and recycling: actuarial gains and losses and other income and expenses arising from defined benefit plans in accordance with paragraph 57(d) of IAS 19 Paragraph 7.19 of the revised *Conceptual Framework* states: In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that income and expenses included in other comprehensive income are not to be subsequently reclassified. Under existing IFRS standards, actuarial gains and losses and other income and expenses arising from defined benefit (DB) plans and recognized in other comprehensive income in accordance with paragraph 57(d) of IAS 19 *Employee Benefits* are not subsequently recycled.	Relevant IFRS standards can be amended so that OCI items that are currently not recycled be required to be recycled.	The issues can be addressed as part of the PIR of IAS 19. If the issues are included in the scope of a broader project, it may take more time than

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
IFRS Standards that permit or require non-recycling should be tested against the revised *Conceptual Framework*. Stakeholders affected: Entities that have DB plans would be affected. There are many entities in our jurisdiction that have DB plans.		addressing the issues individually. [Staff note: IAS 19 is not subject to PIR]
Employee Benefits – Lack of accounting guidance for other types of pension plans New types of pension plans, that are neither defined contribution plans nor defined benefit plans (i.e., hybrid pension plans), are becoming more prevalent in multiple jurisdictions. As previously communicated in the letter that we, along with other national standard setters sent the IASB on October 18, 2018, and the supporting analysis and evidence we provided, it is apparent that: a) hybrid pension plans are becoming more pervasive; and b) the accounting for hybrid pension plans does not fit into the traditional pension accounting model, which was designed for traditional defined contribution plans and traditional defined benefit plans. Furthermore, our findings continue to point to the need for further guidance on accounting for hybrid pension plans to better reflect their economic characteristics and to reduce diversity in practice. Finally, we think that diversity in the classification and measurement of hybrid pension plans could affect the usefulness of information provided to financial statement users and lead to reporting problems.	We support the IASB's plan to complete a targeted standards-level review of IAS 19 *Employee Benefits* because we think that it may help to improve the usefulness of pension disclosures in an entity's financial statements. However, we also think that IAS 19 should be updated to provide measurement and disclosure guidance for other types of pension plans, including hybrid pension plans. Therefore, we think that the IASB should undertake an additional research project to identify the existence and prevalence of pension plans that are not traditional defined contribution of defined benefit plans. Once the population of different types of pension plans is identified, we then encourage the IASB to consider the characteristics of these plans and determine what additional measurement and disclosure guidance is needed.	

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IAS 19 *Employee Benefits* was drafted at a time when it seemed be plausible to divide pension plans between defined benefit (DB) and defined contribution (DC) plans, and to set relatively demanding tests for the application of DC accounting, with the result that DB accounting becomes the default. Changes in the pension environment have undermined this dichotomy. Many 'hybrid' plans share the features of DB and DC plans. Such plans: - do not qualify for DC accounting; and - cannot be reflected in financial statements under DB accounting so as to provide a faithful representation of the liabilities and expenses arising under such schemes. Relevant research - Research paper presented to the IASB by the AcSB at the July 2018 meeting of ASAF - ASB/EFRAG Discussion Paper 'The Financial Reporting of Pensions' (2008)		
5. Borrowing Costs		
At present, IAS 23 seems easiest to understand in the context of a stand-alone item of PP&E being constructed with funds borrowed specifically for the PP&E. However, IAS 23 is more difficult to understanding in its application when borrowings are less specifically associated with particular assets and particularly to inventories that are qualifying assets. The definition of borrowing costs also seems quite dated. Most new IFRS over the last decade have introduced new classes of finance charges; in particular, IFRS 16 and IFRS 17. It is not entirely clear how the 'borrowing costs' definition relates to some of these finance charges. In addition, even though IAS 23 has been in operation for more than a decade after its last revision in March 2007 the IFRS Interpretations Committee (IFRIC) still received fundamental questions on IAS 23 itself, for e.g. • Expenditure on a qualifying asset • Borrowing costs on land • Meaning of general borrowings And much of the feedback on the IFRIC Tentative Agenda Decision *Over Time Transfer of Constructed Good* (IAS 23 *Borrowing Costs*) also sought the matter to be referred to the Board. In addition, the wording in IAS 23 appears to have 'created' some confusion as observed from the responses to that IFRIC Tentative Agenda Decision with some parties having a different understanding of the Standard, specifically paragraph 5[1] of IAS 23 relating to the phrase '… an asset that necessarily takes a substantial period of time to get ready for its intended use or sale …" We note the IASB considered issues connected with possibly aligning the borrowing costs requirements in the *IFRS for SMEs* Standard with IAS 23 at its September 2019 meeting (Agenda paper 30D). We consider that any review of IAS 23 should also aim to simplify the capitalisation requirements to the extent feasible, which might provide the IASB		

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
with greater opportunity to align the recognition and measurement requirements of the *IFRS for SMEs* Standard with those in IAS 23. We appreciate that the IASB chose to require all borrowing costs to be expensed as incurred under the *IFRS for SMEs* Standard on the basis that this is regarded as simpler accounting than requiring capitalisation under the criteria in the existing IAS 23. However, aligning the recognition and measurement (capitalisation) requirements has the potential to significantly assist preparers and users of financial statements of entities that are subsidiaries which apply the *IFRS for SMEs* Standard and have a parent entity that applies 'full' IFRS. We consider that borrowing costs are reasonably common among SMEs and would generally be more prevalent and material than, for example, development costs that would meet the capitalisation criteria in IAS 38 *Intangible Assets*. Consequently, it may be more important to align the recognition and measurement requirements of the *IFRS for SMEs* Standard with those in IAS 23 than IAS 38.		
PIR of very old standards like IAS 23 – to assess whether they are still working as intended in light of a changing business environment and the revised Conceptual Framework.		
6. Government grants		
Review of the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, to consider updating principles of the standard to more closely align with the conceptual basis reflected in IFRS 15.		
IAS 20 includes a number of recognition and measurement requirements that are inconsistent with several other key IASB pronouncements, including: the *Conceptual Framework for Financial Reporting* and IFRS 15 *Revenue Recognition from Contracts with Customers*. Since its issue in 1983, IAS 20 has been changed substantively in respect of requiring government loans with below-market rates of interest to be recognised and measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (now IFRS 9) and the benefit of the reduced interest to be accounted for using IAS 20. The following underlying concepts of recognition, measurement and presentation in IAS 20 are out-of-step with other IFRS: Paragraph 7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received. Paragraph 12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Paragraph 20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. Paragraph 24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.	Revision	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
The notion of 'reasonable assurance' [IAS 20.7] and matching revenues to expenses [IAS 20.12] does not appear in the *Conceptual Framework*. Depending on the circumstances, it may or may not have something in common with recognising revenue as performance obligations are satisfied [IFRS 15.31]. The open choice to either present assets on a net or gross basis [IAS 20.24] is inconsistent with other IFRS, in particular IAS 16 *Property, Plant and Equipment*. There is currently an emphasis on 'gross' forms of presentation and disclosure. When substantive revision to IAS 20 has been raised previously as a possible agenda topic, IASB has generally not considered it worth a substantial commitment of the Board's time, possibly based on the view that IAS 20 is not be a widely-used standard in a broad range of jurisdictions. However, periodically, and in particular jurisdictions, government grants to businesses can be important transactions for users to understand. In addition, some not-for-profit entities that rely on government grants apply IFRS or standards based on IFRS.		
7. Separate Financial Statements		
When a transaction is carried out, or expected to be carried out, between entities within a consolidated group, it has no effect on the consolidated financial statements because it is an internal transaction. However, it leads to diversity in practice because of the lack of a clear principle on whether an accounting treatment consistent with that of consolidated financial statements is needed for the separate financial statements. *(Example) Disposal groups meeting the requirements of held for sale and discontinued operations, BCUCC, asset transfers under common control, etc. In a country where the separate financial statement becomes the statutory financial statements of the entity by law and IFRS Standards are applied in the preparation of the financial statements (e.g., Korea), a set of principles and guidance that clearly establish the relations between the consolidated financial statements and separate financial statements are needed. Stakeholders affected: Investors of entities, lenders and other creditors, regulators and supervisory bodies, tax authorities, etc.	Stipulate in IAS 27 that the accounting in the separate financial statements shall be consistent with that of consolidated financial statements when a transaction is carried out, or expected to be carried out, between entities within a consolidated group; and make an overall improvement to IAS 27.	Medium
IFRS Standards are focused on consolidated financial statements. IFRS Standards include only a few requirements on separate financial statements; however, IFRS Standards are applied also to separate financial statements in many jurisdictions. The main issues identified so far are the following: ▪ It is not clear how to account for common control transactions, regardless of whether they represent a business combination under common control. ▪ It is not clear how to account for contingent consideration and transaction costs related to the acquisition of an investment in a subsidiary, joint venture or associate. ▪ Many of our constituents questioned whether the application of the expected credit loss model is appropriate for intercompany loans, because: (i) the parent controls the flow of funds and the repayment is discretionary, (ii) the		

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
transaction may be viewed as a potential capital contribution, (iii) it is difficult to calculate an allowance when repayment of the loan is under the control of the parent. ▪ IFRS disclosure requirements may be improved to be more adequate to the role of separate financial statements (eg disclosures on distributable profits)		
8. Other topics		
Accounting for assets acquired for free Current IFRS does not provide specific requirements on the measurement of assets required for free. (Is the amount recognized on initial recognition 0 or fair value?) Also, there does not exist any specific requirement on how to present the asset provided by shareholders for free in the corresponding account (profit or loss or capital surplus) when that asset is measured at fair value. Therefore, entities are likely to develop their own accounting policy for such transactions according to IAS 8. This may cause diversity in practice. Such transactions frequently occur in practice, and the amount of money involved is often significant. Thus, the diversity in practice may undermine comparability between entities. Stakeholders affected: Investors of entities, lenders and other creditors	Amend IFRS Standards to provide clear guidance on the measurement of assets acquired for free and the presentation of assets that are provided by shareholders for free.	Small
Agriculture We think that IAS 41 *Agriculture* should be reviewed to determine whether fair value less costs to sell (FVLCS) is the only appropriate measurement basis when biological assets are immature and cannot be sold in their current condition. We think that because of this requirement: a) there continues to be significant diversity in the financial reporting of agricultural producers; b) the standard is complex to apply; and c) the standard may not provide users with the most relevant and reliable information about immature biological assets and the related future cash flows. <u>Problem</u> **Theoretical purity versus practical relevance of information provided** The underlying measurement principle of IAS 41 is based on the theory that fair value is a more relevant measure of biological transformation than historical cost. While we do not necessarily disagree with this general principle, we note that measuring biological assets that cannot be sold in their current condition at FVLCS results in the recognition of revenue that an agricultural producer may not realize. Based on our outreach, we've received continuous feedback that users want information that is predictive of future cash flows. We think that recognizing revenue in the absence of a contract, the timing and amount of which is uncertain, may conflict with this user need.	We recommend that the IASB add a post-implementation review of IAS 41 to its 2020 standard-setting agenda to determine whether the standard's objectives have been achieved, and how well the standard is functioning in practice, with a focus on immature biological assets that cannot be sold in their current condition. We think that the standard has been in place for enough time, with broad application in certain industries, to perform targeted outreach and gather data on whether the requirement to measure all biological assets, including immature biological	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
We also observe that users of financial statements increasingly demand the same information that management considers in their decision-making. In our jurisdiction, there is strong evidence that management uses information about the costs incurred to develop a biological asset in evaluating its operations and making decisions. However, there is less evidence that management uses information about the changes in the FVLCS of immature biological assets on hand to make decisions because they cannot control market volatility or otherwise act on the information. For example, we have observed instances of management preparing financial statements on a historical cost basis, and then overlaying adjustments simply to comply with the requirements of IAS 41. **Diversity in practice** In its Basis for Conclusions on IAS 41, the IASC explained that it hoped to reduce diversity in practice by issuing a standard specific to the agriculture industry. However, the feedback statement on the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement* indicated that most respondents thought measuring biological assets at fair value was challenging when there is no active market, with immature biological assets often mentioned as an example. Some specific immature biological assets mentioned in the feedback included: fruit, fish, palm oil, tea leaves and crops such as wheat or corn. The IASB acknowledged that these challenges might lead to inconsistent application in fair value measurement of biological assets. We note that IFRS 15 *Revenue from Contracts with Customers* does not prescribe the accounting treatment or financial statement presentation of revenue in the absence of a contract (i.e., that arises from increases in the FVLCS of biological assets). As a result, agricultural producers are not consistent when presenting changes in the FVLCS of biological assets in comprehensive income. We think that this causes further diversity and, combined with inconsistent application in fair value measurement of biological assets described above, leads to a lack of comparability between the financial statements of agricultural producers, even within the same industry and jurisdiction. Users and regulators in our jurisdiction have told us that information about the costs incurred to produce biological assets is relevant, but that IAS 41 does not have specific requirements for the accounting treatment of subsequent expenditure because this is not considered necessary in a fair value model. As a result, agricultural producers across entities are not consistent in their accounting treatment, presentation or disclosure for subsequent expenditures. **Complexity and cost to apply** We agree that IAS 41 provides a clear principle for the measurement of biological assets. However, preparers and practitioners in our jurisdiction face similar challenges as respondents to the IFRS 13 PIR and say that measuring immature biological assets at FVLCS is extremely complex, with significant judgement required. In response to the feedback obtained on the IFRS 13 PIR, the IASB concluded that detailed application questions are best addressed by the valuation profession, and not by accounting standard-setters.	assets, at FVLCS: - Reduces diversity in practice; - Is simple to apply; and - Results in relevant and reliable information for users of financial statements.	
Earnings per Share PIR of very old standards like IAS 33 – to assess whether they are still working as intended in light of a changing		

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
business environment and the revised Conceptual Framework.		
Factoring Guidance on disclosure of factoring and reverse factoring, which the suggesting Board's user advisory committee noted as an area of diversity.		
Foreign currency PIR of very old standards like IAS 21 – to assess whether they are still working as intended in light of a changing business environment and the revised Conceptual Framework.		
Going concern – to reconsider the need for extended disclosures relating to the assessment of going concern. Users remain confused about the nature of the assessment given the distinction between the going concern basis of accounting that is subject to the assessment and the everyday understanding of being a going concern. The Board should reconsider its deliberations in 2013/14 that led to the publication of an IFRIC agenda decision in July 2014. There is a strong case for more thorough description of the assessment performed and the significant judgements and assumptions applied – the hurdle for providing information on material uncertainties is too high. There is also insufficient disclosure on the underlying gross risks and the expected mitigations as preparers focus on only providing information on the net risk after expected mitigation. In October 2019 the suggesting Council revised its auditing standard, International Standard on Auditing (UK) 570 Going Concern, to expand the requirement for auditors in this regard. Relevant research - FRC International Standard on Auditing (UK) 570 Going Concern (October 2019)		
Impairment Review of requirements for impairment of assets. Such a project would be broader than the impairment of goodwill, and review IAS 36 in its entirety (as recommended in AASB Research Report No.9).		
Materiality Whilst we welcome the attention that the IASB has given to this area in recent years, further disclosure on the process for determining materiality by the preparer, including any quantitative thresholds they apply, would be valuable information to users. Auditors are already required to provide disclosures on the thresholds they apply. Auditing standards and their application would provide a useful starting point in developing new disclosures on the processes applied by preparers. Relevant research - IAASB International Standard on Auditing 320 Audit materiality		
OCI The use of 'other comprehensive income' items is increasing in IFRS standards, but it's not clearly defined conceptually in the 2018 *Conceptual Framework*. The use of 'other comprehensive income' items would have a	To revise the standard.	Large

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
fundamental impact on financial statements. Stakeholders affected: Preparers, users, regulators and academics. [Staff note: OCI was also mentioned in the context of the PIR of IFRS 9 (below) and Employee Benefits (above)].		
Operating Segments The objective of this project would be to consider improvements to the segment aggregation criteria and consideration of additional disclosures to provide users with more decision-useful information about the reportable segments of an entity.		
Statement of Cash Flows While the IASB is expected to propose amendments to IAS 7 *Statement of Cash Flows* within its forthcoming Exposure Draft on Primary Financial Statements, these are limited and many are merely the consequence of proposed changes to the profit and loss account. Among the remaining issues are: - in what circumstances, if any, should the cash flow statement include notional rather than actual cash flows? A key area of investor concern is the lack of transparency in respect of supplier financing arrangements (reverse factoring) and factoring of trade receivables – changes in their balance sheet classification, if mirrored in the cash flow statement, lead to distortions in operating and financing cash flows. If notional flows for such transactions are not permitted, what additional disclosures are necessary to meet users' needs? - the definition of 'cash and cash equivalents'; - the presentation/classification of capital expenditure, tax etc. Relevant research - FRC Discussion Paper 'Improving the Statement of Cash Flows' (2016)		
Sustainability reporting Guidance for sustainability reporting and reporting of other non-financial information (broader than the scope of the Management Commentary project) was also noted by the User Advisory Committee.		
Taxation IAS 12 *Income Taxes* is founded on the odd principle that if a number in the balance sheet is greater than that in a tax return a liability (which is not discounted) should be reported. This does not correspond to the definition of a liability contained in the *Conceptual Framework*, and the standard has only been made operational (to the extent it has) by various ad hoc exemptions and exceptions. It is questionable whether application of IAS 12 results in information that is understandable and representationally faithful. Relevant research - FRC/EFRAG Discussion Paper 'Improving the Financial Reporting of Income Tax' (2011)		

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
SUGGESTIONS RELATING TO EXISTING OR PLANNED PROJECTS		
Business Combinations under Common Control		
There's no explicit accounting requirements for business combinations under common control in existing IFRSs, which has significant effects on financial statements. Stakeholders affected: Preparers, users and regulators.	To set a new standard.	Large
Equity Method		
As the purpose of the accounting treatment that adjusts the carrying amount of the investment in an associate in proportion to the change in the associate's net assets (ie the equity method) is unclear, there is a lack of logical consistency between the requirements in the equity method standard, ie measurement basis for the investment in an associate (measurement concept) vs one-line consolidation (consolidation concept). Examples: - Elimination of the unrealized gains or losses from internal transactions between an investor and equity-accounted investees since the investor and the equity-accounted investees are viewed as 'one economic entity' – *Consolidation concept* - Discontinuation of applying the equity method when the carrying amount falls below zero due to the continued losses of the equity-accounted investees – *Measurement concept* It is also vague in the following areas: - The meaning of 'significant influence' (paragraphs 5 and 6 in IAS 28) (Example) Whether an entity should be viewed as having significant influence if the entity holds less than 20% of the voting power of the investee but there exists a transaction between them that accounts for 30% of the total sales of the investee. - The meaning of 'investment' in an associate (paragraph 10 in IAS 28): Applicability of the equity method (Example) Whether the equity method can be applied to preference shares with voting rights. - The meaning of cost on initial recognition (paragraph 10 of IAS28) Initial acquisition cost vs Fair value when significant influence is acquired - The meaning of the transaction that currently gives the entity access to the returns associated with an ownership interest (paragraph 13 of IAS 28) This issue is important, because many entities are investing in associates or joint ventures and often the amount of the investment is significant. Stakeholders affected: Investors of entities, lenders and other creditors	The 'Equity Method', a research report issued by the KASB in Oct 2014, introduced a new dimension of 'scope of equity-accounted group' and proposed three different ways to describe the concept of the equity method based on it.	Large
While IAS 28 *Investments in Associated and Joint Ventures* provides guidance on the equity method of accounting, it	Relevant IFRS standards can be	The issue can

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
is unclear whether it is an application of on-line consolidation or a measurement method. This ambiguity leads to diversity in the interpretation of existing guidance and thus diversity in practice. Equity method investments are commonly used by entities and their size can be large. Diversity in practice impairs comparability among entities. Stakeholders affected: Entities with investments that are accounted for under the equity method. There are many entities in our jurisdiction that has investments that are accounted for under the equity method.	amended to clarify the concepts underlying the equity method of accounting.	be addressed as part of the PIR of IFRS 10-12. If the issue is included in the scope of a broader project, it may take more than time than addressing the issue individually.
The existing IAS 28 provides limited guidance on accounting for acquisition of associate or joint venture. Paragraph 26 of IAS 28 states "Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture." We received feedback that such statement is unclear and simplified. As such, it may be subject to different interpretations in application. A subsidiary, in which an entity has unilateral control and an associate or joint venture, in which an entity only has significant influence or joint control, is different and as such, would the 'concepts underlying the procedures' for both be similar. For example, an investor may not be able to obtain the 'fair value' of the net identifiable net assets of the associate at the date of acquisition as it does not have unilateral control over the associate.		
To consider the rationale and need for equity accounting.		
Goodwill and Impairment		
Goodwill and its subsequent measurement have a significant and wide influence. With the scale expanding and its proportion to assets rising, goodwill and its subsequent measurement have an increasing impact on the capital market, thus have attracted more and more attention from the capital market. Stakeholders affected: Preparers, users, regulators and auditors.	To revise the standard.	Large

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
Management Commentary		
Standardisation of “Financial Ratios” Working for Evaluation of Financial Performance and Financial Position of an Entity For the Purpose of Reporting to Stakeholders in Annual Report/Other Documents. There are many listed companies, who voluntarily present financial ratios as a part of ‘Annual Report’, which comprises of financial statements prepared with reference to adopted/converged IFRS Standards. The list of some of such ratios presented as a part of Annual Report is given below: • Operating Ratio/Return on Capital Employed • Debt-Equity Ratio • Current Ratio • Debt Service Ratio • Asset Turnover Ratio • Stock Turnover Ratio • Gross Profit Ratio • Dividend Pay-out Ratio • Debtors Outstanding Ratio • Net Profit Ratio • Price Earnings ratio • Interest Coverage Ratio Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements. <u>Issue</u>: There is no standardisation on ratio working and such information provided to stakeholders is not based on the standardised input and may mislead the users of the Financial Statements. With reference to IAS 33, EPS calculation of Basic Earnings per Share and Diluted earnings per Share is now standardised and is of immense use for the benefit of the stakeholders.	We propose to standardise the ratio analysis presented by the entities in their annual report/ other documents for the benefit of stakeholders. We propose that this area may be included as part of the IASB's topic on Management Performance Measures as part of its project on Management Commentary.	
Principles of Disclosures		
Many entities believe the disclosures required by IFRS standard are excessive, and many users have difficulty digesting the information provided by entities. There is urgent need to develop principles of disclosure that are effective in providing less but more useful information. The IASB’s has a related project on its agenda, but it is unlikely to meet the objective.	Develop principles of disclosure that are effective in providing less but more useful information.	This is a large project. The IASB should change its

<table>
<tr><th>Problem definition, why important and stakeholders affected</th><th>Potential solutions</th><th>Size of projects</th></tr>
<tr><td>Stakeholders affected: All entities with disclosures would be affected.</td><td></td><td>current focus in the project.</td></tr>
<tr><td colspan="3">SUGGESTIONS RELATING TO PROJECTS NEARING COMPLETION</td></tr>
<tr><td colspan="3">Accounting Estimates</td></tr>
<tr><td>While the accounting treatments for changes in accounting policies and accounting estimates and error corrections are different from each other—and the distinguishment between them thus has a significant impact in practice—it is very difficult to distinguish one from another in practice.
In order to address this issue, the IASB issued an ED to amend IAS 8 in Sept 2017, proposing to newly add the definition of accounting estimate. Since then, the IASB had further deliberation based on the result of the public consultation on the ED, and tentatively decided at the Oct 2019 meeting to define accounting estimate as follows:

Accounting estimates are monetary amounts in financial statements that are subject to <u>measurement uncertainty</u>;
(a) Such monetary amounts are outputs of measurement techniques used in applying accounting policies; and
(b) An entity uses judgements and/or assumptions in developing an accounting estimate.

While we welcome the IASB’s tentative decision, we are concerned that the lack of additional guidance on what causes measurement uncertainty, which is an important element in the definition of accounting estimate, may lead to limits on effectively applying the definition of accounting estimate in practice.

For a change in accounting estimate and a change in accounting policy, the prospective application and retrospective application are applied, respectively. Thus, the accounting treatments starkly differ.

Stakeholders affected: Investors of entities, lenders and other creditors.</td><td>The KASB presented the result of its research on the definition of accounting estimate at the Oct 2019 ASAF meeting. The research analyses the issue by classifying the causes that bring about measurement uncertainty, i.e., what hinders direct observation of the monetary amounts, into three different categories.

(Type 1) Measurement uncertainty due to physical or economic barriers (e.g., volume of oil reserve)

(Type 2) Measurement uncertainty due to time barriers (e.g., doubtful debts which can only be directly observed ex-post, not ex-ante)

(Type 3) Measurement uncertainty due to its nature (e.g. depreciation)</td><td>Medium</td></tr>
</table>

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
CONSIDERATIONS FOR PLANNED POST-IMPLEMENTATION REVIEWS		
IFRS 9		
OCI and recycling: equity instruments that an entity applies the FVOCI option in accordance with paragraph 4.1.4 of IFRS 9 Paragraph 7.19 of the revised Conceptual Framework states: In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that income and expenses included in other comprehensive income are not to be subsequently reclassified. Under existing IFRS standards, equity instruments that an entity applies the FVOCI option in accordance with paragraph 4.1.4 of IFRS 9 Financial Instruments are not subsequently recycled. IFRS standards that permit or require non-recycling should be tested against the revised Conceptual Framework. In addition to the non-recycling of equity instruments that an entity applies the FVOCI option, constituents have concerns with measuring unlisted equity instruments at fair value. Stakeholders affected: Entities that elect to apply the FVOCI option would be affected. There are many entities in our jurisdiction that elects to apply this option.	Relevant IFRS standards can be amended so that OCI items that are currently not recycled be required to be recycled.	The issues can be addressed as part of the post-implementation review (PIR) of IFRS 9.
IFRS 16		
Diversity in practice occurs due to the unclear guidance on the following matters in IFRS 16 Leases. When determining the lessee's incremental borrowing rate, is it required or permitted to reflect the interest rate in a loan with a similar payment profile to the lease payments? Clarification is needed. (Refer to September 2019 IFRS Interpretations Committee's agenda decisions) The scope of variable lease payments (included in the measurement of lease liability) that varies according to an index or rate (interest rate) - In IFRS 16, examples include only the variable lease payments that change according to the prices disclosed to the public, such as consumer price index, benchmark interest rate, and market lending rate (paragraph 28 of IFRS 16). However, the basis for conclusions (BC165) of IFRS 16 states in a broader sense that those payments are unavoidable	Give clear definitions of lessee's incremental borrowing rate of interest, index or rate (interest rate), and right to terminate. Complement the requirements on the transition guide on intermediate lessor and measurement of net investment in a lease.	Small

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
and ‘do not depend on any future activity of the lessee’. The issue is whether variable lease payments other than those that change according to the prices disclosed to the public are also included in the scope of variable lease payments as long as they are unavoidable and do not depend on any future activity of the lessee. Characteristics of the right to terminate considered in determining the lease term - There exist controversies regarding which of these should be applied to renewable leases: the lease term requirement relating to the right to terminate or the lease modification requirement—refer to June 2019 IFRS Interpretations Committee’s tentative agenda decisions [Staff note: the tentative agenda decision will be discussed at the meeting on 26 Nov. The relevant staff paper can be found here]. Also, more concrete guidance is needed on what conditions and circumstances constitute the right to terminate. How should the difference between the derecognised right-of-use asset and the newly recognized net investment in a lease be accounted for when the classification of a sublease is changed from operating lease to finance lease upon the initial application of IFRS 16. - Opening retained earnings vs Profit or loss? When there exists a right to receive variable lease payments that change according to an index or rate (interest rate), should the lessor re-measure the net investment in the lease reflecting the change? This is an accounting issue that relates to many entities and the amount of money involved is often significant. Stakeholders affected: Entities, investors of entities, lenders and other creditors		
COMMENTS RECEIVED ON THE BALANCE OF THE BOARD’S ACTIVITIES		
IASB’s first priority should be the finalisation of ongoing projects in particular the ones close to standard setting (such as Primary Financial Statements, Rate Regulated Activities and Management Commentary Practice Statement) or already well advanced (Dynamic Risk Management, Goodwill and Impairment and Financial Instruments with Characteristics of Equity).		
The goodwill and impairment project and the primary financial statements project are both of high priority.		
We suggest the three projects described in the attachment. However, it is important that priority is given to the current projects in agenda (eg Goodwill, BCUCC)		
Lastly some EFRAG Board members reiterated the recommendation made in EFRAG’s comment letter on the Principles of Disclosures Discussion Paper that, across its standard setting and research activities, the IASB should consider the effects of technology and digital reporting.		
We continue to support the IASB undertaking the research and standard-setting projects already on their current agenda. Our response that follows assumes that all ongoing projects of the IASB’s current workplan will continue as		

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
planned. Furthermore, the AcSB and several members of its IFRS® Discussion Group and User Advisory Council, think that enhancing the relevance of financial statements continues to be a key area that the IASB should remained focused on due to its: a) impact across multiple industries and jurisdictions; and b) propensity to increase the decision usefulness of financial statements.		
While not necessarily signification issues in our markets we are aware that in certain jurisdictions there is a strong desire to consider improvements related to the accounting for agriculture, reconsideration of OCI and recycling, the accounting for pensions associated with the development of newer pension schemes and the accounting for extractive activities. The IASB should consider these projects and we believe that within these areas there are opportunities to consider further convergence.		
The IASB should also consider starting on a timely basis the post-implementation reviews of IFRS Standards. Members noted in particular the importance of the IFRS 5 and IFRS 9 post-implementation reviews but also the need to timely review IFRS 15 and IFRS 16 over the next years.		
EFRAG Board members did not assign specific priorities to each of the post-implementation reviews but noted their significant number and the difficulty to conduct several of them at the same time. In order to make an informed decision, the IASB should consider a number of factors including: the quantification of the time and resources expected to be necessary for each review; the fact that the PIR may itself lead to identifying additional projects on the IASB's agenda which may draw on its resources as well; and the identification of implementation matters reported to the IASB or to the IFRS Interpretations Committee.		
EFRAG Board members discussed a number of possible additional projects suggested by EFRAG TEG and the EFRAG User Panel (see EFRAG Board paper here , paragraphs 12 to 16) but did not come up, at this stage, with a short list of topics. Instead EFRAG Board members suggested an approach to the IASB in which for any new projects considered the IASB should ensure that (a) it will have the necessary resources and competencies to conduct the projects; (b) the matters are expected to still be prevalent in a time horizon of 5/7 years; and (c) the matter would not better be addressed through the IFRS Interpretations Committee. We also note in particular Better information on Intangibles and Crypto-assets, two topics for which EFRAG ongoing research will result in Discussion Papers in 2020. The IASB would have the possibility to leverage from lessons learnt from those papers and the responses to the consultation.		