STAFF PAPER

IASB® meeting

Project	**Third Agenda Consultation**		
Paper topic	Feedback summary—Potential projects (part 1)		
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This paper was discussed at the meeting of the International Accounting Standards Board in November 2021 as Agenda paper 24D.

Objective

1. This paper and Agenda Paper 24E *Feedback summary—Potential projects (part 2)* analyse feedback from comment letters, the online survey and outreach on questions included in the Request for Information *Third Agenda Consultation* (Request for Information) relating to financial reporting issues that could be added to the Board's work plan (potential projects). This paper analyses feedback on the potential projects described in Appendix B of the Request for Information. Agenda Paper 24E analyses feedback received on other potential projects, including the financial reporting issues listed in Appendix C of the Request for Information and other potential projects suggested by respondents.

Key messages

2. Appendix B of the Request for Information described potential projects that were suggested to the Board during outreach conducted to help prepare the Request for Information. Of the respondents who commented on those potential projects:[1]

   (a) most respondents rated potential projects on climate-related risks, cryptocurrencies and related transactions, and intangible assets as high priority.

   (b) many respondents rated potential projects on going concern, pollutant pricing mechanisms, and the statement of cash flows and related matters as high priority.

   (c) mixed comments were received on potential projects on discontinued operations and disposal groups, discount rates, income taxes, other comprehensive income, and variable and contingent consideration. Some respondents rated these potential projects as high priority, some rated them as medium priority and some rated them as low priority.

   (d) many respondents rated potential projects on borrowing costs, commodity transactions, employee benefits, expenses—inventory and cost of sales, foreign currencies, government grants, negative interest rates and separate financial statements as low priority.

   (e) many respondents, other than users, rated potential project on operating segments as low priority.

   (f) most respondents rated potential projects on inflation and interim financial statements as low priority.

Structure of the paper

3. This paper includes:

   (a) questions in the Request for Information (paragraphs 4–5);

[1] In paragraphs 2(a)–(f), the potential projects are listed in alphabetical order.

(b) general comments on the prioritisation of projects (paragraph 6); and

(c) prioritisation of potential projects described in Appendix B of the Request for Information (paragraphs 7–123).

Questions in the Request for Information

4. The Request for Information asked the following questions about financial reporting issues that could be added to the Board's agenda:

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.

5. This paper analyses feedback on Question 3(a). Agenda Paper 24E analyses feedback on Question 3(b).

General comments on the prioritisation of projects

6. In addition to comments on specific potential projects, some respondents also made general comments on the prioritisation of projects:

   (a) some said the Board should firstly finalise the projects currently on its work plan, as these projects were identified as priorities by stakeholders in the 2015 Agenda Consultation, and continue working on post-implementation reviews, as required by the *Due Process Handbook (Handbook)*.

   (b) some others said the Board should reassess the priority and necessity of projects on its current work plan and determine whether any of those projects should be put on hold or even stopped to free up resources for new, more important projects.

   (c) some said the Board should be realistic about adding new projects to its work plan, given its current work plan, its resource constraints, the resource constraints of its stakeholders, and the need to retain capacity to respond to emerging or urgent issues. A few of those respondents also noted that some projects from the 2015 Agenda Consultation have not been started, which may be disappointing for stakeholders. A standard-setter said it is preferrable to ‘under promise and over deliver’ rather than the other way around.

   (d) a few said the Board should prioritise projects that can be completed more quickly (‘quick wins’) or within a reasonable time frame.

   (e) an individual said the Board should focus on improvements to IFRS Standards rather than new topics, such as cryptocurrencies. However, an accounting firm said the Board should focus on emerging issues, including climate-related risks and cryptocurrencies, rather than re-open existing Standards.

(f) a few said the Board should prioritise projects that focus on the needs of investors rather than preparers, auditors or regulators.[2]

Prioritisation of potential projects from Appendix B

7. Paragraphs 9–123 analyse and summarise the feedback from comment letters, the online survey and outreach on the prioritisation of potential projects described in Appendix B of the Request for Information:

(a) borrowing costs (paragraphs 9–12);

(b) climate-related risks (paragraphs 13–17);

(c) commodity transactions (paragraphs 18–22);

(d) cryptocurrencies and related transactions (paragraphs 23–28);

(e) discontinued operations and disposals groups (paragraphs 29–32);

(f) discount rates (paragraphs 33–37);

(g) employee benefits (paragraphs 38–41);

(h) expenses—inventory and cost of sales (paragraphs 42–45);

(i) foreign currencies (paragraphs 46–49);

(j) going concern (paragraphs 50–57);

(k) government grants (paragraphs 58–62);

(l) income taxes (paragraphs 63–67);

(m) inflation (paragraphs 68–71);

(n) intangible assets (paragraphs 72–77);

(o) interim financial reporting (paragraphs 78–81);

(p) negative interest rates (paragraphs 82–85);

(q) operating segments (paragraphs 86–91);

[2] The Request for Information and this agenda paper, uses the term ‘investors’ to refer to primary users of financial statements as defined in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

(r) other comprehensive income (paragraphs 92–95);

(s) pollutant pricing mechanisms (paragraphs 96–100);

(t) separate financial statements (paragraphs 101–104);

(u) statement of cash flows and related matters (paragraphs 105–117); and

(v) variable and contingent consideration (paragraphs 118–123).

8. Any trends by stakeholder type or region are noted when applicable. The analysis for each potential project is based on the responses from respondents who gave a priority rating for that potential project. Not all respondents gave a priority rating for all of the potential projects described in Appendix B of the Request for Information. In particular, many comment letters provided feedback only on the potential projects that the respondents rated as high priority. In total:

(a) most respondents gave feedback on the priority of the potential projects on climate-related risks, cryptocurrencies and related transactions, intangible assets, and the statement of cash flows and related matters.

(b) many respondents gave feedback on the priority of the remainder of the potential projects described in Appendix B of the Request for Information, but many did not.

Borrowing costs

9. Some respondents rated borrowing costs as high priority (mainly from Asia), some rated it as medium priority and many rated it as low priority (mainly from Europe).

10. Comments from respondents who rated this potential project as high priority varied. For example, a standard-setter said that the Board should comprehensively review IAS 23 *Borrowing Costs* for the reasons set out in paragraph B6 of the Request for Information; in particular, the definition of borrowing costs seems outdated and incomplete, and the definition of a qualifying asset may be too restrictive. In contrast, some respondents said that the Board should undertake a targeted project to improve aspects of IAS 23. Many of the respondents who commented on specific issues with IAS 23 raised concerns about the treatment of borrowing costs incurred to construct assets for sale to customers (as discussed in paragraph B6(b) of the Request for

Information). Other issues raised by respondents were difficulties with capitalising borrowing costs when assets are funded by general borrowings and concerns that the capitalisation of borrowing costs reduces comparability.

11. Respondents who rated a potential project on borrowing costs as medium priority made similar comments about the scope of a potential project to those described in paragraph 10. A few users who rated the project as a medium priority said that the Board should develop a definition of gross debt because is it a key financial metric that is undefined.

12. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

    (a) they were not aware of urgent practice issues;

    (b) any issues in practice are not of particular importance to investors; and

    (c) although IAS 23 is an older standard that could do with some maintenance, and some issues exist, the potential project is low priority given resource constraints and the need to address other higher-priority projects.

Climate-related risks

13. Most respondents who commented rated a potential project on climate-related risks as high priority, some rated it as medium priority and only a few rated it as low priority.

14. Respondents who rated this potential project as high priority said:

    (a) climate-related risks are widespread, long-lasting, and have complex consequences. These risks are likely to impact a wide range of entities and sectors, including the impacts of climate-related goals adopted by governments.

    (b) information on climate-related risks is not only a matter for sustainability reporting but can also have a material effect on recognition, measurement and disclosure in the financial statements.

(c) the publication of the educational material *Effects of climate-related risks on financial statements*[3] was a good first step in raising awareness of the issue among stakeholder groups. However, more detailed application guidance is needed. In practice, the number of companies considering climate-related risks and recognising their effects on their financial statements is very low.[4]

(d) the project should be broadened to include all long-term estimates with high levels of uncertainty.

(e) climate-related financial implications are a starting point, but the aim should be to address environmental, social and governance (ESG) matters comprehensively. A more ambitious project than the proposals in the Request for Information on ESG-related financial implications is needed.

(f) connectivity between financial reporting and sustainability reporting will need to be considered if entities are to provide a comprehensive picture. The Board should coordinate its work with the International Sustainability Standards Board (ISSB) to avoid inconsistencies and duplication of effort. Synergies between financial and sustainability reporting could be explored and may pave the way towards a more holistic and integrated reporting system. (See paragraphs 75–77 of Agenda Paper 24B *Feedback summary—Strategic direction and balance of the Board's activities* for further discussion on interaction between the Board and the ISSB).

15. Respondents that rated this potential project as high priority also commented on the need to:

(a) develop accounting requirements for pollutant pricing mechanisms, as part of or in conjunction with the Board's work on climate-related matters;

[3] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf

[4] The Request for Information and this agenda paper, uses the term 'companies' to refer to entities that report applying IFRS Standards or the *IFRS for SMEs* Standard.

(b) consider changes to IAS 1 *Presentation of Financial Statements* and IAS 36 *Impairment of Assets*, as outlined in paragraph B11 of the Request for Information;

(c) clarify accounting requirements for green bonds applying IFRS 9 *Financial Instruments*;

(d) consider the implications of climate-related risks for fair value measurements applying IFRS 13 *Fair Value Measurements*; and

(e) consider the implications of climate-related risks for other estimates, such as expected credit losses, depreciation and provisions.

16. Respondents who rated this potential project as medium priority made some similar comments, such as the increasing need for better qualitative and quantitative information about the effect of climate-related risks on the carrying amount of the assets and liabilities. However, their reasons for rating this potential project as a medium project were as follows:

(a) as highlighted by the Board in its educational guidance, IFRS Standards already require disclosure and consideration of climate-related risks. It would be more useful if the Board developed illustrative examples to help entities apply those requirements.

(b) careful consideration is needed about which disclosures should be dealt with by the ISSB and which should be addressed by the Board, with only deficiencies in current IFRS disclosure requirements dealt with by the Board, such as the extent to which climate-related risks result in impairments.

(c) while there is a need to align with the future sustainability standards issued by the ISSB, to ensure no different or inconsistent requirements, it is not a high priority for the Board before the ISSB develops its standards.

(d) information about climate-related risks should be in management commentary.

17. Most of the respondents who rated this potential project as low priority did not provide comments. A few respondents said they have not yet observed significant concerns from stakeholders, climate-related risks are too unspecific or involve too many variables.

Commodity transactions

18. Some respondents (mainly from Asia) rated a potential project on commodity transactions as high priority, some rated it as medium priority and many rated it as low priority.

19. Respondents who rated this potential project as high priority said:

    (a) commodity transactions, particularly commodity loans, are becoming more common. Application questions are arising and there is diversity in practice.

    (b) IFRS Standards provide only limited specific guidance for some types of commodity transactions.

    (c) the disclosure of information about commodity transactions needs improving, such as disclosures about the entity's risk management policies for commodities held.

20. Some respondents who rated this potential project as high priority also commented on the scope of the project:

    (a) some said that commodity transactions should be considered together with cryptocurrencies, as part of a broader project on non-financial tangible and intangible assets held for investment purposes.

    (b) an accounting firm said that commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms should be considered together instead of as separate projects. Such a project could consider if these assets are within the scope of an IFRS Standard and, if not, develop a new IFRS Standard.

21. Many respondents who rated this potential project as medium priority did not provide comments. Those who did made comments similar to those made by respondents who rated this potential project as high priority. For example, a standard-setter said that a project on commodity transactions should be considered if it can be efficiently combined with work on cryptocurrencies in order to provide a comprehensive framework for accounting for non-financial assets held for investment purposes.

22. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) this project is not a priority considering resource constraints and the need to address other higher-priority projects.

(b) additional guidance for specific transactions would be helpful. However, there is a high risk of unintended consequences. Therefore, the Board should not pursue this topic at this time.

(c) this topic is not a widespread issue; the impact of this project appears to be relatively limited.

(d) investors have not identified this potential project as needing urgent change.

Cryptocurrencies and related transactions

23. Most respondents rated a potential project on cryptocurrencies and related transactions as high priority, some rated it as medium priority and a few rated it as low priority.

24. Many respondents who rated this potential project as high priority said that cryptocurrencies and related transactions is an emerging issue that is of increasing relevance. Many also said that the accounting applying current IFRS Standards does not seem appropriate and does not provide users with useful information, because of the nature of these assets and the purpose for which they are being held. For example, some of those respondents said that cryptocurrencies should be accounted for at fair value through profit or loss, not as intangible assets.

25. Many respondents who rated this project as high priority also commented on the project scope. Some of those respondents said that the treatment of cryptocurrencies should be addressed in a comprehensive project on accounting for different types of cryptoassets and cryptoliabilities. Others made a range of suggestions:

(a) as a preliminary step, the Board should issue application guidance or undertake smaller, targeted projects to address time-sensitive issues (including enhanced disclosures), with other issues dealt with in a longer-term project.

(b) the Board should consider targeted amendments to IAS 38 *Intangible Assets* or to the scope of IFRS 9, as described in paragraphs B15(b)–(c) of the Request for Information.

(c) cryptocurrencies have unique characteristics and should be addressed in a new standard independent of ordinary financial assets and intangible assets.

(d) the Board should either undertake a comprehensive research project or focus on some specific transactions, such as accounting for the issuance of initial coin offerings.

(e) amending the scope of IFRS 9 to include cryptocurrencies may only be a short-term fix as IFRS 9 was not written to address crypto-related issues. Instead, a Standard on a range of non-financial tangible and intangible assets held for investment purposes is needed.

(f) the treatment of cryptocurrencies and related transactions should be part of a project to undertake a comprehensive review of IAS 38. This is likely to be more effective than an asset-by-asset approach for emerging new assets that did not exist when IAS 38 was developed.

(g) commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms should be considered together instead of separate projects. Such a project could consider if these assets are within the scope of an existing IFRS Standard and, if not, developing a new IFRS Standard.

(h) since the crypto ecosystem is still evolving, the Board should take a phased approach, such as:

   (i) developing an interim standard to clarify the requirements of IFRS Standards to address diversity in practice;

   (ii) developing enhanced disclosure requirements; and

   (iii) develop a comprehensive standard on cryptoasset activities.

(i) as there is a wide range of issues to be considered, the Board should first undertake research and outreach before determining the project scope.

26. A few respondents who rated this potential project as high priority also said that the Board could leverage work done by EFRAG at the EU level on this topic. Also, some respondents who rated this project as high priority commented on specific issues that a project on cryptocurrencies and related transactions should address, in addition to

those discussed in the Request for Information, such as issues relating to IAS 7 *Statement of Cash Flows* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

27. Some respondents who rated this potential project as medium priority did not provide comments. Those who did made comments similar to those made by respondents who rated this potential project as high priority. For example, some commented on the increasing prevalence of cryptocurrencies and that the accounting treatment under IFRS Standards does not provide users with useful information. Reasons for rating this potential project as medium priority were that it was not an urgent matter, crypto-related transactions were not yet widespread, and that the Board should consider this potential project only if time allows.

28. Many respondents who rated this potential project as low priority did not provide comments. Some respondents who rated this potential project as low priority commented that the matter does not need immediate attention, is currently of limited relevance, the Board should wait until the situation stabilises or that there is no need for a project on the topic.

Discontinued operations and disposal groups

29. Some respondents rated a potential project on discontinued operations and disposal groups as high priority, some rated it as medium priority and some rated it as low priority. Most regulators who commented on this potential project rated it as high priority.

30. Of those respondents who rated it as high priority, many said that the Board should undertake a comprehensive review of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. These respondents raised a range of issues with IFRS 5, including both practical issues with applying the Standard and concerns about the usefulness of the resulting information to users of financial statements. Some referred to concerns raised in the 2015 Agenda Consultation and the various issues submitted to the IFRS Interpretations Committee (Committee), as described in paragraph B17 of the Request for Information. For example, a regulator commented that the list of concerns related to this potential project were broad, urgent and were already

highlighted in the 2015 Agenda Consultation. They also said that discontinued operations and disposal groups occur frequently and that it was important to undertake a project without further delay. A user representative body said that IFRS 5 has resulted in financial information that is very complex and, in many cases, of little use for financial analysts. A few respondents who rated this potential project as high priority said the Board should undertake a post-implementation review of IFRS 5.

31. Some respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this potential project as medium priority made comments similar to those made by respondents who rated it as high priority. For example, some said that the Board should undertake a comprehensive review of IFRS 5. Many of those respondents commented on the range of issues with IFRS 5, particularly practical issues. However, a few said that those practical issues had existed for some time and did not seem to be a major problem. A user said that a single-line presentation may not provide useful information for investors.

32. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

    (a) it had not been identified by investors as needing urgent change;

    (b) discontinued operations and disposal groups do not occur frequently;

    (c) the Board has limited resources and other potential projects were more important;

    (d) the issues with IFRS 5 are being dealt with in practice and are not so widespread that this topic ranks ahead of other topics; and

    (e) and the current shortcomings of IFRS 5 can be addressed by entities explaining how they applied the Standard.

Discount rates

33. Some respondents rated a potential project on discount rates as high priority, some rated it as medium priority and some rated it as low priority.

34. Many of those respondents who rated this potential project as high priority said that the different requirements in different Standards result in complexity in practice, and

that it is difficult for users and other stakeholders to understand why different rates are used. A few of those respondents also said that discount rates affect many projects and therefore the project should be given a high priority. A user said that the determination of discount rates is too subjective and can easily be used to manipulate financial position and performance, and that the use of discount rates in excess of the risk-free rate is rejected by all financial economists. Another user said a framework for discount rates that can be applied consistently across projects is needed. An individual said that although the Board's research project summary noted that further steps might include educational materials, nothing much as happened. A standard-setter also highlighted the need for more guidance or educational tools on how entities should derive the inputs for discount rates in certain instances.

35. Respondents who rated this potential project as high priority also commented on specific issues that should be addressed as part of a project on discount rates. For example, a standard-setter commented on difficulties for countries with high economic volatility (such as volatile market prices and foreign exchange rates) when an entity is required to use an interest rate based only on market conditions. A preparer said negative interest rates were very common and therefore should be addressed in a project on discount rates, including whether a negative interest rate could result in a liability carrying value that exceeds the amount at which an obligation could be settled today.

36. Many respondents who rated this potential project as medium priority did not provide comments. Those who did made comments similar to those who rated it as high priority, particularly comments about inconsistencies between the discount rates used in different IFRS Standards. Reasons given for rating this potential project as medium priority were that:

(a) other projects were more pressing;

(b) it would be difficult to resolve the inconsistencies in a general and timely manner and instead the Board should make selected amendments to avoid inconsistencies in some specific requirements; and

(c) it would be more efficient to continue to gradually resolve inconsistencies as they arise on projects.

37. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

    (a) this project should not be prioritised given resource constraints and the need to address other higher-priority projects;

    (b) any issues in practice were not of widespread concern; and

    (c) an overhaul of the requirements on discount rates across all IFRS Standards is not necessary and it may be challenging to develop an overarching concept.

Employee benefits

38. Some respondents rated a potential project on employee benefits as high priority, some rated it as medium priority and many rated it as low priority.

39. Respondents who rated this potential project as high priority said:

    (a) there are concerns about the accounting for hybrid plans that have features of both defined benefit plans and defined contribution plans.

    (b) there are challenges in determining the appropriate discount rate.

    (c) employee benefits are the single biggest cost for most businesses and there is increasingly divergent accounting as new methods to compensate employees and transfer risk between the employee and employer are developed. The concept of an employee has also evolved. IAS 19 *Employee Benefits* should be comprehensively reviewed and updated to reflect current practice.

    (d) improvements to defined benefit plan accounting are needed to provide users with better information to help evaluate the risks, uncertainties and enforceable liabilities arising from such plans, while reducing the complexity embedded in the current requirements.

    (e) IAS 19 should be amended to require recycling of other comprehensive income arising from defined benefit plans in accordance with the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

40. Some respondents who rated this potential project as medium priority did not provide comments. Those who did made comments that were generally similar to those of

respondents who rated this potential project as high priority, such as comments about accounting for hybrid plans, determining the discount rate and the need to consider developments in post-employment benefit plans. A user said these issues were important but not a top priority. An accountancy body said that the Board should await feedback on the proposed amendments to the disclosure requirements in IAS 19 in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* before determining whether a more comprehensive review of IAS 19 is needed. A user said that the Board should review IAS 19, including considering alignment with some aspects of US GAAP.

41. Many respondents who rated this potential project as low priority did not provide comments. Some respondents who rated this potential project as low priority said that IAS 19 works reasonably well, there is limited evidence of urgent practice issues or diversity in practice, or that any issues with the Standard were not acute. Some other respondents acknowledged issues with IAS 19, particularly around the accounting for hybrid plans. However, they thought these issues would be difficult to resolve and the benefits of doing so might not justify the resources needed, or resolving these issues was less important because defined contribution plans were becoming more prevalent. A few respondents said it was not necessary to undertake a comprehensive review of IAS 19 but the Board should undertake a targeted project on determining the discount rate to use.

Expenses—inventory and cost of sales

42. Some respondents rated a potential project on expenses—inventory and cost of sales as high priority, some rated it as medium priority but many rated it as low priority.

43. Respondents who rated this potential project as high priority said:

    (a) gross profit is a key metric used by many companies but there is significant diversity in practice in which costs are included in cost of sales, which impairs comparability.

    (b) IAS 2 *Inventories* should be comprehensively reviewed, including considering the issues set out in paragraph B28 of the Request for Information.

(c) the Board should undertake a narrow-scope project to consider the applicability of the alternative measurement of inventory by commodity broker-traders (paragraph 3(b) of IAS 2) to certain types of inventories for which measurement at fair value provides relevant information, such as artwork inventory of art galleries, gold inventory of jewellery producers and cryptocurrencies.

44. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this potential project as medium priority made comments similar to those who rated it as high priority, such as comments on diversity in practice and agreement with the issues listed in the Request for Information. A user said that they were unsure about the impact of this potential project because inventories and cost of sales has diminished in importance over time for capital markets overall, as many companies use just-in-time manufacturing and there are many more service companies.

45. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) other potential projects are of higher priority;

(b) stakeholders have not highlighted significant issues;

(c) the benefits of such a project are unclear;

(d) application issues are limited and are best addressed by narrow-scope projects; and

(e) while a large project is unnecessary, the Board could consider this matter in the scope of the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*, followed by targeted improvements.

Foreign currencies

46. Some respondents rated a potential project on foreign currencies as high priority, some rated it as medium priority but most rated it as low priority.

47. Respondents who rated this potential project as high priority raised concerns about:

(a) the guidance on determining an entity's functional currency;

(b) determining which rate to use when multiple exchange rates exist;

(c) issues relating to assets and liabilities denominated in a foreign currency when the exchange rate is volatile; and

(d) inconsistencies in the application of IAS 21, which is an old Standard.

48. Many respondents who rated this potential project as medium priority did not provide comments. Those who did made similar comments to those who rated this potential project as high priority, particularly about the need to review the guidance on determining an entity's functional currency. An accountancy body commented on jurisdictional financial reporting requirements that result in entities preparing two sets of financial statements in different currencies, and the links between foreign exchange and hyperinflation. A user said that currency exposure is very important to investment decisions and valuations, but disclosures about this exposure are poor.

49. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) there is limited evidence of widespread or urgent practice issues;

(b) any issues with IAS 21 do not seem to be of particular importance to investors;

(c) resources should be allocated to more important issues;

(d) although a project could result in improvements, those improvements would be unlikely to affect a large number of entities; and

(e) IAS 21 has been consistently applied for a long time and both preparers and users have a good understanding of its effects.

Going concern

50. Many respondents rated a potential project on going concern as high priority, some rated it as medium priority and some rated it as low priority.

51. Many respondents who rated this potential project as high priority commented that the pandemic is continuing to have a significant impact on the ability of entities to continue as a going concern. The pandemic, together with corporate failures, has

highlighted the importance of an entity's going-concern assessment, which is a fundamental principle that underpins the preparation of financial statements, and the importance of providing users with sufficient information about that assessment. More specific comments were:

(a) IAS 1 has very limited guidance on assessing and reporting the risks to the company's ability to continue as a going concern.

(b) management's disclosures about going concern are inadequate, inconsistent and boilerplate, including disclosures about:

(i) significant judgements and estimates made by management in its going concern assessment, particularly relating to 'close calls';

(ii) risks and uncertainties that may impact an entity's ability to continue as a going concern; and

(iii) management's plans to mitigate those risks and uncertainties.

(c) when assessing whether the going concern assumption is appropriate, the look forward period in paragraph 26 of IAS 1 should be extended to twelve months from the date of approval of the financial statements.

(d) the requirements in auditing standards are much more extensive, creating tension or an inconsistency between the requirements in IFRS Standards and those in auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). Some respondents also said the Board should collaborate with the IAASB on this topic.

52. Further to paragraph 51(d), the IAASB explained its recent and on-going work on its auditing standard on going concern, ISA 570 (Revised) *Going Concern.* That work includes a plan to commence a project in 2022 to revise and enhance ISA 570. The IAASB will coordinate and share information with the Board as that project progresses. They also strongly encourage the Board to undertake a project on going concern, as described in paragraph B38 of the Request for Information.

53. In making the comments summarised in paragraph 51, some respondents:

(a) acknowledged the education material published by the IFRS Foundation and the agenda decisions of the Committee on this topic, but said that more guidance in IFRS Standards is needed; and

(b) noted that some national standard-setters have issued guidance on this topic.

54. Some respondents who rated a potential project on going concern as high priority also said that the project should include developing requirements for entities that are no longer a going concern, as the lack of guidance in this area leads to diversity in practice. A regulator said US GAAP contains useful guidance on this topic. However, an accounting firm said such requirements were unnecessary and another accounting firm said developing such requirements was not a priority. A standard-setter suggested a research project to identify the extent of diversity in practice before considering any standard-setting solutions.

55. Some respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this project as medium priority made similar comments as respondents who rated this project as high priority, particularly around the need for improved disclosure requirements. However, a regulator said such a project was not a priority because of more pressing issues. A standard-setter said that such a project would enhance disclosure requirements in an area where additional guidance has already been provided via agenda decisions and educational material.

56. A few respondents who rated a potential project on going concern as medium priority also commented on the need to develop requirements for entities that are no longer a going concern. However, a standard-setter said that setting a standard on this topic could be difficult. A user commented that, in practice, most companies that fail are reorganised rather than being liquidated and that liquidation accounting for companies that are reorganised is not helpful for investors.

57. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) although there is scope for improvement in going concern disclosures, this is an application issue rather than a deficiency in IFRS Standards;

(b) the educational material published by the IFRS Foundation is very useful and it is not necessary to amend IFRS Standards;

(c) while enhanced guidance would be helpful, it is a lower priority than other potential projects; and

(d) developing requirements for the entities that are no longer a going concern would be difficult and should not be explored given resource constraints.

Government grants

58. Some respondents rated a potential project on government grants as high priority (including many respondents from Asia who commented on this potential project), some rated it as medium priority but many rated it as low priority.

59. Respondents who rated this potential project as high priority commented that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is an old Standard that needs a comprehensive review, including for consistency with recent IFRS Standards and the *Conceptual Framework*. Also, governments around the world have responded to the pandemic by providing government grants and therefore it is now more important to review and update the Standard. One respondent also said that other types of government grants were common in their region, including for start-ups and social enterprises.

60. Some respondents who rated this potential project as high priority also said that the accounting policy choices in IAS 20 result in diversity in practice, which impairs comparability. Some said that deducting government grants from the cost of an asset, as permitted by the Standard, is inconsistent with other IFRS Standards and with the *Conceptual Framework*. Some also commented on specific issues that should be addressed in a project on government grants. For example, a standard-setter said that the scope of the Standard should be widened to cover non-government grants.

61. Many respondents who rated this potential project as medium priority did not provide comments. Those who did made comments similar to those who rated this potential project as high priority. A standard-setter also suggested that any project on pollutant pricing mechanisms would affect IAS 20. In addition, a few respondents made more specific comments on matters to address in a project on government grants, such as the definition and timing of recognition of government grants and the treatment of

investment tax credits. A few respondents said they rated this potential project as medium priority because it is of lower priority than other more pressing matters.

62. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

    (a) the Standard generally operated satisfactorily through the pandemic;

    (b) there is limited evidence of urgent practice issues;

    (c) they are not aware of any issues of particular importance to investors;

    (d) any issues with the Standard are not significant or material;

    (e) government grants are not common in their jurisdiction; and

    (f) resources should be allocated to more important issues.

Income taxes

63. Some respondents rated a potential project on income taxes as high priority, some rated it as medium priority and some rated it as low priority. Almost all users who commented on this potential project rated it as high or medium priority.

64. Some respondents who rated this potential project as high priority did not provide comments. Some said improvements to disclosures are needed. For example, a user said that income taxes are coming under increased scrutiny and investors need more information to understand a company's income tax charge, its tax practices and the potential effects on future cash flows. Another user said that country-by-country reporting is needed, such as income taxes paid, to help investors understand a company's tax risk and its exposure to potential changes in tax legislation. A preparer said that many companies are under increasing pressure to provide greater transparency and often address this by providing country-by-country data, but there is diversity in practice in how such information is provided.

65. A few respondents who rated this potential project as high priority made other comments:

    (a) IAS 12 *Income Taxes* is an old Standard and the numerous amendments over the years have resulted in a Standard that is quite difficult to apply.

(b) the Standard lacks specific requirements about how to account for emerging types of taxes, resulting in diversity in practice.

(c) the definitions of deferred tax assets and liabilities may not meet the definitions of assets and liabilities in the *Conceptual Framework*.

(d) they had concerns about specific aspects of the Standard, such as some of the exceptions, the treatment of deferred tax on the initial recognition of goodwill and the treatment of changes to enacted tax rates that are expected to be reversed before the rate change becomes effective.

66. Many respondents who rated this potential project as medium priority did not provide comments. Of those who did, many acknowledged that there are issues with IAS 12, including the issues described in paragraph B43 of the Request for Information. However, they raised concerns about the extent of resources needed and the difficulties of carrying out a comprehensive review of the Standard. Some said such a review should only be undertaken after higher-priority projects have been completed. Some suggested that instead of a comprehensive review, the Board should make targeted amendments or focus on improved disclosures.

67. Many respondents who rated this potential project as low priority did not provide comments. Those who did said:

(a) other potential projects are more important or urgent;

(b) while there may be some concerns on conceptual grounds, IAS 12 broadly works in practice;

(c) the reporting of income taxes could not be improved without a major overhaul of IAS 12, which was not a good use of the Board’s resources; and

(d) although some investors think more transparency is needed, it may not be feasible to develop a solution that works across multiple jurisdictions.

Inflation

68. Some respondents rated a potential project on inflation as high priority, some rated it as medium priority but most rated it as low priority.

69. Many respondents who rated this potential project as high priority did not provide comments. Those who did comment said:

   (a) Latin America has long been concerned about the effects of inflation on financial statements. This potential project should focus on lowering the threshold to apply IAS 29 *Financial Reporting in Hyperinflationary Economies.*

   (b) the Board should undertake a comprehensive review of IAS 29 based on recent experience with its practical application.

   (c) the Standard does not provide useful information to investors, resulting in most companies in some jurisdictions subject to hyperinflation presenting historical financial statements alongside the inflation-adjusted financial statements.

   (d) this potential project should be conducted together with foreign currencies, discount rates, negative interest rates, and variable and contingent consideration. These topics are high priority, especially in countries with high economic volatility (such as volatile market prices and foreign exchange rates).

70. Some respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this potential project as medium priority suggested a targeted project to extend the scope of IAS 29 to include economies experiencing high inflation. However, an accountancy body was concerned about how high inflation would be defined and whether it could result in more entities moving between hyperinflationary accounting and normal accounting, which also raised transitional issues. Some respondents said that inflation may not be an issue at present globally but it might be in the longer-term.

71. Some respondents who rated this potential project as low priority did not provide comments. Some said that other projects are more important or urgent, and that high

inflation or hyperinflation is not a prevalent issue for most economies, so this project would impact only a limited number of companies. Respondents who commented on extending the scope of IAS 29 expressed mixed views. For example, a standard-setter suggested that the Board could assess whether it would be feasible to extend the scope of IAS 29, without changing other requirements in the Standard, while an accountancy body disagreed with extending its scope. Also, a few respondents thought it would not be advisable to extend the scope of the Standard without first revisiting its requirements, because hyperinflationary accounting is complex for users and IAS 29 is an old Standard that lacks robust application guidance.

Intangible assets

72. Most respondents rated a potential project on intangible assets as high priority, some rated it as medium priority and a few rated it as low priority.

73. Most respondents who rated this potential project as high priority said (explicitly or implicitly) that the Board should undertake a comprehensive review of IAS 38. They commented on the need to:

(a) modernise IAS 38, which is an old Standard, to better reflect the ever-increasing importance of intangible assets in today’s business models, particularly for unrecognised internally generated assets;

(b) address new types of intangible assets, which were not envisaged when the Standard was developed (such as cryptocurrencies and emission rights) and for which the accounting required by IAS 38 does not provide useful information to users of financial statements; and

(c) improve comparability between companies that grow organically and those that grow through acquisitions.

74. Some respondents who rated this potential project as high priority said:

(a) the Board should focus on improving the disclosure of information about intangible assets, either as a first step in a larger project to comprehensively review IAS 38 or as an alternative to more recognition of internally generated intangible assets.

(b) the Board should liaise with the ISSB when undertaking this project because of the link with sustainability reporting.

(c) a project on intangible assets should be combined or undertaken in conjunction with other related projects. More specifically, some respondents referred to the potential projects on pollutant pricing mechanisms, cryptocurrencies, and variable and contingent consideration.

(d) the issues discussed in the April 2021 IFRS Interpretations Committee agenda decision on configuration or customisation costs in a cloud computing arrangement should be addressed, either in a comprehensive project to review IAS 38 or as part of a more targeted project on new types of intangible assets. Some respondents also commented on other specific issues that they said should be addressed in a project on intangible assets, such as the June 2020 IFRS Interpretations Committee agenda decision on player transfer payments.

75. A few respondents who rated this potential project as high priority disagreed with recognising more internally generated intangible assets. These respondents said that a project on intangible assets should focus on improving disclosures and the accounting requirements for recognised intangible assets, such as cryptocurrencies.

76. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated it as medium priority made comments similar to those in paragraph 73 on the need to comprehensively review IAS 38. However, an accountancy body said it should be a longer-term project because of the extensive resources needed for such a project. Some respondents who rated this potential project as medium priority said the related projects on pollutant pricing mechanisms and cryptocurrencies were a higher priority.

77. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) certain assets, like cryptocurrencies and pollutant pricing mechanisms, may be better addressed in a different Standard;

(b) the issues are not easily solvable;

(c) the recognition criteria in IAS 38 should not be loosened; and

(d) improved disclosures should be addressed as part of management commentary.

Interim financial reporting

78. Some respondents rated a potential project on interim financial reporting as high priority, some rated it as medium priority but most rated it as low priority.

79. Most respondents who rated this potential project as high priority did not explain why they held this view. Of those who did provide comments:

    (a) a preparer representative body said that the Board should undertake a project on interim financial reporting using either the approach in paragraph B55(c) of the Request for Information (address interim accounting issues in each new IFRS Standard or major amendment as it is developed rather than relying on IAS 34 *Interim Financial Reporting*) or the approach in paragraph B55(d) of the Request for Information (review the requirements of IAS 34 to address all the concerns raised). They also said that the requirements in IAS 34 should be limited to minimum principles, to avoid conflicts with disclosure guidance in individual jurisdictions.

    (b) a user representative body said that other projects focus on improvements to annual financial statements, but not interim financial statements. The Board should consider revising IAS 34 to incorporate such improvements.

80. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents said that the Board should clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (as discussed in paragraphs B54(b) and B55(b) of the Request for Information). A few respondents said that the Board should develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (as discussed in paragraph B55(c) of the Request for Information).

81. Many respondents who rated this potential project as low priority did not explain why they held this view. Of those respondents who provided comments, many said that other projects were of higher priority, or they were not aware of significant or widespread issues with IAS 34. A few respondents suggested the Board should

develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements.

Negative interest rates

82. Some respondents rated a potential project on negative interest rates as high priority, some rated it as medium priority but many rated it as low priority.

83. Respondents who rated this potential project as high priority said:

    (a) negative interest rates are common and downward pressure on interest rates is expected to remain present in many economies for some time.

    (b) guidance is needed on measuring assets and liabilities when interest rates are negative, and the presentation of related income and expenses.

    (c) there is diversity in practice on how to measure liabilities, in particular, whether a negative interest rate could result in a liability carrying value that exceeds the amount at which an obligation could be settled today or the sum of the undiscounted future cash flows.

    (d) this project should be combined with projects on foreign exchange, inflation, discount rates, and variable and contingent consideration, which are a high priority, especially for countries with high economic volatility (such as volatile market prices and foreign exchange rates).

84. Many respondents who rated this potential project as medium priority did not provide comments. Comments from other respondents who rated it as medium priority comprised:

    (a) a suggestion to address this topic as part of a project on discount rates.

    (b) a comment that while recognising the practical challenges from negative interest rates, other projects have a higher priority.

    (c) comments from two user representative bodies expressing concerns about the treatment of the resulting income and expense when financial assets and financial liabilities have negative interest rates. For example, one disagreed with the June 2015 IFRS Interpretations Committee agenda decision that negative interest on a financial asset should be treated as an expense.

85. Some respondents who rated this potential project as low priority did not provide comments. A few respondents said that if the Board undertook a project on negative interest rates, it should be combined with a project on discount rates. Those respondents who rated this potential project as low priority and provided reasons for that rating said that:

(a) negative interest rates were not a major issue in practice;

(b) the Committee should continue to address any issues;

(c) other potential projects have a higher priority; and

(d) investors had not identified this topic as an area requiring urgent change.

Operating segments

86. Some respondents rated a potential project on operating segments as high priority, some rated it as medium priority but many rated it as low priority.

87. Many of the respondents who rated this potential project as high priority are users. They generally said that more granular information is needed by segment. Some of these users said the convergence of IFRS 8 *Operating Segments* and US GAAP has resulted in a major loss of useful information and the information provided under current disclosure requirements is not sufficiently granular and comparable across companies. Those users also said that segment reporting should provide information that is relevant to investors, instead of information that is regularly reviewed by the entity's chief operating decision maker. Other users did not comment on the management approach but said that more disaggregated information is needed. One of those users also commented on the lack of comparable information.

88. Some users also said that consequential amendments to IFRS 8 are needed to reflect the proposals in the Primary Financial Statements project, in particular, most of the new subtotals proposed in that project should become mandatory line items in IFRS 8.

89. Other comments by respondents who rated this potential project as high priority were:

(a) a user said it would be useful to disclose key performance indicators that management and the board of directors use for decision making; and

(b) a preparer expressed concerns that the IFRS 8 requirements for additional disclosures regardless of whether the information is regularly provided to the chief operating decision maker is inconsistent with the management approach and increases costs for preparers because the data may not be available.

90. Many of the respondents who rated this potential project as medium priority did not provide comments. Some respondents provided similar comments as those who rated this potential project as high priority, such as comments that the management approach does not deliver sufficient relevant or comparable information, information provided under current disclosure requirements is not sufficiently granular and requiring consequential amendments to IFRS 8 to reflect the Primary Financial Statements project. Some respondents said these issues were important but not a top priority. An accountancy body suggested the Board build on its previous work and the work of other national standard-setters for this potential project. A few respondents provided suggestions for improvements to IFRS 8.

91. Many of the respondents who rated this potential project as low priority did not provide comments. Some respondents said that IFRS 8 works reasonably well, there is limited evidence of urgent practice issues and the Post-implementation Review of IFRS 8 indicated that the Standard is working as intended. A few respondents acknowledged concerns with IFRS 8, such as the information provided is not sufficiently granular and comparable across companies, but did not consider these issues to be a high priority. Other comments were that:

(a) the benefits of this project might not justify the resource needed;

(b) convergence of IFRS 8 and US GAAP makes it difficult to make changes to IFRS 8;

(c) the Board should consider the impact of technological developments on IFRS 8, such as how technology is affecting the way segment reporting is presented; and

(d) requiring the disclosure of a minimum set of key performance indicators (as discussed in paragraph B60(d) of the Request for Information) may run contrary to the management approach used in IFRS 8 because key performance indicators might be company-specific.

Other comprehensive income

92. Some respondents rated a potential project on other comprehensive income as high priority (including many from Asia), some rated it as medium priority and some rated it as low priority (including many from Europe).

93. Some of the respondents who rated this potential project as high priority said the use of other comprehensive income and the reclassification from other comprehensive income to the statement of profit or loss (recycling) is inconsistent in IFRS Standards and suggested applying the principle in the *Conceptual Framework*. Some respondents said there is a lack of conceptual basis for the use of other comprehensive income and recycling. A few respondents suggested reviewing the requirements in IFRS Standards for the classification of items in other comprehensive income and recycling, to consider if those requirements provide useful information to users of the financial statements. A few respondents said that this topic affects multiple IFRS Standards and potential projects in the Request for Information. A few respondents said IFRS 9 should allow recycling for equity instruments measured at fair value through other comprehensive income.

94. Many respondents who rated this potential project as medium priority did not provide comments. A few respondents provided similar comments as those who rated this potential project as high priority, such as comments about applying the principle in the *Conceptual Framework* to IFRS Standards and allowing recycling for equity instruments measured at fair value through other comprehensive income. A few respondents said these issues were important but not a top priority. A few respondents said there is limited evidence of urgent practice issues. A few respondents made other suggestions:

    (a) educate investors on other comprehensive income;

    (b) set a high hurdle in future standard-setting for the use of other comprehensive income and improve the rationale for not recycling, which would be informed by a review of other IFRS Standards such as IAS 16 *Property, Plant and Equipment*, IAS 38 and IFRS 9;

(c) consider the use of other comprehensive income in conjunction with the definition of operating profit in the statement of profit or loss—the exclusion of gains or losses from the sale of shares from operating profit seems to negate the argument for an accounting treatment that does not allow for recycling to the statement of profit or loss; and

(d) allow recycling for all items in other comprehensive income.

95. Some respondents who rated this potential project as low priority did not provide comments. Some respondents acknowledged issues with other comprehensive income, particularly around the use of other comprehensive income and recycling. However, they said that those issues would be difficult to resolve and the benefits of doing so might not justify the resources needed, or resolving those issues was less important than other potential projects. A few respondents said there is limited evidence of urgent practice issues or diversity in practice. A user said they were comfortable with the current requirements of IFRS Standards relating to the use of other comprehensive income and recycling.

Pollutant pricing mechanisms

96. Many respondents rated a potential project on pollutant pricing mechanisms as high priority, some rated it as medium priority and some rated it as low priority.

97. Respondents that rated this potential project as high priority said:

(a) there are new pollutant pricing mechanisms and an increasing number of companies using them to meet their climate commitments. The impact on companies can be material and a lack of accounting requirements in IFRS Standards can lead to diversity in practice and reduce comparability across companies.

(b) to provide a complete picture of a company's activities, financial reporting and sustainability reporting will need to be connected. The Board should coordinate its work with the ISSB to avoid inconsistencies and duplication of effort.

(c) potential projects on pollutant pricing mechanisms, cryptocurrencies and related transactions, and intangible assets share similar characteristics and should be addressed in one overall project.

98. Other more specific comments from respondents that rated this potential project as high priority were that the Board should:

(a) develop accounting requirements for pollutant pricing mechanisms as part of or in conjunction with work on climate-related risks;

(b) develop accounting requirements for common pollutant pricing mechanisms such as cap-and-trade schemes and baseline and credit mechanisms; and

(c) develop a consistent and comparable approach that can be applied across various types of pollutant pricing mechanisms.

99. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents provided similar comments as those who rated this potential project as high priority.

100. Some respondents who rated this potential project as low priority did not provide comments. Of those who did, most said pollutant pricing mechanisms are not prevalent in their jurisdictions. An academic said this potential project involves too many variables.

Separate financial statements

101. Some respondents rated a potential project on separate financial statements as high priority, some rated it as medium priority but many rated it as low priority.

102. Some respondents who rated this potential project as high priority did not provide comments. Some respondents said separate financial statements are important to some jurisdictions and more guidance is needed because there is limited guidance in IAS 27 *Separate Financial Statements*. A few respondents commented on specific issues to address in such a project, such as the application of the expected credit loss model in IFRS 9 to intra-group loans and the application of hedge accounting within groups.

103. Many respondents who rated this potential project as medium priority did not provide comments. Of those respondents who provided comments, some said separate financial statements are important and are not adequately addressed by IFRS Standards. A standard-setter said separate financial statements serve different information needs than consolidated financial statements, which should be considered when setting requirements for separate financial statements. A user said the Board should improve the disclosure requirements in separate financial statements, such as information about permissible dividends. An accounting firm suggested specific issues that should be addressed in the project, but also suggested the Board should first perform research on the purpose for which separate financial statements are used.

104. Many respondents who rated this potential project as low priority did not provide comments. Of those who did, many said this project should not be prioritised given resource constraints and the need to address other higher-priority projects, any issues in practice were not of widespread concern and would be difficult to resolve in a timely manner. Other comments were that:

(a) the Board should consider improving the disclosure requirements in separate financial statements;

(b) the Board could develop a principle-based standard or address this topic in the *Conceptual Framework*; and

(c) the Board could consider working with standard-setters in jurisdictions where separate financial statements are important.

Statement of cash flows and related matters

105. Many respondents rated a potential project on the statement of cash flows and related matters as high priority, some rated it as medium priority and some rated it as low priority. Almost all users who commented on this potential project rated it as high priority.

106. Respondents that rated this potential project as high priority expressed a range of views on the project scope and the specific issues that this potential project should address. Some respondents said the Board should undertake a comprehensive review of IAS 7. Some other respondents were in favour of a more targeted approach,

although they expressed different views on which issues should be addressed in a more targeted project. Paragraphs 107–115 summarise comments on the issues raised made by respondents who rated this potential project as high priority.

107. Some respondents commented that they have difficulty reconciling the statement of cash flows to the other primary financial statements. Most of those respondents highlighted the need for more information about non-cash movements such as supplier finance arrangements and factoring of trade receivables.

108. Some respondents suggested reviewing the definition of cash and cash equivalents, particularly whether cryptocurrencies can be considered as cash and whether there is a better basis other than the maturity period of an investment to determine whether it is a cash equivalent. They also suggested other specific issues for which additional guidance should be provided.

109. A few respondents (users and a regulator) said that the Board should require companies to present a statement of changes in net debt (as discussed in the paragraph B76 of the Request for Information). They commented on the importance of this information to users of the financial statements. For example, a user said that information from a statement of changes in net debt is critical in determining a company's enterprise value. A regulator said such a statement should be required because there is a poor level of compliance with the requirements of paragraphs 44A–44E of IAS 7.

110. Some respondents said the classification of cash flows should be reviewed. In particular, some said that the current classification in the statement of cash flows is not aligned with the classification in the statement of profit or loss proposed in the Primary Financial Statements project.

111. A few respondents commented on a lack of information in the statement of cash flows that is needed to compute metrics, such as cash from operations and free cash flows, and to determine the amounts spent on capital maintenance and capital growth. A standard-setter suggested providing guidance to help companies classify expenditure as maintenance or growth expenditure. A user suggested requiring disclosures about the fair value of all stock-based compensation and stock-based merger and acquisition transactions, to get a clearer picture of the company's expenditure. A government

agency suggested reporting cash flows that represent investment in intangible assets and cash flows that arise from intangible assets.

112. A few respondents commented on the statement of cash flows for financial institutions. Some of those respondents said the requirement for financial institutions to present the statement of cash flows should be removed and a standard-setter said the Board should consider doing so. For example, a preparer said:

(a) the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice; and

(b) the needs of investors and other stakeholders are already met by IFRS 7 *Financial Instruments: Disclosures* and the Basel Regulatory Framework.

113. However, a standard-setter and a user said that the requirement for financial institutions to present a statement of cash flows should be retained because it provides essential information and the Board should consider developing a statement of cash flows for financial institutions. Another standard-setter said the requirements in IAS 7 are not specific to the banking industry and it is difficult to calculate certain items such as interest income.

114. A few respondents commented on reporting cash flows using the direct method. Most expressed views in favour of requiring its use. They said the direct method would reduce the difficulty of reconciling the statement of cash flows to the other primary statements. Also, the direct method could provide more information about operating cash flows, such as cash flows arising from supplier finance arrangements. However, one user representative body noted that its members' views were mixed and encouraged the Board to consider the advantages and disadvantages of reporting cash flows using the direct method. A regulator said requiring companies to produce a statement of cash flows using both the direct and indirect methods would be helpful to users and may help to eliminate basic cash flow errors that regulators around the world continue to note in financial statements.

115. Other suggestions were that the Board should:

(a) work with other national standard-setters that have undertaken work on the statement of cash flows;

(b) undertake a targeted project to improve the modelling of the statement of cash flows in the IFRS Taxonomy—issuers create numerous entity-specific extensions that reduce comparability across companies; and

(c) develop additional disclosure requirements that provide information on how companies manage cash inflows and outflows in order to meet payment obligations, plan for future payments, mitigate financial risks and maintain business stability.

116. Many of the respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this potential project as medium priority made comments similar to those of respondents who rated this project as high priority. Also, a regulator said that the statement of cash flows is designed for companies in general which could be challenging for companies in certain industries such as insurance.

117. Many of the respondents who rated this potential project as low priority did not provide comments. A few respondents said IAS 7 works reasonably well or there is limited evidence of urgent practice issues. A few respondents made other comments:

(a) the requirement for insurers to produce a statement of cash flows should be removed; and

(b) additional guidance on accounting for subsidiaries in common control transactions is needed.

Variable and contingent consideration

118. Some respondents rated a potential project on variable and contingent consideration as high priority, some rated it as medium priority and some rated it as low priority.

119. Some respondents that rated this potential project as high priority said transactions involving variable and contingent consideration are prevalent and IFRS Standards either lack accounting guidance or are inconsistent. They said this results in diversity in practice, information that is not useful, reduces comparability across companies and provides opportunities to structure transactions.

120. Some of those respondents said the Board should consider whether IAS 16, IAS 38 and IFRIC 12 *Service Concession Arrangements* should be amended (a medium-sized project, as discussed in paragraph B82(a) of the Request for Information). They said it would be difficult to develop a consistent approach across all IFRS Standards (a large project, as discussed in paragraph B82(b) of the Request for Information) because recently issued projects have addressed the issue in different ways. Also, limiting the scope of this potential project increases the likelihood the issue will be resolved in a timely manner. However, a few respondents expressed views in favour of a comprehensive review because that would result in greater consistency and be more effective than an asset-by-asset approach.

121. Also, a few respondents who rated this potential project as high priority said that the Board should:

(a) consider variable lease payments (in addition to IAS 16, IAS 38 and IFRIC 12);

(b) consider variable and contingent consideration as part of a project on intangible assets;

(c) combine this potential project with the potential projects on discount rates, foreign currencies, inflation and negative interest rates because these related matters are a high priority for countries with high economic volatility (such as volatile market prices and foreign exchange rates);

(d) combine this potential project with the potential projects on intangible assets and cryptocurrencies and related transactions, because that would be more effective for emerging new assets which did not exist and were not considered when IAS 38 was developed; and

(e) work with other national standard-setters that have started research for this potential project.

122. Some of the respondents who rated this potential project as medium priority provided comments similar to those respondents who rated it as a high priority. A few respondents said these issues were important but not a top priority. Also, a user suggested including variable and contingent consideration in goodwill and adjusting goodwill for subsequent changes in the measurement of variable and contingent

consideration. An accountancy body suggested a targeted project to clarify the requirements in IFRS 15 on variable and contingent consideration.

123. Many of the respondents who rated this potential project as low priority did not provide comments. Of those who did, many said variable and contingent consideration is not prevalent, any issues in practice were not of widespread concern, and this project should not be prioritised given resource constraints and the need to address other higher-priority projects.

Question for the Board
Does the Board have any comments or questions on the feedback discussed in this paper?