

Chairman's Report
IFRS Advisory Council
May 2021

1. The Advisory Council met on 11 May 2021 by videoconference. In addition to the Advisory Council members, the meeting was attended by the Chair of the Trustees of the IFRS® Foundation, Mr Erkki Liikanen, as well as several International Accounting Standards Board (Board) members and IFRS Foundation staff.
2. The agenda and papers for the meeting and the meeting recording are available at: <https://www.ifrs.org/news-and-events/calendar/2021/may/ifrs-advisory-council/>.
3. The Advisory Council Chair, Mr. Bill Coen, welcomed Advisory Council members to the meeting and thanked them for their flexibility and commitment given the higher frequency of recent Advisory Council meetings.
4. Mr. Coen thanked Mr. Hans Hoogervorst, Chair of the Board, for his service at the IASB and expressed an appreciation for Mr. Hoogervorst's career and leadership style. Mr. Hoogervorst thanked Mr. Coen and shared the following reflections for his time as Chair of the IASB:
 - the increased use of IFRS Standards around the world and the establishment of IFRS Standards as the leading international accounting language;
 - the completion of the big accounting standards – IFRS 9 *Financial instruments*, IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers*, and IFRS 17 *Insurance Contracts*;
 - the significance of the ongoing *Primary Financial Statements* project for users of financial statements;
 - on the Advisory Council:
 - his appreciation of the work of the Advisory Council and the contribution of its past and current Chairs;
 - the change of the role of the Advisory Council from providing technical to strategic advice on topics of importance, such as sustainability reporting;
 - the recent review of the role, composition and effectiveness of the Advisory Council; and
 - the role of the Advisory Council in facilitating communication and building goodwill with the stakeholders of the IFRS Foundation.

Advisory Council members echoed Mr. Coen's appreciation of Mr. Hoogervorst's service. Ensuing discussion included the following:

- the importance of developing financial reporting standards that ensure faithful representation of entities' financial position;
- the need to allow for political compromise in the process of developing international financial reporting standards;
- Mr. Hoogervorst's contribution to the inclusion of users into the development of financial reporting standards;
- the role of accounting and the differences arising from applying different financial reporting standards in portraying the activities of a business;

- the key role of the IFRS Foundation’s staff in developing high quality IFRS Standards; and
 - thoughts on the convergence of US GAAP and IFRS Standards.
5. Mr. Erkki Liikanen, Chair of the Trustees, also thanked Mr. Hoogervorst for his chairmanship of the Board. He updated Advisory Council members on the developments since the Council had last met:
- publication of proposed amendments to the Constitution of the Foundation to accommodate the potential formation of a new International Sustainability Standards Board (ISSB) within the governance structure of the organisation—open for comment for 90 days and closing on 29 July 2021; and
 - publication of a Feedback Statement that summarises feedback received to the Trustees’ consultation on sustainability reporting.
- Mr. Liikanen also noted:
- the Trustees’ active engagement with the Monitoring Board during the consultation process;
 - the great demand for the Trustees’ participation in major economic forums;
 - the need to achieve consensus of what the baseline in sustainability reporting should be; and
 - the Steering Committee’s current focus on issues such as technical preparation and nominations for the new ISSB.
6. Ms. Nili Shah, Executive Technical Director, introduced the Board’s Third Agenda Consultation (Agenda Paper 2) and asked Advisory Council members to raise awareness about the agenda consultation in their jurisdictions. Ms. Shah emphasised the importance of receiving broad stakeholder feedback and noted the following:
- the role of previous Advisory Council advice (from September 2019) in helping to shape the content of the consultation document;
 - the difference between the Board’s agenda consultation and the Trustees’ work on the establishment of an ISSB. Ms. Shah emphasised that Trustees’ decisions affecting the scope of the Board’s work will be considered in finalising the Board’s priorities and work plan;
 - the Board’s limited capacity—an increase in the allocation of resources to one of the Board’s activities would mean fewer resources available for other activities;
 - the Board’s plan to continue projects on its current work plan as these projects have previously been identified by stakeholders as priorities (a project cycle is usually longer than five years). Ms. Shah noted that stakeholders have the opportunity to comment on projects on the Board’s workplan within each project cycle.
 - that the Agenda Consultation request for information allows stakeholders to provide other comments about the Board’s activities and work plan; and
 - that the capacity indicators included in the consultation document set aside capacity to undertake time-sensitive projects that may arise after the agenda consultation and post implementation reviews required by due process.
7. Comments from Advisory Council members included:
- The possibility to involve external partners in some areas (eg, digital financial reporting) to help alleviate some of the Board’s capacity constraints.

- The Board’s agenda consultation focuses on the Board’s current scope of work. However, areas of digitalisation, stakeholder engagement, and understandability and accessibility are also relevant to the ISSB. Therefore, feedback on this agenda consultation may also provide valuable information for future work of the ISSB and its standard-setting processes.
 - The need to allocate some of the Board’s resources to coordinating the work of the Board and a new ISSB.
 - IFRS 17 *Insurance contracts* has started becoming quite topical.
8. Ms. Shah provided an overview of the first part of the consultation—the strategic direction and balance of the Board’s work plan (Agenda Paper 3) and highlighted some key points for the Advisory Council members to consider regarding each of the six main activities that the Board undertakes:
- **New IFRS Standards and major amendments to IFRS Standards:** If stakeholders would like the Board to take on more research and standard-setting projects than what the estimated capacity in Agenda Paper 5 allows for, stakeholders should indicate on which activity or activities the Board should focus less.
 - **Maintenance and consistent application:**
 - By providing educational materials, the Board helps stakeholders obtain a common understanding of financial reporting requirements but such materials are not intended to set requirements. The latter requires compliance with standard-setting procedures and the due process steps.
 - If the Board were to focus more on maintenance and consistent application of IFRS Standards, it could shift focus into capacity-building efforts for emerging economies and new adopters.
 - **IFRS for SMEs:** Maintenance of the *IFRS for SMEs* Standard requires specialised expertise.
 - **Digital financial reporting:** The importance of digital financial reporting is growing. One of the challenges for the Board is that a move towards digital financial reporting requires involvement and cooperation of multiple participants in the financial system. Historically, the Board has focused on facilitating the digital consumption of financial information by developing and maintaining the IFRS Taxonomy. The Board could keep that focus or do more, for example:
 - improve the IFRS Taxonomy to better meet investors’ needs;
 - shift from a technology-neutral approach to the requirements in IFRS Standards to one that embraces technology first, shifting the focus away from paper-based reporting towards digital reporting; or
 - identify partners in the digital ecosystem and influence other things not necessarily within the Board’s control, such as adoption of the IFRS Taxonomy and improved accessibility to digital financial reports of listed companies by providing centralised access to those reports.
 - Ms. Shah reminded the Advisory Council members that the topic of digital financial reporting was discussed at previous Advisory Council meetings in 2017, 2018 and 2019; the main takeaways from those discussions were that the IFRS Taxonomy continues to be relevant, it is important to retain the IFRS Taxonomy for branding purposes, and the IFRS Foundation should work in partnership with others.

- **Stakeholder engagement** is a cross-cutting activity involving outreach and coordination with various interested parties to obtain views to support the development of high-quality Standards and promote their acceptance.
 - **Understandability and accessibility** are goals that also involve cross-cutting activity, but which are less visible. This work primarily helps users of the Standards (preparers, auditors, regulators, and national standard-setters) provide high-quality financial information to the users of financial information (including investors). Today, the Board focuses on understandability by, for example, drafting clear Standards. It does this through the involvement of editorial and translation teams and external reviewers. If the Board were to do more it could, for example, create an inventory of possible areas of unnecessary complexity in applying financial reporting requirements, and assess whether improvements can be made to those areas.
 - The Board strives to make the Standards and related materials more accessible by:
 - publishing IFRS Standards with annotations and cross-references to other materials;
 - publishing semi-annual compilations of the Interpretations Committee agenda decisions; and
 - providing tools to make IFRS Standards and other materials easier to navigate, such as new IFRS Standards navigator on the IFRS Foundation website.
 - The Board could further improve the accessibility of the Standards by using technology and other tools, such as flowcharts, to help stakeholders find materials that are most relevant to them.
9. In breakout sessions, the Advisory Council members discussed the strategic direction and balance of the Board's activities for 2022 to 2026 (Agenda Paper 3). They provided some comments on the Board's six main activities, including:

New IFRS Standards and major amendments to IFRS Standards

- Members discussed that:
 - the Board should focus more on the maintenance of the Standards (including older Standards, such as IAS 2 *Inventories*, and new major IFRS Standards on financial instruments, revenue, leases, and insurance contracts) rather than on the development of new IFRS Standards and major amendments to the Standards.
 - it would be helpful to see how the current level of focus on this activity is divided between research and standard-setting projects and post-implementation reviews.
 - the scope for improvements in a post-implementation review is limited and suggested that the due process should be revised to expand the Board's ability to amend and improve the Standards in the reviews.
 - the Board should be careful in managing expectations and should not add more projects to its work plan than it expects to be able to start withing the next five years.
 - The Board could consider decreasing its level of focus on new research and standard-setting projects because some standards-level projects

- will be completed within the next five years and the implementation of these new requirements will require stakeholders' capacity.
- The Board should seek synergies with regulators and national standard-setters to research financial reporting issues.

Maintenance and consistent application of IFRS Standards

- Some Advisory Council members were of the view that maintenance of the Standards is a greater priority than issuing new Standards.
- Other members expressed concerns that:
 - too many educational materials may indicate that there are gaps in the Standards and this could lead to further standard-setting.
 - educational materials may result in the Board over-interpreting the Standards.
- Some Advisory Council members suggested the Board provide more educational materials to support consistent application of the Standards on financial instruments, revenue and leases.
- Some Advisory Council members suggested that the Board should focus more on capacity-building efforts to support emerging economies.
- Others suggested that the Board should focus less on providing educational materials for preparers and should focus more on educational materials for investors.
- The importance of understanding and addressing the differences in the extent to which standards are applied by jurisdictions was emphasized.

The *IFRS for SMEs* Standard

- Some Advisory council members suggested that:
 - it is important to understand why the Standard is not adopted globally before deciding what more could be done. One of the reasons for limited adoption of the Standard could be that some jurisdictions have their local GAAP for companies that are SMEs.
 - clarifying the interaction between the *IFRS for SMEs* Standard and other projects that relate to SMEs (eg, Subsidiaries that are SMEs) would be helpful.
- One Advisory Council member acknowledged that the *IFRS for SMEs* Standard requires specialised expertise and suggested establishing a separate sub-committee of the Board to focus on the *IFRS for SMEs* Standard.

Digital financial reporting

- Some Advisory Council members suggested the Board consider increasing its level of focus on this activity because it will become more important and prevalent in the next five years. They acknowledged that this is a challenging activity and requires coordination and cooperation of various participants in the digital ecosystem, including regulators and software developers.
- Other members said they would find it helpful to know what is feasible before deciding on prioritisations and on whether to increase the level of focus on digital financial reporting.
- Some suggested that together with preparers, the Board should continue its work on the IFRS Taxonomy and seek to improve the IFRS Taxonomy to better meet

investors' needs—for example, by increasing the level of detail and granularity of information disclosed.

- Other members said that it is important to increase global adoption of the IFRS Taxonomy.
- One Advisory Council member said market developments will determine if there is a need for more work from the Board. The division of responsibility between the Board, market participants and security regulators is important. The Board should not increase its current level of focus on digital financial reporting.

Understandability and accessibility of the Standards

- Some Advisory Council members thought the Board should focus more on improving the understandability of the Standards. Inconsistent drafting and terminology are perceived as an issue.
- One Advisory Council member said that the Standards become operational only after they have been applied for several reporting periods. This suggests that they are not sufficiently understandable and some follow-up work may therefore be needed. The Board could seek synergies with other stakeholders to improve the understandability of the Standards.
- Other Advisory Council members expressed the view that:
 - The Board should improve the understandability of the Standards by making changes to the way Standards are drafted.
 - Too many educational materials may make the Standards less understandable and lead to inconsistent application of the requirements.
 - Projects to reduce unnecessary complexity in the Standards should be part of education rather than standard-setting.

Stakeholder engagement

- Advisory Council members said the Board should continue to engage with a broad range of stakeholders and strive to do this more efficiently by using technology and digital-friendly tools, such as surveys.
- One Advisory Council member suggested that the Board should engage more with emerging economies.

Other comments from members

- Interaction with the proposed ISSB needs to be incorporated into the Board's main activities and should be a separate main activity.
 - Projects on the current work plan need to be completed.
 - It is important to set aside capacity for urgent issues.
10. Ms. Rachel Knubley, a member of the IASB Technical Staff, provided an overview of the second part of the agenda consultation—the criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan (Agenda Paper 4) and stressed some key points:
- The first four criteria are derived from the Due Process Handbook, while the remaining three criteria have arisen from previous agenda consultations as practical considerations that the Board has used.

- The overarching consideration is whether a potential project will meet investors' needs taking account of the costs of producing the information.
- The criteria are subjective.
- In the past it was not possible to prioritise any of these criteria.

11. Comments from Advisory Council members included:

- Criteria could be split into essential criteria and non-essential criteria. Once the essential criteria have been met, the other criteria can be used to consider which projects to add to the work plan. The proposed essential criteria (in order of priority) were:
 - Whether there is a deficiency in current reporting (eg, accounting for business combinations under common control, use of non-GAAP measures, number of issues submitted to the Interpretations Committee).
 - The importance of the matter to investors.
 - The capacity of the Board and its stakeholders to progress the potential project.
- The Board could also consider other criteria:
 - The age of the Standard. Older Standards may no longer be fit for purpose (eg, the intangible assets Standard). Do these old Standards still appropriately address new transactions and new phenomena in the economy?
 - Interaction with the proposed ISSB.
 - The use of non-GAAP measures.
 - The evidence of structuring opportunities.
 - Whether there is an identifiable scope for the project.
 - The longevity of a likely solution.
- There is a lot of overlap and similarities between the first four criteria proposed by the Board. The last three proposed criteria are about achievability and affordability.
- Regarding cryptocurrency, one member commented that it may not be possible to develop accounting requirements until central banks have provided more guidance on cryptocurrencies. Consequently the criteria on complexity and feasibility could be replaced with achievability.
- When there is a deficiency in current reporting, the Board should consider the costs and benefits of leaving the gap unaddressed (reference was made to the upcoming ICAEW Conference)—market practice may have already addressed the gap and users of financial statements may receive useful information. In addition, if there is a deficiency in financial reporting, the Board should consider evidence that helps assess the deficiency.
- The Board should consider the importance of the matter to a broad range of stakeholders, not only to investors.
- The criterion of how pervasive the matter is might be covered by the other criteria and may not be needed.
- It would be helpful if the Board clarified whether the criteria apply to new projects or the Board's other activities as well, including the post-implementation reviews.
- One Advisory Council member said the post-implementation reviews should be undertaken by an independent external party rather than the Board.

- One Advisory Council member asked if the criteria that are not derived directly from the Due Process Handbook (ie, the potential project’s interaction with other projects; the complexity and feasibility of the potential project and its solutions; the capacity of the Board and its stakeholders to progress the potential project) would be added to the Due Process Handbook.
12. Ms. Knubley responded to Advisory Council members’ comments by noting:
- The three proposed criteria that are not derived directly from the Due Process Handbook, have arisen from previous agenda consultations and have worked well in practice. At this stage, there are no plans to include them in the Due Process Handbook, which sets out the minimum criteria. However, if stakeholders believe all the criteria should be included in the Due Process Handbook, it would be important for stakeholders to provide such feedback.
 - Regarding the subjectivity of the criteria, the aim is to gather information to assist the Board in applying the criteria to the projects that stakeholders identify as priority in this agenda consultation. Therefore, stakeholders should provide the evidence that support the criteria.
13. Ms. Knubley provided an overview of the third part of the agenda consultation—the priority of financial reporting issues that could be added to the Board’s work plan (Agenda Paper 5) and shared some introductory comments:
- The Board will continue to work on its current projects and conduct required post-implementation reviews. It has also set aside some capacity to undertake urgent projects that may arise after this consultation.
 - The Board has limited capacity and it expects to be able to add 2-3 large projects or 4-5 medium-sized projects, or 7-8 small projects to its future work plan.
 - The Board conducted outreach to identify potential new projects to describe in the consultation document. The Board’s purpose in describing these potential projects is to provide a common understanding of the issues that could be addressed to focus stakeholder feedback.
 - The list of described projects is not a draft work plan.
 - Stakeholders can suggest other financial reporting issues for the Board to explore.
14. The following themes arose in the plenary session on potential high-priority projects:
- Many Advisory Council members commented on a project on:
 - intangibles—it was suggested that a project to develop better disclosure requirements about unrecognised intangibles would be a good starting point, but the Board could also review the requirements for classification, and recognition and measurement of intangible assets; and
 - cryptocurrencies—members expressed the view that the requirements in IFRS Standards do not provide useful information about cryptocurrencies and that defining cryptocurrencies would be useful. Other members noted that undertaking a project on cryptocurrencies may consume an inordinate amount of resources, which are needed for other high-priority projects, such as post-implementation reviews.
 - Some members discussed projects on:
 - climate-related risks—members discussed that the Board should work on climate-related risks and pollutant pricing mechanisms together

- with the proposed ISSB. One member noted that recent educational materials already explained how the existing requirements relate to climate-related-risks; and
- discount rates—it was suggested that the Board research fundamental issues, such as measurement, risk adjustment, the unit of account and risk-free discount rates.
- Other members suggested project on:
 - discontinued operations and disposal groups—members believed there are unresolved issues that the Board should consider;
 - government grants—members commented that the Standard allows various accounting policy choices that reduce comparability between companies. Due to the prevalence of covid-19-related government grants the Standard has taken on greater prominence;
 - other comprehensive income—some expressed the view that there is inconsistent use of other comprehensive income and recycling;
 - going concern—members mentioned research performed by the IAASB on going concern; and
 - variable and contingent consideration—one member referred to research already done in that area.
- Individual suggestions by members on projects included:
 - improvements to IAS 7 *Statement of Cash Flows*, including issues related to supply chain financing;
 - a project on borrowing costs because the Standard is difficult to apply when a qualifying asset is financed with general borrowings, and the definition of borrowing costs needs to be revised and updated;
 - enhancements to disclosure requirements in IFRS 8 *Operating Segments*—the member mentioned a project that the FASB has undertaken;
 - a project on inventory and cost of sales; and
 - a project on hedge accounting for insurers.

15. Other comments included:

- Some projects are related to each other and the Board should seek synergies and work on these projects together—for example, intangible assets and cryptocurrencies.
- A caution that the Board should not overpromise and should not take on more projects than it can work on.
- Defining the scope of any potential project is important.

16. Mr. Coen closed the meeting by thanking the Advisory Council members for their preparation and contribution to the meeting.