STAFF PAPER

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Project Topic | Third Agenda Consultation
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Paper topic | Feedback summary—Criteria for assessing the priority of financial reporting issues

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Objective

1. This paper analyses feedback from comment letters, responses to the survey and outreach meetings on the criteria for assessing the priority of financial reporting issues that could be added to the work plan, included in the Request for Information Third Agenda Consultation (Request for Information).

Key messages

2. Most respondents provided feedback on this aspect of the agenda consultation. Almost all agreed with the criteria proposed by the Board. Many said the criteria are well-balanced and adequate. Some respondents said they would like to better understand how the criteria will be applied to individual projects.

3. Some respondents suggested the Board consider additional criteria in deciding whether to add a potential project to its work plan—for example, the consideration of a cost-benefit analysis.

4. Some respondents said some of the proposed criteria are not included in the Due Process Handbook (Handbook). They suggested the proposed criteria be included in...
the *Handbook* or the Board clarify the link between the proposed criteria and the criteria included in the *Handbook*.

**Structure of the paper**

5. This paper includes:

(a) background (paragraphs 6–7);

(b) feedback from comment letters, survey responses and outreach meetings (paragraphs 8–28):

(i) agreement with the proposed criteria (paragraphs 8–11);

(ii) comments on the proposed criteria (paragraphs 12–20);

(iii) other criteria proposed by stakeholders (paragraphs 21–25); and

(iv) other comments (paragraphs 26–28); and

(c) question for the Board.

**Background**

6. The Request for Information noted that the Board evaluates a potential project for inclusion in its work plan primarily by assessing whether the project will meet investors’ needs, while taking into account the costs of producing the information. In addition, the Request for Information set out seven criteria that the Board proposes to use in deciding whether to add a potential project to its work plan:

(a) the importance of the matter to investors\(^1\);

(b) whether there is any deficiency in the way companies report the type of transaction or activity in financial reports\(^2\);

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\(^1\) 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*).

\(^2\) 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.
(c) the type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others;

(d) how pervasive or acute the matter is likely to be for companies;

(e) the potential project’s interaction with other projects on the work plan;

(f) the complexity and feasibility of the potential project and its solutions; and

(g) the capacity of the Board and its stakeholders to make timely progress on the potential project.

7. The Board asked stakeholders whether it:

(a) has identified the right criteria.

(b) should consider other criteria.

Feedback from comment letters, survey responses and outreach meetings

Agreement with the proposed criteria

8. Most respondents provided feedback on this aspect of the agenda consultation. Of those respondents, almost all agreed with the criteria proposed by the Board. Many said the criteria are well-balanced and adequate.

9. Many respondents who commented did not express any concerns about the criteria; some of them acknowledged that the Board would need to apply judgement to decide which projects to add to its work plan.

10. Many respondents who commented—including most accountancy bodies and standard-setters from Asia and Europe, and some preparers from Europe—shared various observations and provided some drafting suggestions. Their comments are summarised in paragraphs 12–20.

11. Some of the respondents who provided detailed comments on the proposed criteria said they would like to understand how the Board weighs the criteria and applies them to individual projects. Some of them suggested the Board split the criteria into essential and secondary criteria—for example, some said the importance of the matter to users should be given the highest weight, whereas some others said the priority of any project should depend on its urgency and relevance. A few other respondents
suggested the Board rank the criteria—for example, rank the first four criteria as the primary criteria and the three other, more practical criteria, as secondary (confirmatory) criteria.

Comments on the proposed criteria

12. Some respondents, including some users, commented on the first criterion—the importance of the matter to investors. Users’ detailed comments are included in paragraph 47 of Agenda Paper 24G for this meeting. Other respondents said:

(a) the Board should also consider the importance of the matter to other stakeholders (such as preparers, regulators and auditors) and wider society.

(b) the term ‘users/investors’ covers a broad range of users. There should be a distinction between investors that are holders of equity interests and other users, including analysts and advisors. A preparer representative body said the criterion should focus on the importance of the matter to holders of equity interests and always be analysed together with the cost of producing the information, because this cost will affect investor’s returns.

(c) the Board should not place too much emphasis on the views of users—users may not always be best placed to identify opportunities for improving financial reporting.

(d) to overcome the sometimes low level of investor engagement, the Board may need to use other sources of information to assess the importance of the matter—for example, the extent to which it affects the fair presentation of financial statements.

(e) in addition to investors, the Board should consider the importance of the matter to other primary users of financial statements. (However, as explained in footnote 1 to paragraph 6 of this agenda paper, in the Request for Information the term ‘investors’ was used to refer to primary users of financial statements as defined in the Conceptual Framework—that is, as existing and potential investors, lenders and other creditors.)
13. Some respondents commented on the second criterion—whether there is any
deficiency in the way companies report the type of transaction or activity in financial
reports. A few said:

(a) diversity in practice should be treated as a deficiency in the way companies
report. Such diversity might arise from implementation issues or specific
options in IFRS Standards.

(b) a difference in requirements between US GAAP and IFRS Standards should be
treated as a reporting deficiency because such differences reduce
comparability between entities.

(c) this criterion may also capture minor interpretation questions rather than issues
that should be addressed through standard-setting which does not seem to be
the intention of the Board. The criterion could be redrafted, so it reads
‘whether there is a deficiency in the way companies report the type of
transaction or activity and whether that deficiency can be remedied through
standard setting’.

(d) the criterion in the Handbook reads ‘whether there is a deficiency in the way
particular types of transactions or activities are reported in financial reports’.
The wording used in the Handbook appears appropriate, because it does not
imply any wrongdoing by a company. In addition, replacing ‘deficiency’ with
‘significant divergence’ might help avoid any implication of wrongdoing by a
company.

(e) as part of this criterion, the Board should consider whether:

(i) proliferation of non-GAAP measures indicates that a Standard does not
reflect the economics of the transaction.

(ii) structuring opportunities exist to achieve a desired accounting outcome.

14. Some respondents commented on the third criterion—the type of companies that the
matter is likely to affect, including whether the matter is more prevalent in some
jurisdictions than others. They said:

(a) this criterion implies that some sectors and jurisdictions will be prioritised over
others, whereas IFRS Standards are global, sector-neutral Standards;
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(b) this criterion may overlook the prevalence of a matter affecting many smaller organisations, which in total represent a larger proportion of reporting entities; and

c) to avoid potential bias, the criterion could be redrafted and read ‘the extent to which the matter is prevalent across jurisdictions and sectors’.

15. A few respondents commented on the fourth criterion—how pervasive or acute the matter is likely to be for companies. An accountancy body said the Board should consider how many companies may be affected by a revised or new Standard and the extent of changes to the recognition, measurement and disclosure requirements. In this respondent’s view it is unclear whether the Board considers these matters as part of its assessment of how pervasive or acute the matter is likely to be for companies and the Board should clarify this point.

16. A few respondents commented on the fifth criterion—the potential project’s interaction with other projects on the work plan. They said:

(a) this criterion implies that only interactions between potential and current projects will be considered, but the Board should also assess the interaction between potential projects. This respondent suggested redrafting the criterion, so it reads ‘the potential project’s interaction with other projects on the work plan and other potential projects’.

(b) it is unclear if interactions with more than one project on the work plan would result in a higher or lower priority for a project. The Board should clarify how its prioritisation decisions are affected by several interactions between any potential project and the current projects.

(c) rather than applying a phased approach, in which decisions made on one project would affect decisions made on another project, sometimes it may be more efficient if the Board works on related projects at the same time.

(d) when there are cross-cutting issues relating to several projects, the Board should consider whether undertaking a single project is the most effective way of addressing the issues.

(e) this criterion should consider the quantity, complexity and stage of development of current projects.
17. Some respondents commented on the sixth criterion—the complexity and feasibility of the potential project and its solutions. They said:

(a) it is unclear whether a potential project that is too complex would be postponed until resources become available or there is some scope for increasing the level of resources to undertake a complex project if it is ranked as a high priority.

(b) this criterion should include consideration of how complex the implementation of a solution will be and how complex it will be to provide assurance on the information provided applying new requirements.

(c) the complexity and feasibility of the potential project and its solutions, along with the seventh criterion—the capacity of the Board and its stakeholders to make timely progress on the potential project—could create a bias against long-term, large projects. These criteria should not stop the Board from adding a long-term, complex project to the work plan, because the development of a Standard needs to adopt a long-term view. The Board should use these two criteria only as supplementary criteria to decide when to start a project and not whether to start a project.

18. Some respondents commented on the seventh criterion—the capacity of the Board and its stakeholders to make timely progress on the potential project. They said:

(a) due to the developments in sustainability reporting, preparers’ capacity to deal with new financial reporting issues will be limited over the next work cycle. A few standard-setters from Europe said the Board should mainly consider preparers’ perspective when applying this criterion.

(b) the Board’s capacity to deal with new projects affects the number of projects the Board can work on at a time, but the Board’s limited capacity should not affect the prioritisation decisions, especially on time-sensitive and urgent projects.

(c) this criterion could be used to decide whether a current project should be paused or stopped to provide capacity for new, more important projects. That could be the case for projects that have turned out to be more complex than originally envisaged.
19. A few respondents of all types suggested the Board apply the criteria to the projects on its current work plan and assess whether to continue all of them. Some of these stakeholders suggested the Board undertake the assessment periodically and formalise the process.

20. An individual raised concerns about the proposed criteria. In this respondent’s view, questions in the Request for Information suggest that the list of criteria may be incomplete but adding criteria to the list would mean that the final criteria will not have been subject to due process.

**Other criteria proposed by stakeholders**

21. Some respondents suggested the Board consider additional criteria when assessing the priority of financial reporting issues that could be added to its work plan. In most cases, each of these additional criteria was suggested by one or a few respondents; some respondents suggested more than one additional criterion:

(a) whether the benefits of the change would exceed the costs;
(b) how old the Standard is and when the Standard was last amended;
(c) the number of agenda decisions issued on a topic;
(d) whether a potential project has an identifiable scope;
(e) the importance of the matter to auditors and regulators;
(f) whether the matter is of a wider public interest;
(g) how well a potential project meets the needs of stakeholders in a post-pandemic environment;
(h) how a potential project affects the economic and regulatory environment;
(i) how a potential project relates to developments in overall corporate reporting;
(j) how a potential project relates to developments in ESG reporting;
(k) the relationship of a potential project with activities and projects of the International Sustainability Standards Board (ISSB);
(l) whether the potential project is expected to remain relevant when it reaches implementation stage;
(m) the urgency and timeliness of the financial reporting issues; and

(n) the capacity of preparers to deal with the change, including the degree of expected impact on IT systems.

22. A few respondents, mainly from Asia, emphasised the importance of international comparability for investors with global coverage and suggested the Board give more prominence to the work streams of other major standard-setters, including the Financial Accounting Standards Board (FASB). Most of these respondents suggested the Board consider convergence with US GAAP as a separate criterion. They said:

(a) as part of its assessment of the types of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others, the Board should consider local accounting requirements, such as US and Japanese GAAP. These local requirements continue to be important for users and preparers, so the Board should give more prominence to these considerations than it has previously.

(b) the development of consistent and comparable global standards is essential to users. When standard-setters propose dissimilar solutions or are duplicating efforts, market efficiency is reduced—for example, some users raised concerns that the FASB and the Board have taken different approaches to improve the accounting for goodwill. A user representative group said the FASB and the Board are currently consulting on each Boards’ future priorities and it is an opportunity to collaborate on the outcomes of these consultations to avoid duplication or contradictory positions.

(c) US GAAP and IFRS Standards are the two primary financial reporting frameworks, so the Board should consider how best to maintain the benefits of the convergence already achieved.

23. A user representative group suggested the Board consider the work streams of the International Auditing and Assurance Standards Board (IAASB) and the ISSB and should engage with those standard-setters to avoid discrepancies and inconsistencies between their standards and IFRS Standards.

24. A few preparer representative bodies said the overarching consideration of whether the project will meet investors’ needs, while taking into account the cost of producing the information is not a formal criterion and risks being overlooked.
25. An accounting firm suggested the Board consider additional criteria that would help the Board to determine the relative priority of projects with similar characteristics, including urgency and importance.

**Other comments**

26. Some respondents of all types, mainly standard-setters and accountancy bodies, suggested the Board include all the proposed criteria in the *Handbook*. A few other respondents suggested the Board clarify the link between the proposed criteria and the criteria set out in the *Handbook*.

27. A user representative group noted differences between the criteria set out in paragraphs 5.4 and 5.16 of the *Handbook* (see paragraph 50 of Agenda Paper 24G for this meeting).

28. A regulator said the criteria for selecting IFRS Standards for a post-implementation review should be clarified.

**Question for the Board**

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