IFRS

STAFF PAPER

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IASB® meeting

Project	Third Agenda Consultation		
Paper topic	Potential projects—Proposed short-listed projects		

CONTACT(S)	Rafal Markowski	rmarkowski@ifrs.org	+44 (0) 207 246 6930
	Rachel Knubley	rknubley@ifrs.org	+44 (0) 207 246 6904

Introduction and purpose

1. At its November meeting, the IASB discussed feedback from respondents to the Request for Information *Third Agenda Consultation* (Request for Information)[1] and other sources about financial reporting issues that could be added to the IASB's work plan (potential projects).[2]

2. As explained in paragraph 9 of Agenda Paper 24A—*Potential projects—Approach to staff analysis*, the staff analysis of potential projects is presented in three papers:

    (a) this paper, which discusses the proposed short-listed projects;

    (b) Agenda Paper 24C—*Potential projects—Other projects described in the Request for Information*; and

    (c) Agenda Paper 24D—*Potential projects—Other suggestions*.

3. This paper should be read in conjunction with Agenda Paper 24E—*Potential projects—Feedback summary for proposed short-listed projects.*

[1] See Request for Information *Third Agenda Consultation*.

[2] See Agenda Paper 24D Feedback summary—Potential projects (part 1), Agenda Paper 24E Feedback summary—Potential projects (part 2), Agenda Paper 24F Feedback summary—Potential projects (part 3) and paragraphs 51–84 of Agenda Paper 24G Feedback summary—Users of financial statements.

Summary of staff recommendations

4. The staff recommend that the following potential projects be short-listed for further discussion at the April meeting:
   (a) climate-related risks;
   (b) cryptocurrencies and related transactions;
   (c) going concern disclosures;
   (d) intangible assets;
   (e) operating segments;
   (f) pollutant pricing mechanisms; and
   (g) statement of cash flows and related matters.

Structure of the paper

5. This paper includes:
   (a) background information (paragraphs 6–8); and
   (b) the staff analysis of the proposed short-listed projects (paragraphs 9–140).

Background

6. Appendix B of the Request for Information described 22 potential projects, based on outreach conducted when preparing the Request for Information. This paper presents the staff analysis of seven of those potential projects, which comprise the proposed short-listed projects (in alphabetical order):
   (a) climate-related risks (paragraphs 9–28);
   (b) cryptocurrencies and related transactions (paragraphs 29–44);
   (c) going concern (paragraphs 45–64);
   (d) intangible assets (paragraphs 65–90);
   (e) operating segments (paragraphs 91–108);

(f) pollutant pricing mechanisms (paragraphs 109–126); and

(g) statement of cash flows and related matters (paragraphs 127–140).

7. The staff analysis is based on feedback from respondents and the criteria that the IASB has tentatively decided to use for deciding whether to add a project to its work plan:

(a) the importance of the matter to investors;[3]

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

(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 IASB and its stakeholders to make timely progress on the potential project.

8. Further information about the approach to the staff analysis of potential projects is set out in paragraphs 4–12 of Agenda Paper 24A, including the purpose of the proposed shortlist.

The staff analysis of the proposed short-listed projects

Climate-related risks

9. This section refers to feedback from respondents about a potential project on climate-related risks. See paragraphs 5–10 of Agenda Paper 24E for more information.

[3] The IASB used the term 'investors' in the Request for Information to refer to the primary users of financial statements, defined in the *Conceptual Framework for Financial Reporting* as existing and potential investors, lenders and other creditors.

Importance to investors

10. Feedback indicates that a potential project on climate-related risks is of importance to users of financial statements. Many users who commented on this potential project rated it as high priority and almost all users rated it as high or medium priority.

Any deficiency in reporting

11. Feedback from respondents who commented on this potential project—most of whom rated it as high priority[4]—indicates that deficiencies in reporting exist. More specifically, those deficiencies relate to:

    (a) inconsistent application of requirements in IFRS Accounting Standards. For example, respondents (including users) who rated this potential project as high priority said that although the educational material *Effects of climate-related risks on financial statements*[5] was helpful, they have observed inconsistent application in practice. They also said that the number of companies considering climate-related risks and recognising the effects on their financial statements is very low.

    (b) insufficient information disclosed about climate-related risks. For example, a user said it would be useful if companies were required to disclose whether and how climate-related risks have been considered in testing assets for impairment, fair value measurements, expected credit losses, depreciation and sensitivity analyses.

12. Further to paragraph 11, feedback from some respondents indicates that a contributing factor to deficiencies in reporting is that many entities either are not adequately considering the effects of climate-related risks or it is unclear whether such effects have been considered. That feedback is consistent with user feedback during outreach to develop the Request for Information—they said that climate-related risks are often perceived as remote, long-term risks and may not be fully considered in areas of financial statements that require estimates about the future (see paragraph B9(b) of the

[4] Respondents who rated this potential project as high priority include respondents across all regions and stakeholder types.

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

Request for Information). To the extent that deficiencies in reporting arise from entities not sufficiently considering climate-related risks, it could be argued that such deficiencies result from a behavioural issue rather than a deficiency in the requirements of Accounting Standards. Also, that behavioural issue could reduce over time, as the focus on climate-related risks grows, thereby putting more pressure on entities to consider the effects of those risks on their financial statements.

13. Nevertheless, feedback from respondents indicates that the IASB could consider whether and what further actions might be needed to help more consistent application of Accounting Standards or provide better information to users about the effects of climate-related risks on the financial statements.

14. Feedback from respondents also highlighted the importance of connectivity between the requirements in Accounting Standards and requirements developed by the International Sustainability Standards Board (ISSB). Such feedback does not necessarily indicate that there are deficiencies in the information disclosed in financial statements. Rather, it might primarily highlight the need for the IASB to coordinate its work with the ISSB (discussed further in paragraph 21).

Entities or jurisdictions affected

15. Feedback indicates that the matters raised by respondents affect (or are expected to affect) many jurisdictions, given the global nature of climate-related risks. Of those respondents who commented on this potential project, many or most respondents from each region (including global respondents) rated it as a high priority.

16. Feedback also indicates that many types of entities are (or are expected to be) affected. However, it is likely that some types of entities will be affected more than others, such as entities in industries that contribute to greenhouse gas emissions (such as energy and industrial processes) and/or are likely to be significantly affected by climate change (such as agriculture, fishing, banking and insurance).

How pervasive or acute

17. Feedback indicates that the matters raised by respondents are (or are expected to become) pervasive. That pervasiveness arises from both the widespread nature of

climate-related risks and the potential for those risks to affect many aspects of an entity's financial statements.

18. Feedback also includes that the matters raised by respondents are (or are expected to become) acute. That acuteness arises because of the pervasiveness of the climate-related risks and because the effects of those risks are expected to grow over time.

19. However, the extent of the pervasiveness and acuteness of the matters raised by respondents could be affected by the behavioural issue discussed in paragraph 12. Any changes in behaviour could reduce the extent of deficiencies in reporting, which in turn could reduce the extent of pervasiveness and acuteness of the matters raised by respondents.

Interaction with other projects

20. A project on climate-related risks (or environmental, social and governance (ESG) risks more broadly, as suggested by some respondents and discussed further in paragraph 23) would likely interact with the following current and potential projects:

    (a) Goodwill and Impairment. Among other things, that project is considering potential changes to the impairment test in IAS 36 *Impairment of Assets*. The IASB has yet to redeliberate any potential changes to the impairment test, but it is possible the potential changes discussed in paragraph B11(b) of the Request for Information in relation to climate-related risks could be affected by decisions the IASB makes in the Goodwill and Impairment project and vice versa. Hence, the IASB might need to consider how to co-ordinate the two projects.

    (b) Management Commentary. Interactions with information disclosed in management commentary (such as information about risks and the external environment) would need to be considered when considering any changes to Accounting Standards in relation to climate-related risks.

    (c) pollutant pricing mechanisms, which is a more specific, but closely-related topic. If added to the IASB's work plan, developing requirements for pollutant pricing mechanisms would address one specific aspect of climate-related risks.

21. In addition to interactions with current and potential projects, a project on climate-related risks (or ESG risks more broadly) would likely interact with the work of the ISSB. Although the IASB's project would focus on the effects of climate-related risks (or ESG risks more broadly) on financial statements, the IASB would likely need to coordinate its work with the ISSB to develop consistent and/or compatible scoping decisions, consistent terminology, and coherent and compatible requirements (discussed further in paragraph 23).

Complexity and feasibility

22. The complexity and feasibility of a project on climate-related risks would depend on the project's scope. As discussed in the Request for Information, the IASB could:

   (a) lower the threshold for disclosing information about potential sources of estimation uncertainty in paragraph 125 of IAS 1 *Presentation of Financial Statements*. While a lower threshold could result in the disclosure of more information about climate-related risks, such a change would have a pervasive effect on the requirements of Accounting Standards beyond climate-related risks. Hence, such a project would involve some complexity and raise questions about feasibility. For example, because many entities are subject to a range of risks over the short, medium and long term, it could be challenging to develop disclosure requirements that result in entities providing relevant information, rather than voluminous or boiler-plate information.

   (b) amend the requirements in IAS 36 for cash flow projections to be used in measuring value in use when testing assets for impairment. Paragraph 33(b) of IAS 36 requires cash flow projections to cover a maximum period of five years, unless a longer period can be justified. This requirement could be misinterpreted as restricting the consideration of material, long-term climate-related effects on the value in use measurement. Such a project is not likely to be complex.

23. Some respondents suggested a broader-scoped project to include other matters, such as the implications of climate-related risks (and other long-term risks) on other long-term estimates and the implications of other ESG matters on the financial statements. Such a project is likely to be more complex than the potential projects discussed in the

Request for Information because of its broader scope. Also, it would require a greater extent of interaction with the work of the ISSB, for example, to co-ordinate the scope of the project and ensure consistent decisions and terminology (as discussed in paragraph 21). Hence, the IASB would likely need to liaise with the ISSB to determine the appropriate timing of a broader-scope project and other operational issues before starting such a project.

IASB and stakeholder capacity

24. As discussed in the Request for Information:

    (a) a project to lower the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1 is likely to be a medium-sized project.

    (b) a project to amend the requirements of IAS 36 for cash flow projections to be used in measuring value in use when testing assets for impairment is likely to be a small project.

25. The Request for Information stated that a project to combine both of (a) and (b) into a single project is likely to be a large project. However, upon further reflection, the staff now think it would be a medium-sized project.

26. In addition to the potential projects discussed in the Request for Information, some respondents suggested a broader-scoped project to include other matters, such as the implications of climate-related risks on other long-term estimates and the implications of other ESG matters on the financial statements (as discussed in paragraph 23). Such a project is likely to be a large project.

Concluding comments

27. In the staff view, the analysis in paragraphs 10–26 indicates that climate-related risks should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

28. However, the feedback and analysis raises questions about the root causes of the financial reporting deficiencies raised by respondents and how best to address them. The staff plan to consider this matter further when developing a package of recommendations for the IASB's consideration in April.

Cryptocurrencies and related transactions

29. This section refers to feedback from respondents about a potential project on cryptocurrencies and related transactions. See paragraphs 11–17 of Agenda Paper 24E for more information.

Importance to investors

30. Feedback indicates that a potential project on cryptocurrencies and related transactions is relatively important to users of financial statements. Many users who commented on this potential project rated it as high priority.

Any deficiency in reporting

31. Feedback from respondents who commented on this potential project—most of whom rated it as high priority[6]—indicates that deficiencies in reporting exist. In particular, many respondents said that the accounting applying current Accounting Standards—more specifically, IAS 38 *Intangible Assets*—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 users said that they need information about the fair value of these assets. Similarly, some preparers raised concerns about the usefulness of the information provided applying current requirements. Some also said application guidance or educational material on accounting for cryptocurrencies and related transactions is needed.

Entities or jurisdictions affected

32. At present, some types of entities might be more affected by the matters raised by respondents than others. However, feedback indicates that the types of entities affected may be growing, as the prevalence of cryptocurrencies and related transactions increases. Hence, the matters raised by respondents have the potential to affect many types of entities.

33. Feedback also indicates that those matters affect many jurisdictions, as respondents who rated this potential project as high priority included respondents from all regions

[6] Respondents who rated this potential project as high priority included respondents across all regions and stakeholder types.

(including many from Asia and Europe), together with many global respondents who commented on this project.

How pervasive or acute

34. The staff have previously undertaken research on the prevalence of cryptocurrencies and related transactions, when the IASB previously considered whether to add a project on this topic to its work plan or research pipeline. In November 2018, the staff presented research indicating that such transactions were not prevalent among IFRS reporters at that time.[7] Staff presented an update on that research in November 2019.[8] Among other things, that updated research showed that the number of IFRS reporters holding cryptocurrencies had increased. However, most of those entities held only a small amount of cryptocurrencies and represented only a small fraction of the stock market at the time. Only a small number of entities had holdings that represented a large proportion of their assets.

35. Respondents who rated this potential project as high priority focused less on prevalence today but rather the upwards trend. A common theme of their comments is that the prevalence of cryptocurrencies and related transactions is increasing. For example, a global regulatory body said that the general acceptance of cryptocurrencies and other digital assets continues to grow globally, as does the number of public companies transacting (including holding or lending) in cryptocurrency. They also noted that to facilitate cryptocurrency transactions, underlying market infrastructure is maturing, including exchanges, trading platforms, and clearing and settlement processors.

36. The acuteness of the matters raised by respondents depends on their prevalence. Hence, those matters are unlikely to be acute for most entities at present. However, those matters are likely to become more acute if that prevalence increases.

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[7] See Agenda Paper 12D Cryptocurrencies—potential new research project.

[8] See Agenda Paper 12J Cryptoassets.

Interaction with other projects

37. The extent of interactions with other projects would depend on the scope of a project on cryptocurrencies and related transactions. Based on the different ways in which such a project might be scoped, as outlined in the Request for Information:

    (a) making amendments to IAS 38 to permit more intangible assets (including cryptocurrencies) to be measured at fair value likely would interact with a project on intangible assets (if that potential project is added to the work plan).

    (b) amending the scope of Accounting Standards for financial instruments to include cryptocurrencies could interact with any potential future projects arising from the Post-Implementation Review of IFRS 9—Classification and Measurement project.

    (c) developing an Accounting Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, emission rights and commodities) would likely interact with a project on pollutant pricing mechanisms and a project on commodity transactions (if those potential projects are added to the work plan).

Complexity and feasibility

38. A project on cryptocurrencies and related transactions is likely to be complex, especially if the IASB were to undertake a comprehensive project on accounting for different types of crypto-assets and crypto-liabilities, as suggested by some respondents. For example, complexity arises from the nature and diverse range of crypto-assets and related transactions. Also, they are part of a new and rapidly evolving ecosystem, which makes developing recognition and measurement requirements for such transactions more difficult.

39. That complexity also raises questions about the feasibility of such a project. To make such a project more manageable (and hence more feasible), the IASB could take a phased approach, as suggested by some respondents. For example, the IASB could first consider developing enhanced disclosure requirements about cryptocurrencies.

40. As noted in the Request for Information and in feedback from respondents, some national standard-setters and other professional bodies have conducted work on cryptocurrencies and related transactions, which could inform the IASB's work.

IASB and stakeholder capacity

41. As discussed in the Request for Information:
    (a) a project to develop additional disclosure requirements about the fair value of cryptocurrencies is likely to be a small project.
    (b) a project to permit more intangible assets (including cryptocurrencies) to be measured at fair value is likely to be a medium-sized project.
    (c) a project to consider amending the scope of Accounting Standards for financial instruments is likely to be a medium-sized project.
    (d) a project to develop an Accounting Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, emission rights and commodities) is likely to be a large project.

42. As well as the potential projects discussed in the Request for Information, some respondents said that the treatment of cryptocurrencies should be addressed in a comprehensive project on accounting for different types of crypto-assets and liabilities, as noted in paragraph 38. In the staff view, such a project is likely to be a large project.

Concluding comments

43. In the staff view, the analysis in paragraphs 30–42 indicates that cryptocurrencies and related transactions should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

44. However, while respondents highlighted the increasing prevalence of cryptocurrencies and related transactions, the analysis raises questions about whether such transactions have a pervasive effect on the financial statements of many entities at present. Questions also arise about the scope of a project on cryptocurrencies and related

transactions. The staff plan to consider these matters further when developing a package of recommendations for the IASB's consideration in April.

Going concern

45. This section refers to feedback from respondents about a potential project on going concern. See paragraphs 18–26 of Agenda Paper 24E for more information.

46. Feedback on a potential project on going concern relates to the following three topics:

    (a) how management should assess whether the going concern basis of preparation is appropriate;

    (b) the disclosure of information about the going concern assumption; and

    (c) the basis of preparation when the going concern assumption is not applied.

47. Paragraphs 48–64 discuss the first two topics, which are closely related. The third topic is a relatively distinct topic and feedback from respondents on this topic differed from feedback on the first two topics. Therefore, the staff analysed the third topic separately from the first two topics. Furthermore, as the third topic is not included on the proposed shortlist of potential projects, the analysis of that topic is presented in Agenda Paper 24C.

Importance to investors

48. Feedback indicates that a potential project on assessing and disclosing information about the going concern assumption is of some importance to users of financial statements. Some users who commented on a potential project on going concern rated it as high priority and most rated it as high or medium priority. More specifically, their comments focused on the need for improved disclosures about the going concern assumption (the second topic in paragraph 46).

Any deficiency in reporting

49. Feedback from respondents who commented on this potential project—many of whom rated it as high priority[9]—also indicates that deficiencies in reporting exist. For example, many said 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 the entity's going concern assessment and providing users with sufficient information about that assessment. More specific comments included that IAS 1 has very limited guidance on the going concern assessment and that management's disclosures about going concern are inadequate, inconsistent and boilerplate.

50. IAS 1 provides some guidance on how management should assess whether the going concern basis of preparation is appropriate (see paragraphs 25–26 of IAS 1). Also, when an entity prepares its financial statements on a going concern basis but is aware of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the Accounting Standard requires disclosures of those uncertainties (see paragraph 25 of IAS 1). To support the consistent application of those requirements, in January 2021, the IFRS Foundation published educational material on the disclosure of information about the going concern assumption.[10] Also, the IFRS Interpretations Committee has previously published two agenda decisions on this topic.[11] Nevertheless, some respondents (who acknowledged the educational material and agenda decisions) said that more guidance in Accounting Standards is needed.

51. The requirements in IAS 1 on the going concern assumption are brief. Expanding those requirements to be more specific may help achieve consistent application of those requirements by preparers and enhance the information disclosed to users of the financial statements.

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[9] Respondents who rated this potential project as high priority included respondents across all regions, and included some users and many (or most) accountancy bodies, accounting firms, regulators, standard-setters and individuals who commented on this potential project.

[10] See Going concern—a focus on disclosure.

[11] See Disclosure requirements relating to assessment of going concern (IAS 1) and Going concern disclosure (IAS 1).

52. Overall, the feedback indicates that deficiencies in reporting exist on both topics. However, it also indicates that deficiencies in the information disclosed about the going concern assumption (the second topic in paragraph 46) are of greater concern than deficiencies in how management assesses whether the going concern assumption is appropriate (the first topic in paragraph 46).[12]

Entities or jurisdictions affected

53. Any deficiencies in assessing or disclosing information about the going concern assumption has the potential to affect all types of entities across all jurisdictions, because the going concern assumption is a fundamental principle that underlies the preparation of financial statements. In other words, those effects are not limited to particular types of entities or particular jurisdictions. However, at any point in time, the extent of those effects on individual entities and in particular jurisdictions will vary, depending on the pervasiveness of the events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern (as discussed in paragraph 54).

How pervasive or acute

54. At any point in time:

(a) at an individual entity level, the matter becomes pervasive and acute when material uncertainties exist relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, or when assessing whether such material uncertainties exist in a 'close call';

(b) at a jurisdictional level, the matter often becomes pervasive and acute when the economy is in recession or particular sectors of the economy have been affected by adverse economic events or conditions; and

(c) at a global level, the matter often becomes pervasive and acute when adverse economic events or conditions occur globally, such as occurred during the global financial crisis and is now occurring during the Covid-19 pandemic.

[12] Research undertaken by the staff of the Australian Accounting Standards Board (AASB) also found deficiencies in the information disclosed about the going concern assumption: AASB Staff Paper: Going Concern Disclosures: A Case for International Standard-Setting.

Similar global adverse economic events or conditions are likely to occur in the future.

Interaction with other projects

55. A potential project on improving the requirements in Accounting Standards on assessing and disclosing information about the going concern assumption may have some interaction with other projects. In particular, it may interact with a potential project on climate-related risks, given that such risks could impact on an entity's ability to continue as a going concern, particularly over the medium to long term.

56. Further to paragraph 55, a potential project on this topic also could have some interaction with the work of the ISSB.

57. Furthermore, a potential project on this topic would likely interact with work of the International Auditing and Assurance Standards Board (IAASB) to revise and enhance its auditing standard on going concern. As noted in paragraph 21 of Agenda Paper 24E, they strongly encourage the IASB to undertake a project on going concern. Both respondents to the Request for Information and the IAASB's stakeholders have highlighted connections between the financial reporting requirements and auditing requirements on this topic.

Complexity and feasibility

58. A potential project on improving the requirements in Accounting Standards on assessing and disclosing information about the going concern assumption would involve some complexity. For example, because a wide range of events or conditions could affect an entity's ability to continue as a going concern, including entity-specific factors, the going concern assessment requires the exercise of management judgement. Therefore, it would be important to avoid prescriptive guidance or guidance that could be treated as a checklist. Also, disclosures about an entity's ability to continue as a going concern can be sensitive. However, the staff thinks that these matters could be managed, if the IASB were to undertake such a project.

59. In making these comments, the staff considered the IASB's previous discussions on this topic. In 2013, the IASB discussed a recommendation from the IFRS Interpretations Committee about a narrow-scope amendment to the disclosure

requirement in IAS 1. The IASB considered staff proposals to clarify when disclosures about going concern were required but decided not to proceed with developing those proposals. The IASB acknowledged that information about going concern is important to investors and that information about the events and conditions that cast significant doubt upon an entity's ability to continue as a going concern is useful to investors and creditors. However, many IASB members were concerned about the sensitive nature of the disclosures. Some were concerned that, in making these disclosures, an entity could be in greater risk of no longer being a going concern, that is, the act of disclosure could become a self-fulfilling prophecy. Others expressed concerns that too many events or conditions might be disclosed, resulting in boilerplate disclosures. Some IASB members were not persuaded that further guidance was needed.[13] In the staff view, the context in which the IASB previously considered this topic is different to the present context. In particular, the Covid-19 pandemic has highlighted the importance of disclosing information about the going concern assumption.

60. As noted in the Request for Information, some national standard-setters have already worked on or are working on questions relating to going concern and such work could inform the IASB's work.

IASB and stakeholder capacity

61. The capacity of the IASB and its stakeholders to make timely progress on a project on the going concern assumption would depend on the project's scope. The Request for Information indicated that:

(a) a project to develop enhanced requirements on how management should assess whether the going-concern basis for preparation is appropriate is likely to be a medium-sized project; and

(b) a project to develop enhanced specific disclosure requirements about the going concern assumption is likely to be a medium-sized project.

62. In the staff view, a project that aimed to cover both topics in paragraph 61 would be a medium-sized project. While it would be a somewhat larger project than a project

[13] See November 2013 IASB Update (including IASB—FASB joint meeting) for further information.

limited to only one of the two topics, it is unlikely to be substantially larger because the two topics are closely related. For example, any stakeholder outreach would address both topics at the same time.

Concluding comments

63. In the staff view, the analysis in paragraphs 48–62 indicates that the disclosure of information about the going concern assumption should be included on the proposed shortlist of potential projects for further consideration at the April meeting. The staff think that such a project could be narrowly scoped to focus on clarifying existing disclosure requirements. The staff plan to consider this matter further when developing a package of recommendations for the IASB's consideration in April.

64. Although how management should assess whether the going concern basis of preparation is appropriate is a closely-related topic, in the staff view, the analysis indicates that any deficiencies in reporting in relation to this topic are of lesser concern, compared with the disclosure of information about the going concern assumption. Hence, the staff have not included this topic on the proposed shortlist.

Intangible Assets

65. This section refers to feedback from respondents about a potential project on intangible assets. See paragraphs 27–35 of Agenda Paper 24E for more information.

Importance to investors

66. Feedback indicates that a potential project on intangible assets is of importance to users of financial statements. Many users who commented on this potential project rated it as high priority.

67. However, users expressed mixed views about the scope of this potential project. Overall, the feedback indicates that:

    (a) improving disclosures about unrecognised intangible assets is important to users;

(b) reviewing the accounting requirements for new types of recognised intangible assets, such as cryptocurrencies and emission rights, is important to some users; and

(c) a comprehensive review of other aspects of IAS 38 (including recognition and measurement requirements) is important to some users, although not all agree with undertaking such a review.

Any deficiency in reporting

68. Feedback from respondents who commented on this potential project—most of whom rated it as high priority[14]—indicates that deficiencies in the reporting of intangible assets exist (discussed further in paragraph 69). Some respondents also referred to research that confirms such deficiencies exist, such as:

(a) a Discussion Paper *Better Information on Intangibles: Which is the Best Way to Go?* issued by the European Financial Reporting Advisory Group (EFRAG) in August 2021.[15]

(b) research funded by Institute of Chartered Accountants of Scotland on the production and consumption of information on intangibles.[16]

(c) a research paper that staff of the Australian Accounting Standards Board (AASB) are preparing on disclosures about intangible assets.[17]

(d) research conducted by the UK Financial Reporting Council (FRC).[18]

(e) research reports commissioned by the Association of Chartered Certified Accountants (ACCA).[19]

[14] Respondents who rated this potential project as high priority included respondents across all regions and stakeholder types.

[15] See Discussion Paper *Better Information on Intangibles: Which is the Best Way to Go*.

[16] See The production and consumption of information on intangibles: an analysis of some preliminary results | ICAS.

[17] This paper is expected to be published in Q1 2022.

[18] See Consultation into improvements to the reporting of intangibles.

[19] See The capitalisation of intangibles debate: software development costs, The capitalisation of Intangibles debate, The capitalisation debate: R&D expenditure, disclosure content and quantity, and stakeholder views.

(f) other research on the increasing importance of intangible assets, such as research showing that:

(i) investments in intangible assets have increased over time and now surpass investments in tangible assets.[20]

(ii) intangible assets accounted for 90% of S&P 500's market value in 2020, increasing from preceding periods.[21]

69. The matters raised by respondents (and discussed in the Request for Information, which some respondents referred to) can be grouped into the following topics:

(a) the adequacy of the information disclosed about intangible assets, particularly information about unrecognised intangible assets;

(b) the scope of IAS 38, in particular, whether the Accounting Standard captures some assets that may be better addressed within the scope of another Accounting Standard (discussed further in paragraph 70); and

(c) the recognition and measurement requirements of IAS 38, such as:

(i) whether the Accounting Standard is too restrictive about when internally generated assets can be recognised and when subsequent measurement of intangible assets at fair value is permitted;

(ii) more specific issues, such as those considered by the IFRS Interpretations Committee on cloud computing arrangements and player transfer payments; and

(iii) comparability between entities that grow organically and those that grow through acquisitions (discussed further in paragraphs 71–72).

70. In relation to the scope of IAS 38, the matters raised by respondents relate not only to new types of intangible assets that were not envisaged when IAS 38 was developed, such as cryptocurrencies and emission rights. In some cases, those matters also relate to the purpose for which such assets are held, such as intangible assets held for

[20] Kahle, K. M., & Stulz, R. M. (2017). Is the US public corporation in trouble? Journal of Economic Perspectives, 31(3), 67-88.

[21] Intangible Asset Market Value Study - Ocean Tomo

investment purposes. In the staff view, the feedback indicates that if the IASB were to undertake a project to review IAS 38, a key question is whether the scope of the Accounting Standard should remain the same or should be modified. Considering the scope of IAS 38 may also assist with managing the interactions with other projects (as discussed in paragraph 76).

71. In relation to comparability between entities that grow organically and those that grow through acquisitions, the treatment of internally generated intangible assets differs from some intangible assets acquired in a business combination. Hence, in a comprehensive review of IAS 38, the IASB could consider potential solutions to improve comparability. The accounting requirements for intangible assets acquired and recognised separately from goodwill are being considered in the Goodwill and Impairment project. However, the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* notes that addressing the comparability of entities that grow through acquisitions and those that grow organically is outside that project's scope.

72. A few users suggested reviewing the requirements of IFRS 3 *Business Combinations* instead of IAS 38, because the requirement to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values distorts trends. Respondents to the IASB's Post-Implementation Review of IFRS 3 also expressed concerns about comparing trends between entities that grow organically and those that grow through acquisitions. In response, the IASB acknowledged the difficulty in making such comparisons but decided not to change the requirements of IFRS 3.

Entities or jurisdictions affected

73. In general, the matters raised by respondents are likely to affect many types of entities across many jurisdictions. Although some types of entities (such as service entities) might be more affected than others (such as manufacturers of goods) in some respects, feedback indicates that all types of entities are likely to be affected. As noted in respondents' feedback, intangible assets are increasingly important in today's business models. Also, most respondents to the Request for Information commented on this potential project and most of those respondents rated it as high priority, including global respondents and respondents from all regions. Hence, it seems likely

that many types of entities across many jurisdictions have (recognised and/or unrecognised) intangible assets.

How pervasive or acute

74. Similar to the discussion in paragraph 73, feedback indicates that, in general, the matters raised by respondents are pervasive, as they affect many entities in many jurisdictions, and intangible assets have become increasingly important.

75. Feedback also indicates those matters are also relatively acute, especially in relation to disclosures about unrecognised intangible assets.

Interaction with other projects

76. The extent of interactions between a project on intangible assets and other projects would depend on the project's scope. A comprehensive review of IAS 38 is likely to have the following interactions with current and potential projects:

   (a) Goodwill and Impairment—as noted in paragraph 71, that project includes considering the accounting requirements for intangible assets acquired and recognised separately from goodwill. Although the IASB's preliminary view in the Discussion Paper was not to make any changes to the recognition criteria for identifiable intangible assets acquired in a business combination, the IASB has yet to redeliberate this topic. Any changes to those requirements would need to be taken into account when considering possible changes to IAS 38 relating to similar types of intangible assets that are internally generated.

   (b) Management Commentary—interactions with information disclosed in management commentary (such as information about resources and relationships) would need to be considered when developing enhanced disclosure requirements on intangible assets.

   (c) Primary Financial Statements—some users said better disaggregation of expenses in the statement of profit or loss would best address concerns about accounting for unrecognised intangible assets. Hence, interactions with requirements being developed in the Primary Financial Statements project on the disaggregation of expenses would need to be considered when developing enhanced disclosure requirements on intangible assets.

(d) cryptocurrencies and related transactions—as discussed in paragraphs 69(b) and 70, one of the key issues raised by respondents is whether the scope of IAS 38 captures some types of assets that may be better addressed within the scope of another Accounting Standard. Cryptocurrencies are often cited as an example of such assets. Hence, any changes to the scope of IAS 38 could affect a potential project on cryptocurrencies.

(e) pollutant pricing mechanisms—for similar reasons as discussed in paragraph 76(d), any changes to the scope of IAS 38 could affect a potential project on pollutant pricing mechanisms. More broadly, it would be necessary to consider the link between the accounting treatment of:

(i) emission rights held to settle current or future liabilities for emission obligations; and

(ii) those liabilities.

(f) variable and contingent consideration—as discussed in the Request for Information, IAS 38 has only limited requirements on accounting for transactions that involve variable or contingent consideration. Hence, a project on that topic would interact with a project on intangible assets.

77. In addition to interactions with current and potential projects, a project on intangible assets would likely interact with the work of the ISSB, especially the development of enhanced disclosure requirements. For example, a few respondents said more information is needed about human capital management.

Complexity and feasibility

78. A project on intangible assets is likely to be complex, although the extent of that complexity depends on the project's scope.

79. For example, a comprehensive review of IAS 38 would be more complex than a project with a narrower scope. Such a review would include reviewing the definition of an intangible asset (discussed further in paragraph 83(a)), the recognition criteria for internally generated intangible assets and the circumstances in which fair value

measurement should be permitted or required. In addition to complexity, questions are likely to arise about the feasibility of possible accounting solutions, such as operational difficulties and measurement uncertainties associated with recognising more internally generated intangible assets.

80. A project to improve disclosure requirements about unrecognised intangible assets would be less complex than a comprehensive review of IAS 38. However, some complexities and questions about feasibility may arise, depending on the accounting solutions developed. For example, developing requirements for quantitative disclosures (such as key metrics or fair value information) is likely to be more complex than qualitative disclosures.

81. Paragraphs 79–80 refer to projects about intangible *assets*. When determining the project's scope, a key question is whether the project should focus on intangible *assets* or should have a broader scope that includes information about intangible *items*. Intangible items could include items that do not meet the definition of an asset in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). A project that aims to provide information about intangible items would be more complex than a project that focuses on intangible assets.

82. In the context of information to be disclosed in an entity's financial statements, applying the *Conceptual Framework* suggests that any such information should be limited to information about financial statement elements, such as information about:

    (a) intangible *assets* (see paragraph 83); and

    (b) *expenses* arising from expenditure on intangible items (see paragraph 84).

83. In relation to intangible assets, it should be noted that:

    (a) paragraph 8 of IAS 38 includes a definition of an asset that has not been revised following the revision of the definition of an asset in the *Conceptual Framework* issued in 2018. Hence, a project on intangible assets could include considering whether to update the asset definition in IAS 38 to align with the asset definition in the *Conceptual Framework*.

    (b) intangible assets include both recognised and unrecognised intangible assets. An unrecognised intangible asset meets the definition of an asset (such as the definition in IAS 38 or in the *Conceptual Framework*) but does not meet the recognition criteria (such as the recognition criteria in IAS 38 or any revised recognition criteria).

84. Paragraphs 68–70 of IAS 38 set out requirements for the recognition of expenses arising from expenditure on intangible items. Applying the *Conceptual Framework*, an expense is a financial statement element. Hence, information included in an entity's financial statements could include information about expenses arising from expenditure on intangible items. However, it would not extend to other information about intangible items that do not meet the definition of an asset.

85. Nevertheless, even if the IASB decides to limit the scope of the project to information about financial statement elements, such a project would likely need to include considering the linkages and consistency between the two sets of information provided about intangible items:

(a) information provided in an entity's financial statements; and

(b) information provided in other reports (such as information in management commentary or information specified by the ISSB).

86. In the staff view, issues relating to complexity and feasibility of a potential project on intangible assets would not preclude the IASB from undertaking such a project. However, if the IASB were to undertake such a project, those issues would need to be managed, including in the project planning (discussed further in paragraph 89). Also, as noted in the Request for Information and in feedback from respondents, national standard-setters and other professional bodies have conducted research on intangible assets, which could inform the IASB's work.

IASB and stakeholder capacity

87. The capacity of the IASB and its stakeholders to make timely progress on a project on the intangible assets would depend on the project's scope. The Request for Information indicated that:

(a) a project to improve disclosures about unrecognised intangible assets is likely to be a medium-sized project;

(b) a project to require disclosures about the fair value of some intangible assets, especially those held for investment purposes, is likely to be a medium-sized project; and

(c) a project to comprehensively review IAS 38 is likely to be a large project.

Concluding comments

88. In the staff view, the analysis in paragraphs 66–87 indicates that intangible assets should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

89. Furthermore, in the staff view, if the IASB were to undertake a project on intangible assets, that project should aim to comprehensively review IAS 38. Although developing enhanced disclosure requirements (such as disclosures about unrecognised intangible assets) would help to address user information needs, feedback indicates that other aspects of IAS 38 also should be reviewed. The staff acknowledge that a comprehensive review of IAS 38 would be a complex and time-consuming project for the IASB and its stakeholders. To make such a large project more manageable and allow more timely progress, the staff think that the project could be undertaken in stages. The staff plan to consider this matter further when developing a package of recommendations for the IASB's consideration in April.

90. However, as discussed in paragraphs 81–84, in the staff view, a project to review IAS 38 should be limited to accounting for and disclosing information about financial statement elements—intangible *assets* and *expenses* arising from expenditure on intangible items—and therefore should not aim to address intangible *items* more broadly. Nevertheless, the staff think that such a project should consider linkages and consistency between information about intangible items provided in an entity's financial statements and information provided in other reports (such as information specified by the ISSB).

Operating segments

91. This section refers to feedback from respondents about a potential project on operating segments. See paragraphs 36–40 of Agenda Paper 24E for more information.

Importance to investors

92. Feedback indicates that a potential project on operating segments is important to users. Many users rated this potential project as high priority and almost all users who commented on this project rated it as high or medium priority.

Any deficiency in reporting

93. Feedback from users about deficiencies in reporting differs from feedback from other respondents. Overall, many other respondents rated this potential project as a low priority.[22] That rating, together with comments from those other respondents (for example, that IFRS 8 *Operating Segments* works reasonably well), suggests that in their view, either deficiencies in reporting do not exist or any such deficiencies are not significant.

94. In contrast, feedback from users indicates that significant deficiencies in reporting exist. For example, a global user representative body said that results from a 2018 survey of its members found that 75 percent of investors rate segment disclosures as very important to their analysis but only 13.4% are satisfied with segment disclosures as currently provided. More specifically, many users who responded to the Request for Information said more granular and comparable information is needed.

95. In the view of some users, those deficiencies in reporting result from the management approach used in IFRS 8. That feedback is similar to the feedback from some users during the Post-implementation Review of IFRS 8 in 2012–2013. However, overall, views from users on the benefits of the management approach were mixed, as noted in

[22] Respondents who rated this potential project as low priority included respondents across most regions and included many preparers, accountancy bodies, accounting firms, standard-setters and individuals who commented on this potential project.

the Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*.[23]

96. More generally (setting aside the management approach), feedback from users indicates that improvements to segment disclosures are needed.

Entities or jurisdictions affected

97. IFRS 8 applies to entities whose debt or equity securities are traded in a public market and entities that are in the process of issuing securities in a public market.[24] For entities within its scope, feedback indicates that the matters raised by users affect many types of entities.

98. Feedback also indicates that the matters raised by users affect a range of jurisdictions. Users who rated this potential project as high priority included some global respondents, together with respondents from Asia and Europe.

How pervasive or acute

99. Overall, whether any issues with segment disclosures are pervasive or acute depends on which stakeholder group's views are considered. From the perspective of users, feedback indicates that the matters they raised are pervasive and acute. However, from the perspective of other stakeholder groups, any issues with segment disclosures are not pervasive or acute.

Interaction with other projects

100. A project on operating segments could interact with the Primary Financial Statements project. For example, that project is considering (among other things) the disclosure of information about management performance measures.

Complexity and feasibility

101. As noted in paragraph 95, feedback indicates that in the view of some users, deficiencies in reporting result from management approach used in IFRS 8. However,

[23] See Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*.

[24] Paragraph 97 summarises the scope of IFRS 8, which is set out in paragraphs 2–4 of IFRS 8.

if the IASB were to undertake a project to reconsider the use of the management approach, questions about the feasibility of such a project would likely arise because:

(a) users have mixed views on the benefits on the management approach. For example, during outreach when developing the Request for Information, some users said that segment information based on a management approach is generally useful because it reflects how management views the business, provides insights into how the business is run and provides information that allows users to assess how efficiently and effectively management has discharged its responsibilities.[25]

(b) a change from the management approach would represent a fundamental change to IFRS 8 and could result in significant costs to preparers, which may outweigh the benefits of such a change, given the mixed views of users.

(c) a change from the management approach would result in divergence from US GAAP, without a clear case to support that change (given the points in (a)–(b)).

102. Alternatively, a project on operating segments could focus on whether and, if so, how the root causes underlying users' concerns about the granularity of information could be addressed. Such a project could focus on the aggregation of operating segments (including consideration of the definition of chief operating decision maker and operating segment) and enhanced line item disclosures.

103. The IASB has previously considered making targeted, narrow-scope improvements to IFRS 8. The IASB published an exposure draft on improvements to IFRS 8 in March 2017 to address findings from the post-implementation review. The IASB later decided not to proceed with the proposals, based on feedback on the Exposure Draft. The IASB noted that some of its proposals could be dealt with by existing requirements and other proposals would not be effective in addressing the findings from the post-implementation review. The IASB considered the remaining proposals and concluded that they would not result in sufficient improvements in information to

[25] Paragraph B60 of the Request for Information.

users to justify the additional costs stakeholders would incur if the IASB were to proceed with these proposed amendments.

104. If the IASB were to undertake a research project to consider the matters raised by users, such research could include analysing the similarities and differences between those matters and the matters considered previously, and the benefits and costs of targeted improvements to IFRS 8 to address those matters. A national standard-setter has undertaken a project in this area, which could inform the IASB's work.

IASB and stakeholder capacity

105. As noted in the Request for Information, a project on targeted improvements to IFRS 8 would be a medium-sized project.

Concluding comments

106. In the staff view, the analysis in paragraphs 92–105 indicates that operating segments should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

107. The staff acknowledge that many respondents expressed views about the priority of this potential project that differed from the views of users of financial statements. However, the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors.[26] The staff think that the feedback from users is an important consideration when determining whether to include this potential project on the proposed shortlist.

108. However, in the staff view, the analysis also indicates that the scope of any such project, if added to the IASB's work plan, should focus on whether and, if so, how the root causes underlying users' concerns about the granularity of information could be addressed (as discussed in paragraph 102). In the staff view, reconsidering whether to retain the management approach used in IFRS 8 should be outside the scope of any such project because of the matters discussed in paragraph 101(a)–(c).

[26] See paragraph 1.2 of the *Conceptual Framework for Financial Reporting*

Pollutant pricing mechanisms

109. This section refers to feedback from respondents about a potential project on pollutant pricing mechanisms. See paragraphs 41–45 of Agenda Paper 24E for more information.

Importance to investors

110. Feedback indicates that a potential project on pollutant pricing mechanisms is of some importance to users of financial statements. Some users rated this potential project as high priority.

Any deficiency in reporting

111. Feedback from respondents who commented on this potential project—many of whom rated it as high priority[27]—indicates that deficiencies in reporting exist. More specifically, the lack of specific requirements on pollutant pricing mechanisms has resulted in diversity in practice, which impairs comparability. For example, there is diversity in practice on accounting for emission rights received for nil or nominal consideration and on the recognition and measurement of related liabilities.

112. That feedback is consistent with the feedback previously received on the IASB's 2015 Agenda Consultation. As discussed further in paragraph 122, in response to that feedback, a project on pollutant pricing mechanisms was added to the research pipeline.

Entities or jurisdictions affected

113. Feedback indicates that the types of entities affected is increasing. Previously, the types of entities affected were primarily heavy emitters of greenhouse gases. The types of entities now affected is increasing as more industries become subject to pollutant pricing mechanisms and more entities seek to become carbon neutral.

114. Feedback indicates that the matters raised by respondents affect an increasing number of jurisdictions. For example, a user representative body said they expect pollutant

[27] Respondents who rated this potential project as high priority included respondents across all regions, and included some users and many (or most or all) preparers, regulators, accountancy bodies, standard-setters and individuals who commented on this potential project.

pricing mechanisms to be used increasingly as governments seek to meet their net-zero ambitions. Respondents who rated this potential project as high priority include respondents from all regions (including many from Europe) and some global respondents.

How pervasive or acute

115. Similar to paragraphs 113–114, feedback indicates that the matters raised by respondents are becoming more pervasive and acute.

116. However, the extent to which the matters raised by respondents affect individual entities is likely to vary. For example, it depends on the nature and extent of an entity's activities that are subject to pollutant pricing mechanisms, and the nature and extent of its rights and obligations arising from those mechanisms. Hence, the pervasiveness and acuteness of addressing the matters raised by respondents is likely to vary at the individual-entity level.

Interaction with other projects

117. A project on pollutant pricing mechanisms would have some interactions with other current and potential projects:

    (a) Provisions—Targeted Improvements, which includes (among other things) aligning the liability definition and requirements for identifying liabilities in IAS 37 *Provisions, Contingent Assets and Contingent Liabilities* with the *Conceptual Framework*. It would likely interact with a project on pollutant pricing mechanisms because determining when a liability arises for emission obligations is a key issue to be addressed in such a project.

    (b) climate-related risks, which is a closely-related, albeit broader topic than pollutant pricing mechanisms. Developing requirements for pollutant pricing mechanisms would address one specific aspect of climate-related risks.

    (c) intangible assets, which could include reviewing the accounting treatment of emission rights within the scope of IAS 38. In particular, as noted in paragraph 76(e), there is a link between the accounting treatment of:

        (i) emission rights held to settle current or future liabilities for emission obligations; and

(ii) those liabilities.

118. In addition to interactions with current and potential projects, a project on pollutant pricing mechanisms would likely have some interactions with the work of the ISSB, mainly when developing disclosure requirements on pollutant pricing mechanisms.

Complexity and feasibility

119. A project on pollutant pricing mechanisms would be complex. That complexity arises from:

(a) the different types of pollutant pricing mechanisms around the world, including emission trading schemes (such as cap-and-trade schemes[28]), carbon taxes and carbon offset credits; and

(b) technically-challenging issues—and diverse views on how to address those issues—relating to the accounting treatment of such mechanisms, including the treatment of emission rights allocated by scheme administrators for nil or nominal consideration (such as how they should be measured) and the treatment of liabilities for emission obligations (such as when those liabilities arise and how they should be measured).

120. That complexity is illustrated by the previous discussions of the IASB and the IFRS Interpretations Committee on the topic. The Interpretations Committee issued IFRIC 3 *Emission Rights* in 2004, which focused on cap-and-trade schemes, such as the EU Emissions Trading Scheme. However, stakeholders raised concerns about that Interpretation, such as concerns about a timing and measurement mismatch between the assets and liabilities recognised applying IFRIC 3. At that time, emission trading schemes were at an early stage of development and implementation. The IASB decided to withdraw IFRIC 3 in 2005 in the light of the reduced urgency for an Interpretation.[29]

[28] A cap-and-trade scheme sets an overall cap on the amount of pollutants that can be emitted in a specified period. This overall cap is then allocated across participants (emitters) by distributing or selling emission allowances. Emitters must remit allowances to cover pollutants emitted. They can sell surplus allowances and must either buy allowances or pay penalties if they have too few allowances to cover pollutants emitted within the specified period.

[29] See June 2005 IASB Update for more information.

121. After the withdrawal of IFRIC 3, the IASB began a project on emission trading schemes, primarily focusing on cap-and-trade schemes. Some complex issues were identified, including what the assets and liabilities in the scheme were, when to recognise them and how to measure them. That project was suspended to allow the IASB to focus on higher priority projects and complete its revision of the *Conceptual Framework*.

122. As noted in paragraph 112, the IASB added to its research pipeline a project on pollutant pricing mechanism (including emissions trading schemes) in response to feedback on its 2015 Agenda Consultation. The project was not started because of the need to devote resources to other projects.

123. The discussion in paragraphs 119–121 indicates that a project on pollutant pricing mechanisms would be complex, which also might raise questions about the feasibility of potential solutions. Although those matters would not preclude the IASB from undertaking such a project, those matters would need to be considered during the course of any such project. The previous research on the topic, together with guidance developed by standard-setters, could inform the IASB's work.

IASB and stakeholder capacity

124. As noted in the Request for Information:

(a) a project on pollutant pricing mechanisms is likely to be a large project; and

(b) the IASB would need to consider the scope of the project, such as whether to address:

  (i) all types of pollutant pricing mechanisms, or only some, such as emission trading schemes; and

  (ii) accounting by traders and scheme administrators, or limit the project to entities that are required to (or choose to) participate in such schemes.

Concluding comments

125. In the staff view, the analysis in paragraphs 110–124 indicates that pollutant pricing mechanisms should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

126. The staff plan to consider further the scope of such a project when developing a package of recommendations for the IASB's consideration in April.

Statement of cash flows and related matters

127. This section refers to feedback from respondents about a potential project on the statement of cash flows and related matters. See paragraphs 46–58 of Agenda Paper 24E for more information.

Importance to investors

128. Feedback indicates that a potential project on the statement of cash flows and related matters is important to users. Most users who commented on this potential project rated it as a high priority. Furthermore, user feedback indicates that they consider such a project to be the highest priority of all the potential projects discussed in the Request for Information.

Any deficiency in reporting

129. Overall, feedback from respondents who commented on this potential project—many of whom rated it as high priority[30]—indicates that deficiencies in reporting exist. However, respondents expressed mixed views about the nature and extent of those deficiencies. For example, some respondents said the IASB should undertake a comprehensive review of IAS 7 *Statement of Cash Flows*. 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. Those issues include:

   (a) improving disclosures about non-cash financing and other non-cash movements (including factoring and reverse factoring of trade receivables and payables);

   (b) improving disclosures about ongoing maintenance expenditure versus growth expenditure;

[30] Respondents who rated this potential project as high priority included respondents across all regions, and included most users, some preparers and individuals, and many or most other stakeholder types who commented on this potential project.

(c) considering requiring use of the direct method;

(d) considering whether to remove the requirement for financial institutions to prepare a statement of cash flows or developing a statement of cash flows specifically for financial institutions;

(e) requiring a statement of changes in net debt;

(f) revisiting the classification of cash flows; and

(g) other targeted amendments (such as reviewing the definition of cash and cash equivalents).[31]

Entities or jurisdictions affected

130. Feedback indicates that many types of entities are affected by the issues raised by respondents. In most cases, those issues do not relate to particular types of entities (with the exception of the issue outlined in paragraph 129(d)).

131. Feedback also indicates that the matters raised by respondents affect many jurisdictions. For example, respondents who rated this potential project as a high priority included global respondents and respondents from all regions.

How pervasive or acute

132. Feedback indicates that the matters raised by respondents are pervasive and acute, given the range and extent of issues that respondents raised about the statement of cash flows, which is a primary financial statement.

Interaction with other projects

133. A project on the statement of cash flows and related matters would have interactions with some other projects, in particular:

(a) the Primary Financial Statements project. For example, that project includes proposals for some limited amendments to IAS 7. Also, some respondents said that the IASB should review the classification of cash flows in IAS 7 because

[31] See paragraphs 46–58 of Agenda Paper 24E for more information about the issues raised by respondents.

that classification is not aligned with the classification in the statement of profit or loss proposed in the Primary Financial Statements project.

(b) the Supplier Finance Arrangements project. That project includes proposals for some amendments to IAS 7 and is related to the matters raised by respondents about non-cash financing (see paragraph 129(a)).

134. Such a project also could interact with other potential projects (if added to the work plan). For example, a project on intangible assets might include developing disclosures requirements about expenditure on intangible items (as discussed in paragraph 84), which is linked to the issue in paragraph 129(b) about improving disclosures about ongoing maintenance expenditure versus growth expenditure.

Complexity and feasibility

135. A project on the statement of cash flows and related matters could be complex, particularly given the range of matters raised by respondents. Also, in some cases, questions may arise about the feasibility of some potential solutions to those matters. For example, the IASB has previously considered requiring use of the direct method, as part of a joint IASB-FASB project on Financial Statement Presentation. During outreach undertaken in that project, preparers raised significant concerns about the costs and operability of using the direct method.[32]

136. Hence, if the IASB were to undertake a project on the statement of cash flows and related matters, any such complexity or questions about the feasibility of potential solutions would need to be considered in the research phase of such a project. For example, the research on the matters raised by respondents could include considering which of those issues should remain within the project scope and the feasibility of potential solutions to those issues.

IASB and stakeholder capacity

137. In the Request for Information, the IASB said:

[32] See *Agenda Paper 1 App B Financial Statement Presentation: Appendix B—Statement of Cash Flows*, discussed at the March 2011 joint IASB-FASB meeting.

(a) a project to develop more effective disclosures about the ongoing maintenance expenses and the growth spend is likely to be a small project.

(b) a project to consider whether to remove the requirement for financial institutions to produce a statement of cash flows is likely to be a small project, whereas a project to seek to develop a statement of cash flows specifically for such entities is likely to be a medium-sized project.

(c) a project to make targeted improvements to aspects of IAS 7, including providing information about non-cash movements, is likely to be a medium-sized project.

(d) a comprehensive review of IAS 7, with the intention of replacing it with a new Accounting Standard, is likely to be a large project.

138. In the staff view, a project to consider the various matters raised by respondents would be a large project.

Concluding comments

139. In the staff view, the analysis in paragraphs 128–138 indicates that the statement of cash flows and related matters should be included on the proposed shortlist of potential projects for further consideration at the April meeting.

140. Furthermore, the staff think that the scope of such a project initially should include all matters raised by respondents and related to the statement of cash flows. In the research phase of the project, the IASB could consider those issues further, to determine whether all such issues should remain within the project's scope.

Questions for the IASB

1. Does the IASB have any comments or questions on the analysis of the potential projects discussed in this paper?
2. Does the IASB agree that the following potential projects should be short-listed for further discussion at the April meeting:

   (a) climate-related risks;

(b) cryptocurrencies and related transactions;

(c) going concern disclosures;

(d) intangible assets;

(e) operating segments;

(f) pollutant pricing mechanisms; and

(g) statement of cash flows and related matters?

3. Does the IASB have any questions or comments on the suggested scope of the short-listed projects?