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European Securities and Markets Authority

The Interim Chair

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Mr Andreas Barckow
Chairman
International Accounting
Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf
London
E14 4HD
United Kingdom

Ref: IASB's Request for Information — Third Agenda Consultation

Dear Mr Barckow,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's due process regarding the Request for Information on the Third Agenda Consultation. ESMA considers that regularly consulting with regards to the development of the IASB Agenda contributes towards inclusive, open and transparent standard-setting.

ESMA broadly supports the Board's current level of focus for its main activities. In particular, given the three important Post Implementation Reviews (IFRS 9, IFRS 15 and IFRS 16), the category 'new IFRS Standards and major amendments' should not be substantially reduced. ESMA also recommends a slight shift towards increased maintenance and consistent application of the IFRS Standards in order to support implementation of IFRS Standards, especially in light of the recent or imminent implementation of four major standards (namely IFRS 9, IFRS 15, IFRS 16 and IFRS 17) and increased focus on digital reporting.

In terms of standard-setting priorities, ESMA believes that three main projects should be added to the work program of the IASB: firstly, a comprehensive review of IAS 38 *Intangible Assets*, which should provide a solid framework to account for new types of intangible assets, and most importantly pollutant pricing mechanisms and crypto-assets, and should improve disclosures about intangibles not recognised as assets; secondly, a comprehensive review to address all concerns raised by stakeholders about IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; thirdly, a targeted project to improve aspects of IAS 7 *Statement of cash flows*, including providing information about non-cash movements arising from transactions such as leases, supply chain financing and factoring of trade receivables.

In the context of contributing to the shift towards a more sustainable financial system, ESMA emphasises the need for issuers to provide better disclosures about climate-related risks. However, ESMA notes that, as highlighted by the IASB's recent educational initiatives, IFRSs already require disclosure and consideration of climate-related risks. Therefore, ESMA does not deem it necessary for the IASB to undertake the proposed projects on IAS 1 *Presentation of financial statements* and IAS 36 *Impairment of Assets*. Rather, ESMA considers that it would be more useful to users and to the objective of improving issuers' disclosures of climate related risks if the IASB developed illustrative examples which would help issuers apply the existing requirements.

More detailed comments on the DP are set out in the Appendix to this letter. In case you have any questions or comments please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

Tuominen Anneli
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Anneli Tuominen

Appendix

Question 1—Strategic direction and balance of the Board's activities

The Board's main activities include:

- *developing new IFRS Standards and major amendments to IFRS Standards;*
- *maintaining IFRS Standards and supporting their consistent application;*
- *developing and maintaining the IFRS for SMEs Standard;*
- *supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;*
- *improving the understandability and accessibility of the Standards; and*
- *engaging with stakeholders.*

Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

(a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.

(b) Should the Board undertake any other activities within the current scope of its work?

1. ESMA broadly supports the IASB's current level of focus for its main activities[1].
2. ESMA notes that, given the three important Post Implementation Reviews (IFRS 9, IFRS 15 and IFRS 16), the category 'new IFRS Standards and major amendments' should not be substantially reduced. However, ESMA recommends a slight shift towards increased maintenance and consistent application of the IFRS Standards, which could move towards the higher end of the existing percentage range (i.e. 20%) in order to support implementation of IFRS Standards, especially in light of the recent or imminent implementation of four major standards, namely IFRS 9, IFRS 15, IFRS 16 and IFRS 17.
3. ESMA also highlights that digital consumption of financial information leveraging on the IFRS Taxonomy is expected to increase in coming years and that new needs and trends could arise from implementation experience and / or regulatory developments. ESMA encourages the IASB to monitor developments linked to the digital reporting and recommends adopting a more flexible approach, enabling the Board to respond, if needed, to such developments. Therefore, ESMA believes the level of focus on digital

[1] 40%-45% for new IFRS Standards and major amendments to IFRS Standards, 15%-20% for Maintenance and consistent application of IFRS Standards, 5% for IFRS for SMEs Standard, 5% for Digital financial reporting, 5% Understandability and accessibility of the Standards, 20%-25% Stakeholder engagement

reporting should be foreseen to increase and to be within a range (for example, 5%-10%).

4. In terms of additional activities within the current scope of the IASB's work, ESMA highlights the importance of coherence between the requirements linked to financial and non-financial reporting.

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

(a) Do you think the Board has identified the right criteria to use? Why or why not?

(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

5. ESMA generally agrees with the criteria the IASB has identified to assess the priority of financial reporting issues which could be added to its work plan.
6. However, ESMA recommends that criteria number 2 also covers "diversity in practice" related to the way companies report. Furthermore, ESMA suggests that additional explanation is provided as to how criteria number 3 ("*The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others*") affects the decision process.
7. ESMA agrees with the IASB that the use of the three additional criteria compared to those listed in the Due Process Handbook might be helpful in the process. For the future, ESMA suggests that these additional criteria could be consulted upon and possibly included in the Due Process Handbook.

Question 3—Financial reporting issues that could be added to the Board's work plan

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

(a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.

8. In light of the capacity of the Board to start new projects[2], ESMA thinks that the combination of projects which should be added to the Board's work plan as a matter of priority is as follows:

(a) Intangible assets: Undertake a comprehensive review of the Standard, including the definition of intangible assets (large project).

9. ESMA thinks that a comprehensive project aimed at reviewing IAS 38 *Intangible Assets* and developing a new, more comprehensive standard would be of utmost urgence in light of the fact that there are several new types of transactions and assets whose prevalence is exponentially increasing but for which the Standards do not provide appropriate accounting requirements.

10. Among these new types of assets, ESMA wishes to flag that such new standard should provide a solid framework in order to account for:

- Pollutant pricing mechanisms: the current lack of accounting requirements has led to diversity in practice in reporting the effects of existing mechanisms, which is not conducive to the transparency which is essential to encourage a reduction in the production of greenhouse gases and the flow of investments towards sustainable finance.

- Crypto assets / cryptocurrencies: given their increasing prevalence, more appropriate requirements should be developed in order to permit more intangible assets to be measured at fair value and consideration should be given as to whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances. As an alternative the IASB might decide to bring crypto assets/cryptocurrencies in scope of the financial instruments.

11. Finally, the project should improve disclosures about intangibles not recognised as assets.

12. ESMA realises that such a project would be very large and could be particularly challenging for the IASB to complete. However, given the urgency of the topics at hand, ESMA strongly encourages the IASB to devote to this project all the resources that are deemed necessary to ensure its successful and, crucially, timely completion. Should a timely completion of this large project be deemed unattainable, ESMA recommends that smaller projects are undertaken instead – first and foremost to address as a priority the issue of accounting for pollutant pricing mechanisms, and secondly, if possible, accounting for crypto-assets.

(b) Discontinued operations and disposal groups: Undertake a comprehensive review to address all concerns (medium-sized project)

13. ESMA notes that the list of concerns related to discontinued operations and disposal groups is very broad and there is an urgency to address them. Furthermore, discontinued operations and disposal groups occur frequently and therefore it is important to add this project to the Board's work plan.

[2] Two to three large projects, or four to five medium-sized projects, or seven to eight small projects (or an equivalent combination of large, medium and small projects

(c) Statement of cash flows and related matters: Undertake a targeted project to improve aspects of IAS 7, including providing information about non-cash movements (medium-sized project)

14. Although of lower priority compared to the previously mentioned projects, ESMA highlights that it would be important to ensure that the statement of cash flows can be reconciled to the other primary financial statements and that better transparency is provided about the effect of non-cash movements arising from transactions such as leases, supply chain financing arrangements such as reverse factoring and the factoring of trade receivables.

15. ESMA also highlights that such targeted project could contribute to improve the digitisation of the cash flow statement, for which currently issuers are often obliged to create numerous entity-specific extensions, thus impairing comparability among issuers and across industries.

16. Additional detail about what priority (high, medium or low) ESMA would give to each of the potential projects described in Appendix B as listed in the Consultation document, including the relevant explanation, is provided in the Table below.

17. In the context of contributing to the shift towards a more sustainable financial system, ESMA emphasises the need for issuers to provide better disclosures about climate-related risks. However, ESMA notes that IFRSs already require disclosure and consideration of climate-related risks. This was also highlighted by the IASB in the context of recent educational initiatives. Therefore, ESMA does not deem it necessary nor desirable for the IASB to undertake the proposed projects on IAS 1 *Presentation of financial statements* and IAS 36 *Impairment of Assets*. Rather, ESMA considers that it would be more useful to users and to the objective of improving issuers' disclosures of climate related risks if the IASB developed illustrative examples which would help issuers apply the existing requirements.

Question 4—Other comments

Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

18. ESMA highlights that the responses to the 2015 Request for Views had already indicated that stakeholders encountered several practical issues relating to the consistent application of IFRS 5. ESMA deems that it would be important that this project is undertaken without further delay.

19. ESMA also recommends that the IASB provides better transparency of the status quo of its projects during the research phase, as that would be helpful for stakeholders.

Table

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Borrowing costs	1	Targeted project to improve, clarify or simplify aspects of IAS 23	S	Low	
	2	A comprehensive review of IAS 23	M	Low	
Climate-related risks	3	Lower the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1	M	Medium	Whilst recognising the vital importance of climate-related risks, ESMA does not deem it appropriate to amend the existing requirements of IAS 1 to lower the threshold for disclosing information about sources of estimation uncertainty. ESMA thinks that implementation guidance would better address the concerns expressed by investors about the effects of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements. Furthermore, ESMA notes that lowering the threshold would have a pervasive effect on IFRS Standards (as acknowledged by the Board in paragraph B11(a)) and might result in excessive and boilerplate disclosures.
	4	Broaden the requirements in IAS 36 Impairment of Assets for cash flow projections to be used in measuring value in use when testing assets for impairment.	S	Medium	Similarly to the previous comments, ESMA thinks that IAS 36 does not necessarily need to be amended, but rather that the low awareness of the existing requirements among preparers would be best addressed via implementation guidance or other educational initiatives. In addition, broadening the requirements in IAS 36 for cash flow projections might have the

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
					unintended consequence of encouraging cash flow projections to cover a period which is longer than five years.
	5	Combine projects 3 and 4	L	Medium	See comments to the two previous projects.
	6	Develop accounting requirements for various types of pollutant pricing	L	High	ESMA thinks that developing accounting requirements for pollutant pricing mechanisms should be a priority as the topic is becoming more and more prevalent. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37)
Commodity transactions	7	Develop requirements for some of the most common types of transactions involving commodities	M	Low	
	8	Undertake a broader project on commodity transactions	L	Low	

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
	9	Develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, commodities and emission allowances)	L	Low	ESMA thinks that developing accounting requirements for intangible assets (including cryptocurrencies and emission allowances) should be a priority. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37). ESMA does not deem it a priority to start a project whose scope are non-financial tangible and intangible assets held solely for investment purposes.
Cryptocur-rencies and related transactions	10	Develop educational materials, as part of maintenance and consistent application activities	no esti-mate	Medium	ESMA does not believe that educational material would be a sufficient or adapted tool to address the issue.
	11	Make targeted amendments to IAS 38 such as develop additional disclosure requirements in IAS 38 about the fair value of cryptocurrencies	S	Medium	ESMA does not believe that targeted amendments would be a sufficient or adapted tool to address the issue.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
	12	Make targeted amendments to IAS 38 such as permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances	M	Medium	ESMA thinks that targeted amendments would not be a sufficient or adapted tool to fully address the issue of cryptocurrencies' accounting and would favour a comprehensive review of IAS 38. Should that project not be started, a targeted amendment could be considered.
	13	Consider amending the scope of the Standards for financial instruments to include cryptocurrencies	M	Medium	ESMA thinks that targeted amendments would not be a sufficient or adapted tool to fully address the issue of cryptocurrencies accounting and would favour a comprehensive review of IAS 38. Should that project not be started, a targeted amendment could be considered.
	14	Develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies,	L	High	ESMA thinks that developing accounting requirements for intangible assets (including cryptocurrencies and emission allowances) should be a priority. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37). ESMA does not deem it a priority to start a project whose scope are non-financial tangible and intangible assets held solely for investment purposes.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
		commodities and emission allowances)			
Disconti-nued operations and disposal groups	15	Reconsider the single line-item presentation and develop more effective disclosures	M	Medium	ESMA does not think that a medium-sized project would be sufficient to address the issue of discontinued operations and would favour a large project, aimed at a comprehensive review to address all concerns.
	16	Undertake a comprehensive review to address all concerns	M	High	ESMA notes that the list of concerns related to discontinued operations is very broad and urgent to address and were already highlighted in the 2015 Agenda Consultation. Furthermore, discontinued operations and disposals groups occur frequently and therefore it is important to add this project to the Board's workplan
Discount rates	17	A project to reconsider requirements in all IFRS Standards and, when appropriate, eliminate variations in present value measurement techniques	L	Medium	Whilst recognising the theoretically importance of this project, ESMA does not think this should be the priority for the time being.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Employee benefits	18	Review the requirements in IAS 19 on the discount rates an entity uses in the absence of a deep market in high-quality corporate bonds	M	Low	
	19	Develop accounting requirements for hybrid pension plans	L	Low	
	20	Undertake a comprehensive review of IAS 19	L	Low	
Expenses—Inventory and cost of sales	21	Undertake a comprehensive review of the accounting for inventory and cost of sale	L	Low	
Foreign currencies	22	Targeted project to improve aspects of IAS 21	M	Low	
	23	A comprehensive review of IAS 21	L	Low	

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Going concern	24	Develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate	M	Low	ESMA deems that the concerns about disclosures of management on going concern assumptions are valid and that it would be useful for the board to develop more specific requirements. However, in light of the many other pressing issues discussed in this RFI, ESMA does not deem that projects on going concern should take priority.
	25	Develop enhanced specific disclosure requirements about the going concern assumption	M	Medium	
	26	Develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern	L	Medium	
	27	Address the issues collectively in a single project	L	Medium	
Government grants	28	A project with the objective of addressing all the concerns raised	M	Medium	Whilst acknowledging the relevance of the concerns expressed, ESMA does not deem that this project should take priority over the others identified as high priority.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Income taxes	29	Develop educational materials, as part of its maintenance and consistent application activities	no esti-mate	Medium	Whilst acknowledging the relevance of the concerns expressed, ESMA does not deem that this project should take priority over the others identified as high priority.
	30	Develop accounting requirements for emerging types of taxes	S	Low	
	31	Develop enhanced disclosures about income taxes	M	Medium	Whilst acknowledging the relevance of the concerns expressed, ESMA does not deem that this project should take priority over the others identified as high priority.
	32	Undertake a comprehensive review of income tax accounting	L	Medium	Whilst acknowledging the relevance of the concerns expressed, ESMA does not deem that this project should take priority over the others identified as high priority.
Inflation	33	Assess whether, without amending other requirements of IAS 29, it could extend the scope of IAS 29 to include economies subject to high inflation	S	Low	

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
	34	Undertake a comprehensive review of IAS 29	L	Low	
Intangible assets	35	Require improved disclosures about intangibles not recognised as assets	M	High	ESMA thinks that improving disclosures about intangibles should be a priority. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37)
	36	Require disclosures about the fair value of some intangible assets, especially those held for investments	M	High	ESMA thinks that improving disclosures about intangibles should be a priority. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37)
	37	Undertake a comprehensive review of the Standard, including the definition of intangible assets	L	High	ESMA thinks that this project should be a priority for the Board to add to its work plan. This project should encompass requirements about new types of transactions and assets, including intangible assets that are held for investment purposes or traded, such as cryptocurrencies or emission rights (pollutant price mechanisms). It should explore whether it is relevant to permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances. Finally, it should improve disclosures about intangibles not recognised as assets.
Interim financial reporting	38	Develop enhanced disclosure requirements to provide an update on the latest complete	S	Low	

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
		set of annual financial statements			
	39	Clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendments	S	Low	
	40	Address interim accounting issues in each new IFRS Standard or major amendment as it is developed rather than relying on IAS 34	S/M	Low	
	41	Review the requirements of IAS 34 to address all the concerns raised	L	Low	
Negative interest rates	42	A project to develop specific accounting requirements for negative interest rates	M	Medium	Whilst recognising that negative interest rates pose some practical challenges, ESMA does not think that this project should take priority over others.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Operating segments	43	Targeted improvements to the segment aggregation criteria and enhanced disclosures may provide investors with more decision useful information	M	Medium	ESMA acknowledges the validity of the concerns raised on IAS 8. However, ESMA does not think that this project should take priority over others.
Other comprehen-sive income	44	Applying the principles for the classification of income and expenses in other comprehensive income (and recycling) in the Conceptual Framework to IFRS Standards and considering whether to amend the requirements of those IFRS standards	L	Low	
Pollutant pricing mechanisms	45	The development of accounting requirements for various types of pollutant pricing mechanisms	L	High	ESMA thinks that developing accounting requirements for pollutant pricing mechanisms should be a priority as the topic is becoming more and more prevalent. However, ESMA would favour addressing this within a larger project of revision of IAS 38 Intangible Assets (see project 37)

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
Separate financial statements	46	Develop more disclosure requirements in separate financial statements	S	Low	
	47	Address some of the specific application questions separately	M	Low	
	48	Undertake a comprehensive review of IAS 27	L	Low	
Statement of cash flows and related matters	49	Develop more effective disclosures about the ongoing maintenance expenses and the growth spend	S	Low	
	50	Consider whether to remove the requirement for financial institutions to produce a statement of cash flows	S	Medium	

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
	51	Undertake a targeted project to improve aspects of IAS 7, including providing information about non-cash movements	M	High	ESMA thinks that this project should be a priority for the Board to add to its work programme. ESMA highlights that it would be important to ensure that the statement of cash flows can be reconciled to the other primary financial statements and that better transparency is provided about the effect of non-cash movements arising from transactions such as leases, supply chain financing arrangements such as reverse factoring and the factoring of trade receivables. ESMA also highlights that such targeted project would contribute to improve the digitisation of the cash flow statement, for which currently issuers are often obliged to create numerous entity-specific extensions, thus impairing comparability among issuers and across industries.
	52	Seek to develop a statement of cash flows for financial institutions	M	Low	
	53	Undertake a comprehensive review of IAS 7 with the intention of replacing it with a new IFRS Standard	L	Medium	Whilst agreeing that this project would be beneficial, ESMA deems that this project would be too large in light of the IASB's current capacity and that other projects should take priority over a comprehensive review of IAS 7.
Variable and contingent considera-tion	54	Consider whether IAS 16, IAS 38 and IFRIC 12 Service Concession Arrangements should be amended.	M	Medium	Whilst agreeing that this project would be relevant, ESMA does not think that it should take priority over the others identified in this RFI.

	Ref no.	Potential projects	Size	ESMA response	Proposed comment
	55	Develop a consistent approach to reporting variable and contingent consideration for all IFRS Standards	L	Medium	