

**Ms Françoise Flores  
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Advisory Group (EFRAG)  
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Belgium**

**Ref: The IASB's Request for Views: 2015 Agenda Consultation**

Dear Ms Flores,

*DEAR FRANCOISE,*

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the EFRAG's due process regarding the IASB's Request for View (RfV) 2015 *Agenda Consultation*. ESMA welcomes the opportunity to contribute to the development of the IASB's agenda and considers that regular but less frequent consultation on the IASB's priorities contributes towards inclusive, open and transparent standard-setting process.

Like EFRAG, ESMA strongly believes that the speedy completion of the new standard on *Insurance Contracts* as well as the timely publication of the revised *Conceptual Framework* should be the absolute top priorities for the early part of the period covered by the Agenda Consultation.

While ESMA agrees with the factors identified for prioritisation of its work-program, ESMA recommends to the IASB to identify an underlying theme for the Agenda Consultation that would be linked to the IASB's Strategy Overview. In this context ESMA suggests that the IASB focuses in this period on 'Strengthening the fundamental pillars of the financial reporting'. Such underlying theme will enable to address the remaining conceptual issues as well as gaps in the financial reporting at standards level.

Furthermore, ESMA highlights the importance of the maintenance and implementation projects in order to facilitate consistent application of IFRS and ensure sufficient level of investor protection. In this context the IASB should strike the right balance between the need to provide timely guidance to application issues identified in practice. This creates the conditions for consistent application of IFRS through a maintenance project at standards level and the long-term need to fundamentally re-think some of the existing standards on a holistic basis through a research project.

Finally, similarly to EFRAG, ESMA is concerned that the overall standard setting process does not properly consider the role of post-implementation reviews (PIR). ESMA believes that PIRs constitute an important tool for a standard-setter to assess the quality of a standard and its effects as well as to evaluate the nature of application and implementation issues. Therefore, where relevant, the IASB should act on the findings of a PIR on a timely basis when developing its standard-setting agenda without the need of delaying the process by waiting for the results of subsequent Agenda Consultation(s).



Our detailed comments on the RfV are set out in the Appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a horizontal line and a small flourish.

Steven Maijoor

## Appendix I – ESMA’s detailed answers to the questions in the RfV

### Question 1 – The balance of the IASB’s projects

*The IASB’s work plan includes five main areas of technical projects:*

- (a) its research programme;*
- (b) its Standards-level programme;*
- (c) the Conceptual Framework;*
- (d) the Disclosure Initiative; and*
- (e) maintenance and implementation projects.*

*What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?*

1. ESMA agrees with the factors indicated in the paragraph 55 of the RfV to identify the priorities for the IASB’s work plan. However, while ESMA does not ask for any formalised assessment, the IASB could consider communicating more prominently how these factors were used when adding projects to its active agenda.
2. The IASB identifies in paragraph 30 of the RfV three categories of projects and two cross-cutting initiatives, the revision of the Conceptual Framework and the Disclosure Initiative. ESMA notes that the latter, are of different nature and contain a mix of activities from the other three categories. ESMA would appreciate if the IASB clarified the interaction between these cross-cutting projects with the main categories as without such explanation it is difficult to assign relative priority to each of the five areas of technical projects.
3. More generally, ESMA recommends the IASB to identify an underlying theme for the Agenda Consultation by explicitly linking the work plan to the IASB’s Strategy Overview and in particular to ‘Goal 1: Development of a single set of standards’ and ‘Goal 2: Consistency of application and implementation’.<sup>1</sup> Such link would allow prioritisation of the appropriate activities that would lead best to achieving of the IASB’s strategic objectives identified in the Trustees’ Review of the Strategy and Effectiveness of the IFRS Foundation.
4. In this context ESMA suggests that the IASB focuses in this period on ‘Strengthening the fundamental pillars of the financial reporting’. This underlying theme will enable to finalise

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<sup>1</sup> Request for Views, Trustees’ Review of Structure and Effectiveness: Issues for Review, IFRS Foundation, July 2015

the conceptual issues<sup>2</sup> as well as enhance consistency of application of IFRS in the world. We are of the view that such priority would enhance relevance of applying IFRS in the financial statements and create the conditions for their consistent application on a global basis.

5. Furthermore, ESMA is concerned that the overall standard setting process does not properly discuss the process of PIR, its role and priority. ESMA believes that PIRs constitute an important tool for a standard-setter to assess the quality of a standard and its effects as well as to evaluate the nature of application and implementation issues.
6. ESMA also notes that as the IASB is obliged to perform a PIR of new standards, they need to be properly considered in deciding how much of its resources should be allocated to all technical areas. In this context, ESMA suggests that the IASB analyses the time available to the areas of the work-program taking into account all activities that are mandatory such as standards that need to be finalised in light of the current stage of development (e.g. *Insurance Contracts*, *Conceptual Framework*) or PIR of new standards. ESMA notes that the IASB might need to further prioritise its activities to realistically reflect its available resources and capacities if it concludes that the unavoidable activities take a large portion of its resources.

### **Questions 2 and 3 – Research Projects**

#### Question 2

*The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB:*

*(a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.*

*(b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?*

*(c) remove any other projects from its research programme? Do you agree with the proposal? Why or why not?*

#### Question 3

*For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and*

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<sup>2</sup> Finalisation of the [Revised] Conceptual Framework, addressing conceptual issues not addressed in the Exposure Draft on the Conceptual Framework as well as assessing the need to review existing standards with which the revision of Conceptual Framework creates significant inconsistencies or areas of financial reporting that are currently not addressed by existing standards)

urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

7. We have indicated in Appendix II to this letter our rating for each project on the Research programme and the reasons thereof as well as suggestions that some projects that the IASB classifies as research projects should be classified as projects at the standards level.<sup>3</sup>
8. We encourage the IASB to ensure that the research programme progresses more quickly. Projects should move from the assessment phase to development phase and then into a standard-levels project without waiting for the next Agenda Consultation. This would ensure a greater efficiency and better responsiveness. Also the IASB should be very flexible in its approach to best adapt to the difficulties it tackles and the conclusions it reaches; for example, some Research projects may start at development stage and may result directly in an Exposure Draft without the need for a Discussion Paper.
9. Should the work plan reflect the suggested theme, research projects related to the Conceptual Framework and filling of the gaps that exist in the financial reporting should be prioritised:

High priority theme 1: Strengthening the fundamental pillars of the financial reporting
<b>Research projects related to the [revised] Conceptual framework</b>
Financial Instruments with Characteristics of Equity
Performance Reporting (Primary Financial Statements)
Principles of Disclosures
Equity Method of Accounting <sup>4</sup>
<b>Research Projects stemming from changes to the Conceptual Framework</b>
Review of Standards with significant inconsistencies with the revised Conceptual Framework such as Provisions, Contingent Liabilities and Contingent Assets <sup>5</sup>
<b>Filling the gaps in the financial reporting at standards level</b>
Business Combinations under Common Control
Dynamic Risk Management

10. Furthermore, ESMA highlights the importance of consistent application of IFRS and suggests that the objective of contributing to the consistent application of existing standards is prominently reflected in the IASB Research Agenda:

<sup>3</sup> This is the case, e.g. for some of the projects resulting from the PIR of IFRS 3 *Business Combinations*

<sup>4</sup> This project could be included as part of the Theme 1 as well as Theme 2 in light of the existence of a number of application issues related to application of the equity method of accounting. However, we have included, it only as part of the Theme 1.

<sup>5</sup> This project could be included also as part of the Theme 2 in light of the application issues in relation to certain non-reciprocal transactions with the governments, such as Levies.

**High priority theme 2: Research projects addressing the consistent application of existing IFRS**

Review of requirements of IFRS 5: <i>Non-current Assets Held-for-Sale and Discontinued Operations</i>
Goodwill and Impairment: Improvements to the impairment test (see Appendix II for suggestion to move the project to the active standard-setting agenda)
Goodwill and Impairment: Recognition of intangible assets other than goodwill
Definition of a business (see Appendix II for suggestion to move the project to the active standard-setting agenda)

11. ESMA highlights that following a PIR, the IASB might conclude that no further standard-setting activity is required, or address specific questions raised by the PIR either through its research agenda or maintenance project at the standards level. ESMA notes that depending on the results of the PIR of a standard, the IASB can decide that a specific element of application of the standard needs to be further explored as a separate research project. This was the case e.g. following the PIR of IFRS 3 *Business Combinations* when several new research projects were added to its active research agenda.
12. We are of the view that, where relevant, findings of a PIR that is conducted through an open and transparent public consultation should provide an immediate direct input to the standard-setting process, without the need to gather further evidence through Agenda Consultation. ESMA also believes that a timely response of the IASB to the findings of a PIR process is important and therefore considers that these research projects should have higher priority.
13. Furthermore, in other cases the IASB might add a research project to its agenda in light of the existence of a large number of application issues (as documented e.g. by number of submissions to the IFRS IC). ESMA believes that the IASB should prioritise the projects where submissions to the IFRS IC identify the need for a fundamental review of an existing standard in order to achieve consistency in application of that standard. In our view this relates to review of IFRS 5,<sup>6</sup> where the IFRS IC identified the need for action on multiple occasions. Therefore, ESMA has identified the fundamental review of IFRS 5 as a high priority research project that should be added to the IASB's active agenda.
14. Finally, ESMA has considered whether additional projects should be added to the IASB's active research agenda. ESMA accepts that the current IASB's research agenda is already full and therefore does not suggest to formally adding an additional project to the research agenda in the short term. Nonetheless, ESMA highlights that derecognition of financial instruments remains the area where lack of explicit guidance leads to

<sup>6</sup> Letter, Agenda Item Request, Issues related to application of IFRS 5, ESMA, December 2013, ESMA/2013/1773; Letter to the IFRS IC, Application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, ESMA, November 2015, ESMA/2015/1742

significant divergence in practice as documented by multiple ESMA submissions to the IFRS IC<sup>7</sup> and suggests that the IASB considers adding this project to its research agenda in the medium to long-term and addresses in the meanwhile specific issues as part of its maintenance activities.

#### **Question 4 – Major projects**

*Do you have any comments on the IASB's current work plan for major projects?*

15. Based on the proposed theme of the 2015 Agenda Consultation, finalisation of the revised Conceptual Framework and any related projects should be the priority of the standard-setting agenda.
16. However, ESMA notes that this suggestion is made on the assumption that IFRS 16 *Leases* will be published before the end of 2015 and substantially all decisions on the upcoming standard on *Insurance Contracts* will be made by the IASB in early 2016 thus enabling publication of the final standard by the end of 2016. Unless this is the case,<sup>8</sup> finalisation of any of these two projects should be the top priority of the IASB for the early part of the period covered by the Agenda Consultation.

#### **Question 5 – Maintenance and implementation projects**

*Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?*

17. ESMA believes that ensuring greater consistency in application of IFRS is of utmost importance as it is the prerequisite for a high-level of investor protection. Consequently, when application issues arise, these should be addressed on a timely basis. In this context, ESMA highlights the importance of the maintenance and implementation projects in order to facilitate consistent application of IFRS. As stated in our response to the Question 6 of the Trustees' Review of Structure and Effectiveness,<sup>9</sup> ESMA values very much the existing activities of the IASB in this area (such as PIR, activities of the IFRS IC, activities of the Transition Resource Groups, Educational Initiative) and believes they could be further reinforced in the future. This is important in light of the recent completion of the large projects (such as IFRS 9: *Financial Instruments* and IFRS 16: *Leases*) that require implementation support.

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<sup>7</sup> E.g. Letter to the IFRS IC: Accounting for different aspects of restructuring Greek government bonds, ESMA, July 2012, ESMA/2012/46; Letter to the IFRS IC: Accounting for exchange of equity instruments, ESMA, October 2014, ESMA/2014/1211

<sup>8</sup> e.g. because the IASB during its deliberation decided that finalisation of the Insurance standard requires an additional due process step (re-exposure) or was not able to finalise the remaining issues on a timely basis

<sup>9</sup> Letter, Trustees' Review of Structure and Effectiveness of the IFRS Foundation, ESMA, November 2015, ESMA/2015/1738

18. Furthermore, we are strongly convinced that submissions to the IFRS IC are an important source of evidence about the existence of possible application issues. ESMA notes that not all submissions can be addressed at the level of the IFRS IC and some of them can only be solved by the IASB. However, as stated in our response to the Trustees' Review of Structure and Effectiveness, we suggest that the IASB and the IFRS IC tries to work together more efficiently and that IASB takes into its maintenance agenda directly any subject where IFRS IC identified a major concern in order to ensure timeliness of the organisation's response to the submissions received.
19. While we agree with the IASB that a PIR does not necessarily have to lead to a change in a standard, we are of the view that the IASB should act, if necessary, on the feedback received, on a timely basis by adding a maintenance project at the standards level .

### **Question 6 – Level of change**

*Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?*

20. If multiple practical application issues arise on an individual standard, the IASB might need to consider what approach will result most effectively in timely improvements in financial reporting. ESMA recommends that the IASB either undertakes a PIR of such standard, even if such PIR is not mandatory (e.g. for IFRS 5) or collects application issues and address them in a single exposure document related to that standard as part of the maintenance activities.
21. If the analysis of the application issues shows that fundamental principles of any standard needs to be reassessed, the IASB should address such concerns through a research project. However, existence of a long-term research project should not prevent the IASB or the IFRS IC from addressing the existing diversity in practice through maintenance activities, if such could be finalised on a timely basis.
22. Consequently, the IASB should strike an appropriate balance between the need to provide timely guidance to application issues identified in practice thus creating the conditions for consistent application of IFRS (through a maintenance project on standards level) and the long-term need to fundamentally re-think existing standards on a holistic basis through a research project. Such approach is in our view particularly relevant for IFRS 5<sup>10</sup> as well as the Equity method of accounting<sup>11</sup> and derecognition of financial instruments.<sup>12</sup>

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<sup>10</sup> Letter, Agenda Item Request, Issues Related to Application of IFRS 5, ESMA, December 2013, ESMA/2013/1773; Letter to the IFRS IC, Application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, ESMA, November 2015, ESMA/2015/1742

<sup>11</sup> Comment Letter, ED Effective Date of Amendments to IFRS 10 and IAS 28, ESMA, October 2015, ESMA/2015/1520

<sup>12</sup> Letter to the IFRS IC: Accounting for exchange of equity instruments, ESMA, October 2014, ESMA/2014/1211



### **Question 7 – Any other comments**

*Do you have any other comments on the IASB's work plan?*

23. ESMA is of the view that it is important that the IASB continues to closely monitor the /maintenance and implementation projects of the FASB in relation to those Standards that are converged. In this respect we encourage the IASB to hold joint deliberations on those projects with the FASB.
24. Furthermore, when the FASB issues interpretations or guidance on issues that are not addressed by the IASB, IFRS preparers may decide to use that guidance. It would be important to understand whether the IASB considers those pronouncements to be compatible with its own guidance. This could be achieved for example by a periodic update of the parts of the Basis for Conclusions where the Board illustrates the similarities and differences with US GAAP.

### **Question 8 – Frequency of Agenda Consultations**

*Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?*

*If not, what interval do you suggest? Why?*

25. In light of the existing resources of the constituents and taking into account the time needed to complete individual major projects (as highlighted by the fact that many of the projects added to the research agenda following the 2011 Agenda Consultation are on-going projects as discussed in our responses to Questions 2 and 3), ESMA agrees that a five year interval between Agenda Consultations is more appropriate.
26. However, ESMA notes that taking into account the Consultation period and the time needed to publish a Feedback statement and thus put the results of the Agenda consultation in practice means that effectively, the Agenda Consultation cycle will span over 6-7 years. ESMA encourages the IASB to acknowledge this fact and plan and communicate the timing of and period covered by the respective Agenda Consultations on a timely basis. Because of the increasing length of the period covered by the agenda consultation, the IASB should keep its agenda sufficiently flexible and be able to add a specific project to its active agenda if an urgent matter is identified.

## Appendix II – ESMA’s assessment of the IASB research projects

Project stage	Project	Importance	Urgency	Overall
	Definition of a Business	High	High	1
	Discount Rates	Medium	Medium	3
	Goodwill and Impairment: Amortisation of Goodwill	Medium	Low	4
	Goodwill and Impairment: Identification of Intangible Assets	Medium/High	Medium/High	2
	Goodwill and Impairment: Improvements to the Impairment test	Medium/High	Medium/High	2
<b>Assessment stage</b>	Income Taxes	Medium	Medium	3
	Pollutant Pricing Mechanisms (Emissions trading)	Low	Low	5
	Post-employment Benefits	Medium	Low	4
	Primary Financial Statements (Performance Reporting)	High	High	1
	Provisions, Contingent Liabilities and Contingent Assets	High	High	1 <sup>13</sup>
	Share-based Payment	Low	Low	5
	Business Combinations under Common Control	High	High	1
	Disclosure Initiative—Principles of Disclosure	High	High	1
<b>Development stage</b>	Dynamic Risk Management	High	High	1
	Equity Method	High	Medium	2
	Financial Instruments with Characteristics of Equity	High	High	1
	Extractive Activities/Intangible Assets/Research and Development (R&D)	Medium	Low	5/3/3
<b>Inactive</b>	Foreign Currency Translation	Very low	Very low	Very low
	High Inflation	Very low	Very low	Very low
	Fundamental review of IFRS 5	High	High	1
<b>New, to be added</b>	Review of Standards with significant inconsistencies with the revised Conceptual Framework	High	Medium	2

Overall assessment on a scale from 1-5 (1 highest priority, 5 lowest priority)

<sup>13</sup> This assessment is based on the assumption that significant conflict between the revised Conceptual Framework and IAS 37 Provisions, Contingent Liabilities and Contingent Assets is identified

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
<b>Definition of a Business</b>	High	High	1	<p>ESMA considers this project has high importance and high urgency as the PIR of IFRS 3 identified the definition of business as an important application issue where diversity in practice exists.</p> <p>Furthermore, subsequent proposals of the IASB (e.g. proposed amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i>, IFRS 10 <i>Consolidated Financial Statements</i> and IFRS 11 <i>Joint Arrangements</i>) have put additional pressure on the distinction between accounting for acquisition of a business and asset acquisition.</p>	<p>Given that the projects stems from the results of the PIR of IFRS 3 where it was explored in detail, ESMA is of the view that the IASB should proceed directly with a project at standards level.</p>
<b>Discount Rates</b>	Medium	Medium	3	<p>As conceptually consistent use of discount rates is important for consistency in standard-setting as well as in application of IFRS, we are of the view the Discount Rates project should be high in the priority agenda. ESMA notes that although many existing standards have specific requirements on discount rates, they are missing the link between the measurement objective and the discount rate chosen. Also, often these standards do not include a specific rationale or explanation why a specific discount rate or specific component was chosen.</p> <p>Consequently, in our view such project should define the measurement objectives of the use of different components of discount rates and ensure consistency between them. However, decision of the use of a particular component of a discount rate should be made at the level of individual standards.</p>	<p>ESMA believes that the research project should result in a separate proposals related to the use of discount rates, leading to (1) re-assessment of requirements in individual standards related to discount rates and (2) proposals related to development of a separate standard related to mechanics of present-value based measurement techniques.</p>
<b>Goodwill and Impairment</b>	See below	See below	See below	<p>ESMA suggests that the research project that was added following the PIR of IFRS 3 is split into three separate projects with different scope, timeline and priority in terms of importance and urgency.</p>	<p>See below</p>
<b>Goodwill and Impairment: Amortisation or Impairment test of Goodwill</b>	Medium	Low	4	<p>The PIR of IFRS 3 showed that constituents continue to have fundamentally different views whether amortisation or impairment only models of subsequent accounting for goodwill are conceptually superior.</p> <p>ESMA believes that a longer time period is needed in order to conclude whether the changes to the accounting for Business Combinations in IFRS 3 and introduction of annual testing of goodwill for impairment (rather than its annual amortisation requirement applied previously)</p>	<p>ESMA is of the view that fundamental research in this area is required before the IASB is able to proceed in this area. ESMA notes that constituents have different views on this area and IASB might need to accept that even additional research might not be able to change these deeply held views.</p> <p>Consequently, this research project might</p>

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
				<p>brought improvements to financial reporting that the IASB envisaged when it decided to replace the annual amortisation of goodwill. In our view such assessment could be done only based on the analysis of the pattern of impairment over the entire economic cycle.</p>	<p>be beyond the time-horizon of the 2015 Agenda Consultation. However, ESMA also notes that the FASB has recently added to its technical agenda a narrow-scoped project with the objective to reduce the cost and complexity of the subsequent accounting for goodwill. ESMA believes that the IASB and the FASB should discuss together how to improve subsequent accounting for goodwill.</p>
<p><b>Goodwill and Impairment: Identification of Intangible Assets</b></p>	<p>Medium/High</p>	<p>Medium/High</p>	<p>2</p>	<p>ESMA agrees that the identification of separate intangible assets in a business combination is an important application issue identified in the PIR of IFRS 3. In its report analysing application of Accounting requirements<sup>14</sup>, ESMA recommended the IASB to analyse whether customer relationships stemming from both contractual and non-contractual arrangements should be subject to the same recognition principles. Consequently, ESMA believes that this issue has a medium to high priority both in terms of importance and urgency.</p>	<p>ESMA agrees that following PIR of IFRS 3 a separate research project should be finalised on a timely basis.</p>
<p><b>Goodwill and Impairment: Improvements to the Impairment test</b></p>	<p>Medium/High</p>	<p>Medium/High</p>	<p>2</p>	<p>ESMA identified improvements in the impairment test of goodwill as a priority are both following its report reviewing accounting practices for impairment of goodwill<sup>15</sup> and analysing application of accounting requirements for business combinations<sup>16</sup>. Nonetheless, ESMA does not believe that a separate research project is required for incremental improvements in the goodwill impairment test (as impairment test is necessary regardless whether goodwill is subject to annual amortisation or impairment-only test). While we believe that the issue is both important and urgent, we are of the view that the IASB should directly</p>	<p>Given that the projects stems from the results of the PIR of IFRS 3 where it was explored in detail, ESMA is of the view that the IASB adds this project directly to its standard-setting agenda and proceeds directly with a standard-level project as part of its maintenance work plan.</p>

<sup>14</sup> Report, Review on the application of accounting requirements for business combinations in IFRS financial statements, ESMA, June 2014, ESMA/2014/643

<sup>15</sup> Report, European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements, ESMA, January 2013, ESMA/2013/2

<sup>16</sup> Report, Review on the application of accounting requirements for business combinations in IFRS financial statements, ESMA, June 2014, ESMA/2014/643

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
				add this project on its standard-setting agenda as part of its maintenance activities (similar to approach taken by the IASB following the PIR of IFRS 8 <i>Operating Segments</i> ).	
<b>Income Taxes</b>	Medium	Medium	3	ESMA considers that the Income Taxes research project is of medium importance and urgency. While ESMA identified several application issues related to IAS 12 (e.g. in relation to recognition and measurement of deferred taxes), ESMA considers that Income Taxes should be addressed comprehensively, together with other types of transactions with the governments (as e.g. other types of taxes, levies) that have non-reciprocal character and might be thus dependent on any conclusions reached when developing a research projects on Provisions, Contingent Liabilities and Contingent Assets. ESMA notes that the latter project could have a higher priority. ESMA also welcomes that the IFRS IC is addressing certain application issues (i.e. recognition and measurement of income taxes related to the uncertain tax positions).	While ESMA agrees that the Income Taxes are on the research agenda, alternatively, the IASB could consider setting up a separate research project dealing only with transactions with governments that lead to non-reciprocal exchange of benefits.
<b>Pollutant Pricing Mechanisms (Emissions trading)</b>	Low	Low	5	While ESMA accepts that there is lack of specific guidance for accounting for Pollutant Pricing Mechanisms (PPMs) and is aware of different existing accounting practices, we note that in a majority of cases either the effects of PPMs in the financial statements are not significant or the issuers provide disclosures about the accounting policy adopted in order to provide users with needed information in this area. Furthermore, ESMA notes that PPMs are often jurisdiction specific and are subject to frequent fundamental legislative changes requiring extensive disclosures.	Medium to long-term research agenda (beyond the time-horizon of the 2015 Agenda Consultation).
<b>Post-employment Benefits</b>	Medium	Low	4	While ESMA agrees with the IASB that there is a need for additional guidance for the Hybrid Plans, ESMA notes that accounting for Post-employment Benefits has been recently changed. ESMA notes that further major changes to this area should be preceded by a comprehensive review of the existing requirements of IAS 19 <i>Employee Benefits</i> .	Medium to long-term research agenda (beyond the time-horizon of the 2015 Agenda Consultation).
<b>Primary Financial Statements (Performance)</b>	High	High	1	High priority item both in terms of importance and urgency. Notion of performance is fundamental for financial reporting and is a pre-requisite for making the	Research required in order to be able to publish a Discussion Paper in the near future and in order to address the issue

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
<b>Reporting)</b>				distinction between the statement of profit or loss and statement of comprehensive income on a conceptual basis. ESMA also considers that such definition is important in the context of the use of Alternative Performance Measures.	within the time horizon of the 2015 Agenda Consultation.
<b>Provisions, Contingent Liabilities and Contingent Assets</b>	High	High	1	The revision of the Conceptual Framework is expected to create fundamental inconsistencies between the existing requirements in IAS 37 and IFRIC 21 <i>Leases</i> and the Conceptual Framework. In such case, ESMA is of the view that this project has a high priority. Moreover, ESMA considered that the relevance of the accounting outcomes provided by requirements of IFRIC 21 needs to be fundamentally reviewed. This is especially true for the non-exchange transactions that are in scope of IAS 37. Alternatively, the IASB could consider setting up a separate research project dealing only with transactions with governments that have non-reciprocal character (together with Income Taxes and accounting for Government Grants). If such project is set-up, ESMA is of the view that it should have a high priority.	Research required in order to be able to publish a Discussion Paper in the near future and in order to address the issue within the time horizon of the 2015 Agenda Consultation.
<b>Share-based Payment</b>	Low	Low	5	Despite a number of application issues identified in IFRS 2 that would warrant conducting a post-implementation review, ESMA notes that the basic requirements of IFRS 2 (recognition of expense) are not questioned. Consequently, ESMA is of the view that further improvements in this area of accounting could wait until more urgent challenges in financial reporting are addressed. Finally, ESMA notes that further transparency in this area is provided by other regulatory requirements.	ESMA suggests that a PIR of IFRS 2 is performed. However, ESMA notes that a PIR or other form of a fundamental review of IFRS 5 requirements have both higher importance and higher urgency than this project.
<b>Business Combinations under Common Control</b>	High	High	1	High priority item related to an existing gap in financial reporting. Business Combinations under Common Control are very frequent in connection with the process of admitting the shares of an entity for trading on regulated markets. In ESMA's view the lack of guidance on accounting for business combinations under common control has negative impact on relevance and comparability of IFRS financial statements.	Given the stage of the development of the project, a Discussion Paper is expected in the short term.
<b>Disclosure</b>	High	High	1	High priority item. ESMA considers the Disclosure	Given the stage of the development of the

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
<b>Initiative— Principles of Disclosure</b>				<p>Initiative and in particular the Research Project on Principles of Disclosure as high priority item as it helps to address the perceived problems with disclosures. ESMA also notes that the projects aims to address many issues highlighted in application by security regulators such as the use of non-IFRS information (as e.g. Alternative Performance Measures) and the presentation principles used in the primary financial statements (e.g. disaggregation). ESMA also noted that the guidance to be developed in the Principles of Disclosure Project complements the presentation and disclosure principles in the revised Conceptual Framework.</p>	<p>project, a Discussion Paper is expected in the short term.</p>
<b>Dynamic Risk Management</b>	High	High	1	<p>ESMA considers this project of high priority and importance in light of the existing carve-out of the requirements to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> in the European Union as well as the recent decision of the IASB to allow an accounting policy choice between IAS 39 and IFRS 9 <i>Financial Instruments</i> until the issue of hedge accounting for open portfolios is addressed in this project. ESMA notes that in the European Union, it is often unclear whether issuers took benefit of the carve-out or not, as that information is often not disclosed as highlighted by the ESMA report on comparability of financial statements of financial institutions.<sup>17</sup></p>	<p>ESMA notes that the IASB has already published one Discussion Paper on this topic. While ESMA accepts that the IASB might need to prepare another Discussion Paper in this area, we are of the view that the IASB should move this project to the standard-setting area in the near future.</p>
<b>Equity Method of Accounting</b>	High	Medium	2	<p>Priority item. ESMA notes that on a fundamental basis, there is no clarity in IFRS whether the equity method of accounting represents a consolidation method or a measurement basis. This ambiguity has led to development of a large number of application issues. The importance of such project is high as application of IFRS 11 <i>Joint Arrangements</i> has further increased the relevance and use of the equity method of accounting in the IFRS financial statements.</p>	<p>ESMA suggests that the IASB addresses the long term research project in parallel with addressing a limited number of practical issues related to the application of the equity method of accounting, as a single ED, as part of its maintenance work plan that could result in a standard on a timely basis.</p> <p>In ESMA's view, this solution would strike the right balance between the need to</p>

<sup>17</sup> Report, Review of Accounting Practices - Comparability of IFRS Financial Statements of Financial Institutions in Europe, ESMA, November 2013, ESMA/2013/1664

Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
				ESMA notes that the IFRS IC has already identified a number of application issues and consequently, these issues fit better within the maintenance activities rather than in the research agenda. <sup>18</sup>	provide timely guidance to application issues identified in practice thus creating the conditions for consistent application of IFRS and the need to fundamentally re-think the equity method of accounting on a holistic basis.
<b>Financial Instruments with Characteristics of Equity</b>	High	High	1	High priority item as the issue is fundamental for the financial reporting. The distinction between liability and equity needs to be addressed at the conceptual level and without it the Conceptual Framework remains incomplete. Moreover, in the current economic environment, existence of new regulation and introduction of new products put additional pressure on the existing guidance in IAS 32 <i>Financial Instruments: Presentation</i> , that is relies on a series of exception from the definition of the liability in the existing (or revised) Conceptual Framework.	Research required in order to be able to publish a Discussion Paper in the near future and in order to address the issue within the time horizon of the 2015 Agenda Consultation.
<b>Extractive Activities/Intangible Assets/Research and Development (R&amp;D)</b>	Medium	Low	5/3/3	While ESMA agrees that a separate guidance for particular issues that Extractive Industries are facing would be helpful for consistency of application of IFRS, in light of the existing industry practice, ESMA does not consider development of such guidance urgent.  On the other hand, ESMA agrees that a comprehensive review of the guidance for Intangible Assets and accounting for Research and Development is desirable in the medium term.	ESMA is of the view that these projects could be added to the medium to long-term research agenda (beyond the time-horizon of the 2015 Agenda Consultation).  We suggest to separate the review of accounting for Intangible Assets as a separate item for the active research agenda for the medium term, while agree the project on extractive industries to be kept inactive.
<b>Foreign Currency Translation</b>	Very low	Very low	n/a	Agree with removing the project from the Active Research Agenda	N/A
<b>High Inflation</b>	Very low	Very low	n/a	Agree with removing the project from the Active Research Agenda	N/A
<b>Fundamental review of IFRS 5</b>	High	High	1	ESMA identified a large number of significant application issues that were submitted to the IFRS IC. ESMA notes that existence of large number of application issues	ESMA suggests that the IASB performs on a timely basis a PIR or other form of a fundamental review of IFRS 5.

<sup>18</sup> Comment Letter, ED Effective Date of Amendments to IFRS 10 and IAS 28, ESMA, October 2015, ESMA/2015/1520



Project	Importance	Urgency	Overall	ESMA assessment	ESMA suggestion
<p><b>Review of Standards with significant inconsistencies with the revised Conceptual Framework</b></p>	High	Medium	2	<p>suggests the need to perform a post-implementation review of IFRS 5 (ESMA notes that IFRS 5 was not subject to the mandatory requirement to perform a PIR) or another type of fundamental review of IFRS 5 requirements. In particular, ESMA notes that IFRS 5 requirements were developed for a typical sale transactions rather than alternative ways to dispose assets (lose control) that lead to the same economic outcome (e.g. loss of control by dilution).</p>	<p>At the same time, ESMA suggests that the IASB addresses a more limited number of practical issues related to the application of IFRS 5, as a single ED, in a standard-setting activity that could result in a final standard on a timelier basis as part of its maintenance work-plan.</p>
				<p>In case of conflict between the [revised] Conceptual Framework and requirements of an existing standard, ESMA urges the IASB to assess whether it needs to add that standard to its active agenda and to address this conflict on a timely basis or explain that it would like to retain a standard that differs from the principles in the [revised] Conceptual Framework.</p>	<p>Next steps are subject to the assessment whether an additional project is needed.</p>