International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

13 September 2021

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Our Ref: 2021/O/C1/IASB/MS/61

RE: Request for Information - *Third Agenda Consultation*

Dear International Accounting Standards Board (IASB or the "Board") Members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Request for Information - *Third Agenda Consultation* (Agenda Consultation).

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations

Members of Committee 1 ("members" or "we") acknowledge the substantial progress of International Financial Reporting Standards (IFRSs) and related materials to support consistent application since the 2015 Agenda Consultation. We are pleased the Board continues to solicit input from stakeholders on the strategic direction and balance of the Board's activities as well as financial reporting issues to prioritize in the Board's work plan.

Overall, subject to targeted improvements or realignments discussed below, most members do not believe a significant change is required to the strategic direction and balance of the Board's main activities or the criteria for assessing the priority of financial reporting issues that could be added to the work plan. Considering these activities and the limited resources of the Board, most members believe the following financial reporting issues should be given priority in the Board's work plan:

- Cryptocurrencies and related transactions[1]
- Statement of cash flows and related matters
- Discontinued operations and disposal groups
- Going concern
- Climate-related risks

IOSCO strongly supports the objective of a single set of high-quality accounting standards that are consistently and rigorously applied. This view is also shared by the leaders of G20 and other international organizations. With this in mind, many members encourage the IASB to liaise with the U.S. Financial Accounting Standards Board (FASB), in appropriate circumstances, to explore how both standard setters could minimize, to the extent possible, significant differences in accounting outcomes.

Strategic direction and balance of the Board's activities

Overall, most members do not believe a significant change is required to the strategic direction and balance *among* the Board's main activities listed in paragraph 14 of the Agenda Consultation[2]. However, these members believe targeted improvements or realignments would be helpful *within* the following main activities:

Developing new IFRS Standards and major amendments to IFRS Standards

The upcoming post-implementation reviews of IFRS 16 *Leases* (IFRS 16), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), and IFRS 9 *Financial Instruments* (IFRS 9)[3] – major standards with significant application consequences – are considered particularly important and we encourage the Board to allocate sufficient resources to these reviews. As a result of this work,

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[1] Some cautionary points are noted on this topic as discussed in the body of the letter.
[2] A few members acknowledge that the activities related to "maintenance and consistent application" as well as "digital reporting" are of increasing importance and could benefit from an increased level of attention.
[3] Focused on impairment and hedge accounting.

we appreciate that the Board may have fewer resources to allocate to the development of many new standards or major amendments. As such, we have prioritized our suggestions for financial reporting issues that could be added to the Board's work plan (outlined below) to topics which are of importance to most members.

We also observe that, with the proposed amendments to the Constitution of the IFRS Foundation that are necessary to formalize the establishment of a new international sustainability standards board, there is likely to be some level of interaction between the IASB and the new board.[4] Many members expect the two boards to work, to some extent, in an interconnected manner, in appropriate circumstances, ensuring that neither set of standards contradicts or is at tension with the other. We believe the IASB should explicitly consider a potential need to reallocate its activities and consider seeking additional feedback from stakeholders regarding the appropriateness of any such reallocation.

Maintaining IFRS Standards and supporting their consistent application

Consistency is one of the overarching appealing characteristics of IFRSs. As such, we encourage the Board to ensure the activity of maintaining IFRS standards and supporting their consistent application is allocated the maximum level of focus within this range (i.e., 20%).[5] The publication of Agenda Decisions is considered, by many members, to be helpful to support consistent application[6].

Some members, particularly from developing markets, believe an increased focus on education, including a formalized education program that would provide instructor-based experiential learning may help support the consistent application of IFRSs globally. Other members consider educational materials such as webinars, webcasts, and articles to be auxiliary and therefore prioritize other tasks within this main activity.

For efficiencies in monitoring the consistent application of IFRSs, we invite the Board to leverage (if not done so currently) the resources published by various IOSCO members,

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[4] We would expect this to result in some reallocation of the Board's time and resources in comparison to the historical level of activities performed by the IASB to create capacity for interaction with the new board.
[5] Page 13 of the Agenda Consultation identifies the current level of focus as 15% - 20%.
[6] Consistent with paragraph 8.4 of the IFRS Foundation Due Process Handbook, Agenda Decisions are not a substitute for standard-setting activities and should not add or change requirements in IFRS Standards.

including accounting issues identified in publicly available regulatory "errors and refiling lists" and "staff notices".

Supporting digital financial reporting by developing and maintaining the IFRS Taxonomy

We agree with the direction of the IFRS Foundation to focus on how to improve access to information through the greater use of technology and digital reporting, and we encourage the IASB to further explore how investor needs are changing in the way they consume financial and non-financial information.

While the current level of focus for supporting digital financial reporting by developing and maintaining the IFRS Taxonomy remains reasonable, we encourage the Board to continue monitoring developments beyond the IFRS Taxonomy. With the pace of technological advancement, including acceptance and understanding of blockchain technology processes (including assurance services), digital financial reporting is expected to ultimately become widespread and generally accepted.

Improving the understandability and accessibility of the Standards

Most members consider the tasks of "reducing unnecessary complexity so the Standards are less onerous and costly for companies to apply, while improving the quality of information provided to investors" and "drafting clear standards" to be an inherent and integral part of standard-setting.[7] As such, most members are unclear why these tasks appear within a separate activity rather than part of other main activities.

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

Overall, most members believe the Board has identified the right criteria when assessing the priority of financial reporting issues that could be added to its work plan.

One additional criterion that the Board should consider is whether there is an identifiable scope of the potential project. We believe a project should have an identifiable scope, both in terms of the work that will be done as well as who will perform the work, if it is to be added to the Board's work plan.

[7] Page 16 of the Agenda Consultation lists these tasks under the subheading of "Understandability".

Some members also encourage the Board to:

- consider whether "diversity in practice" should be incorporated into either criterion two (i.e., whether there is any deficiency in the way companies report the type of transaction or activity in financial statements) or three (i.e., the type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others);
- clarify criterion three (as some members do not understand its relevance), and
- explain how the various criteria are weighted or balanced.

Most members recommend that the criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan be incorporated into the Due Process Handbook (e.g., Section 5.4 - Criteria for new IFRS Standards or major amendments of the Due Process Handbook) the next time it is updated.

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

Prior to providing feedback on financial reporting issues that could be added to the Board's work plan, we stress the importance of progressing the current work plan including, but not limited to, major research projects.[8]

Considering the competing demands and limited resources of the Board, most members believe the following financial reporting issues should be given priority in the Board's work plan:

Cryptocurrencies and related transactions

Many members observe that cryptocurrencies and digital assets more broadly are prevalent and continue to grow in general acceptance globally. As of May 18, 2021, cryptocurrency had a market capitalization of over 2 trillion dollars[9] with projections that cryptocurrency may serve as a common alternative or potential replacement for some fiat currencies in the next 5-10 years.[10] To facilitate cryptocurrency transactions, underlying market infrastructure is maturing. Exchanges, trading platforms, as well as clearing and settlement processors (including payment processors) are supporting liquidity and new markets. Globally, the number of public companies

8 Such as Business Combinations under Common Control, Goodwill and Impairment, Extractive Activities, and Pension Benefits that Depend on Asset Returns.
9 https://coinmarketcap.com/
10 Deloitte 2020 Global Blockchain Survey.

transacting (including holding or lending) with cryptocurrency continues to grow. Many members do not consider this to be a "fad" that will dissipate.

Many members echo the observations identified in paragraph B14 of the Agenda Consultation and several members would extend those observations beyond "holdings" to include accounting issues surrounding "lending" activities.[11] As such, these members support amendments to either IAS 38 *Intangible Assets* (IAS 38) or IFRS 9 *Financial Instruments* (IFRS 9) as described in paragraph B15(b)(ii) or (c) of the Agenda Consultation. Ideally, these amendments would address both the holding and lending of cryptocurrency.

A few members, although supportive of the above actions, consider such actions to be narrow and therefore may not sufficiently address the breadth of current and potentially emerging intangible assets. These members consider a comprehensive review of IAS 38, including the definition of intangible assets, is most appropriate.

A few other members are cautious about a project on cryptocurrencies and related transactions that extends beyond disclosure because, among other things, such a project could be a significant undertaking (given the variety and rapid change of cryptocurrencies and digital assets that exist today and could exist in the future) that may divert resources from other initiatives. These members question whether standard-setting could address the primary objective of some stakeholders of having all cryptocurrencies measured at fair value because fair value determinations may be challenging for certain cryptocurrencies and even if fair value was determined to be the measurement basis, a debate would likely ensue on whether changes in fair value should be recognized in profit or loss or in other comprehensive income and associated implications (e.g., recycling).

Statement of cash flows and related matters

Most members echo the sentiments in paragraph B76 of the Agenda Consultation affirming that "many stakeholders—most of them investors, preparers and standard-setters— suggested the Board undertake a project to amend or replace IAS 7". These members observe that the Exposure Draft *General Presentation and Disclosures* proposed targeted improvements to IAS 7 *Statement of Cash Flows* (IAS 7) and consequently such improvements, if finalized, are unlikely to address many other concerns raised by stakeholders. Given the importance that investors place on

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[11] These members appreciate that cryptocurrency lending could be akin to some commodity loans and therefore acknowledge that some commonality exists with the observations in paragraph B12 of the Agenda Consultation.

information about cash flows, most members encourage the Board to commence a comprehensive project to amend or replace IAS 7.

Discontinued operations and disposal groups

We note that, as highlighted in the 2015 Agenda Consultation and through the various issues submitted to the IFRS Interpretations Committee (IFRIC), there are a number of unresolved issues related to the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5). We observe that in 2015, the Board decided that these issues would be best resolved through a post-implementation review (PIR) of IFRS 5 but the Board has yet to start that PIR. Given the importance that investors place on information about discontinued operations and disposal groups, most members encourage the Board to commence a PIR on IFRS 5.

Going concern

Most members observe the recent economic uncertainties arising from the COVID-19 pandemic have highlighted the limitations of the current requirements surrounding the going concern basis and amplified the desire for standard-setting in this area. These members acknowledge the useful literature published by IFRIC and IFRS Foundation on this topic[12] but believe such literature, particularly relating to "close-calls", would benefit from centralization and formalization within the body of an IFRS Standard, such as IAS 1 *Presentation of Financial Statements* (IAS 1). Most members echo the observations listed in paragraph B35 of the Agenda Consultation and assert that these observations, coupled with their regulatory experience, identify a notable gap in the current requirements that needs to be addressed.

In addition, some members observe:

- disclosures, in practice, about "close-call" situations are limited and often uninformative[13];
- a potential tension between the going concern requirements in International Standard on Auditing (ISA) 570 *Going Concern* and IAS 1 because ISA 570 contains detailed guidance on the type of information that the auditor may expect *management* to prepare and document regarding going concern but for which there is no explicit accounting guidance on how to prepare this information within IAS 1;

12 Members acknowledge that IFRIC published agenda decisions relating to going concern disclosure requirements in July 2010 and July 2014 and in January 2021, the IFRS Foundation published educational material on disclosures relating to going concern.

13 Some jurisdictions, such as Canada, have conducted research on "close-call" disclosure by issuers and found the disclosure to be surprisingly limited and often boilerplate (making it difficult to understand whether a "close-call" actually exists).

- the going concern disclosure requirements within US GAAP to be particularly helpful (e.g., such as those regarding management plans), and
- other GAAPs, such as US GAAP, contain useful guidance on the *measurement* basis (e.g., liquidation basis of accounting) on which financial statements should be prepared when the going-concern assumption is inappropriate.

The topic of going concern underpins the financial statements and is of utmost importance to investors. As such, most members ask the Board to address going concern related issues collectively in a single project or at minimum in a narrow scope project on the specific concerns identified in B35(a)-(b) of the Agenda Consultation.

Climate-related risks

We concur with the Board's agenda consultation focus, as described in paragraph 2 of the Agenda Consultation, "on activities within the current scope of the Board's work—financial statements and management commentary for profit-oriented companies". Within this scope, many members believe the Board should undertake a project, under its purview, to help ensure investors are provided with better qualitative and quantitative information about the effect of climate-related risks on the carrying amount of assets and liabilities reported in the financial statements.[14]

Consistent with the observation in paragraph B10 of the Agenda Consultation, members concur that although IFRS Standards do not refer *explicitly* to climate-related matters, companies should consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Therefore, some members suggest that the most useful way to support consistent application of IFRS Standards is for the IASB to produce educational illustrative examples that apply existing IFRS Standards to climate-

14 For example, by lowering the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1 and broadening the requirements in IAS 36 *Impairment of Assets* (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 may be misinterpreted as restricting the consideration of material, long-term climate-related effects on the value in use measurement (likely to be a small project).

related matters – allowing preparers to better contextualize and visualize application in scenario-based illustrative examples – rather than focus on new standard-setting actions.

On a related matter, a few members also support the development of accounting requirements for pollutant pricing mechanisms. These members consider that standard-setting on pollutant pricing mechanisms is complimentary to the work on climate-related risks and believe such topics are best considered at the same time.[15]

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
Committee on Issuer, Accounting, Audit and Disclosure
International Organization of Securities Commissions

[15] The Board could consider whether accounting for pollutant pricing mechanisms could be included in a comprehensive review of IAS 38.