



**Australian Government**  
**Australian Accounting  
Standards Board**

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UNITED KINGDOM

[Date]

Dear Andreas,

**Request for Information – *Third Agenda Consultation***

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the Request for Information – *Third Agenda Consultation* (RFI) issued on 30 March 2021.

In formulating these comments, the views of Australian stakeholders were sought and considered. This included:

- one formal comment letter received;
- consultation with the AASB's User Advisory Committee (UAC), comprising a range of primary users of financial statements;
- consultation with the AASB's Disclosure Initiative (DI) Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups; and
- other targeted consultation on specific financial reporting issues involving a range of AASB stakeholders, including financial statement preparers, auditors, professional bodies, regulators and users.

Broadly, the AASB has the following views in regard to the three areas which the IASB is seeking feedback on as part of the agenda consultation:

- *Strategic direction and balance of the IASB's activities* – The AASB recommends the IASB increase its existing level of focus on activities related to digital financial reporting, and improving the understandability and accessibility of the IFRS Standards. To provide the capacity required to increase the existing level of focus on these activities, we suggest the IASB decrease its current level of focus on developing new IFRS Standards and major amendments to existing IFRS Standards. We support the IASB maintaining its current level of focus on the remaining activities.
- *Criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan* – The AASB considers the existing criteria used to assess the priority of financial reporting issues that could be added to the IASB's work plan to be appropriate and sufficient. Therefore, we do not suggest any changes to these criteria.

- *Financial reporting issues that could be added to the IASB's work plan* – The AASB recommends the IASB add projects relating to intangible assets and going concern to its upcoming work plan as a high priority. We additionally recommend adding, as a medium priority, projects relating to climate-related risks, cryptocurrencies and related transactions, and the statement of cash flows and related matters .

In relation to the potential high-priority projects for addition to the IASB's work plan, we have developed the AASB Staff Paper *Going Concern Disclosures: A Case for International Standard-Setting* and are in the process of developing an additional staff paper (working title of *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures*). It is hoped that these papers may assist the IASB in its deliberations on whether to undertake projects relating to these financial reporting issues and provide useful input should the IASB elect to undertake such projects.

Our detailed recommendations and responses to the specific questions for respondents are provided in Appendix 1 to this letter. If you have any questions regarding this letter, please contact me or Helena Simkova, Deputy Technical Director ([hsimkova@asb.gov.au](mailto:hsimkova@asb.gov.au)).

Yours sincerely,

Dr. Keith Kendall

Chair – AASB

Draft

## Appendix 1

### 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?

#### Response to Question 1(a):

Please refer to the table below for the AASB’s preferences in regard to the level of focus for each of the main activities currently undertaken by the IASB.

Activity	Current Percentage Level of Focus	AASB Recommendation
Developing new IFRS Standards and major amendments to IFRS Standards	40–45%	Decrease
Maintaining IFRS Standards and supporting their consistent application	15–20%	Unchanged
Developing and maintaining the <i>IFRS for SMEs</i> Standard	5%	Unchanged
Supporting digital financial reporting by developing and maintaining the IFRS Taxonomy	5%	Increase
Improving the understandability and accessibility of the Standards	5%	Increase
Engaging with stakeholders	20–25%	Unchanged

### *Supporting digital financial reporting by developing and maintaining the IFRS Taxonomy*

The AASB strongly supports an increase in the IASB's existing level of focus (5%) on digital financial reporting. The AASB considers that further progress in this area is necessary to help ensure improved accessibility and quality of data available to stakeholders.

A number of AASB stakeholders identified an increased level of focus on digital financial reporting as a priority for the IASB. Stakeholders were of the view that a greater focus on the global adoption of the IFRS Taxonomy will support the transparency and consistency of financial information available worldwide.

However, the AASB notes that the scope of digital financial reporting is broader than just the IFRS Taxonomy and, therefore, the IASB should consider alternative methods to enhance and expand digital financial reporting from a global perspective. For example, we encourage the IASB to explore digital opportunities to enhance the way that stakeholders access and interact with IFRS Standards. The AASB is also supportive of thought leadership from the IASB on how technology has and will continue to impact standard-setting in the modern economic environment.

Despite this, the AASB acknowledges the importance of developing and maintaining the IFRS Taxonomy to ensure the continued clarity and accessibility of requirements for users of the resource. However, the AASB notes that the IASB could explore alternative means of addressing this work, including potentially outsourcing certain elements, to provide capacity for a greater focus on other pertinent areas of digital financial reporting.

### *Improving the understandability and accessibility of the Standards*

The AASB strongly supports an increase in the IASB's existing level of focus (5%) on improving the understandability and accessibility of the Standards. The AASB is of the view that enhancing the understandability and accessibility of IFRS Standards will ensure that stakeholders can appropriately identify materials that are relevant to them and understand how to apply those materials in practice.

Recent academic research, in addition to feedback received from AASB stakeholders, indicates that IFRS Standards are becoming increasingly complex and less understandable over time. As such, it is imperative that the IASB undertake a project to identify and address areas of unnecessary complexity. Furthermore, the IASB should ensure that any new IFRS Standards or amendments to existing IFRS Standards are drafted in a manner which is clear and concise, while using consistent terminology and structure where practicable.

The AASB encourages the IASB to continue to explore various means through which the IFRS Standards can be made more accessible to stakeholders. It is particularly important that stakeholders are able to easily access standards, additional guidance, supporting materials and topic-related IFRS Interpretations Committee agenda decisions

The AASB especially supports the use of technology and other tools to expand the mediums through which stakeholders can interact with relevant materials and understand how those materials relate to each other. For example, the Australian Auditing and Assurance Standards Board (AUASB) has recently released a [digital standards portal](#) which provides

easy and interactive access to the full suite of AUASB Standards. The portal includes all information relevant to a particular standard, including application and implementation material, cross-references and footnotes, all available on the same page, and contains a sophisticated search function that locates definitions and keywords within and across AUASB standards. We encourage the IASB to continue to pursue technological innovation as a means of enhancing the accessibility of IFRS Standards to ensure their continued relevance going forward into the future.

#### *Developing new IFRS Standards and major amendments to IFRS Standards*

The AASB's preference is for the IASB to decrease its current level of focus on developing new IFRS Standards and major amendments to existing IFRS Standards as a means of providing the capacity needed to increase focus on the activities identified above.

Feedback received from AASB stakeholders, particularly those who are users of financial statements, indicates that there is minimal demand for new IFRS Standards in the short to medium term. Specifically, the AASB has heard that the market is still navigating the uncertainty and volatility caused by the COVID-19 pandemic, and adjusting to the recent implementation of standards such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

Although the AASB acknowledges the need for the development of new standards and the undertaking of required post-implementation reviews, we are of the view that the current percentage level of focus (40–45%) is high and could be reduced to provide capacity for the undertaking of other pertinent activities.

#### *Maintaining IFRS Standards and supporting their consistent application*

The AASB's preference is for the IASB to retain its current level of focus on maintaining IFRS Standards and supporting their consistent application.

A number of AASB stakeholders were supportive of an increased level of focus in this area, particularly around the provision of educational materials and addressing the increasing complexity of accounting standards. However, the AASB is of the view that the existing percentage level of focus on this activity (15–20%) is appropriate and that some of the issues raised by stakeholders would be better addressed by an increased focus on *improving the understandability and accessibility of the Standards* (discussed above).

#### *Developing and maintaining the IFRS for SMEs Standard*

The AASB's preference is for the IASB to maintain its current level of focus on developing and maintaining the *IFRS for SMEs* Standard. Though the AASB appreciates the importance of the *IFRS for SMEs* Standard, this standard has not been adopted in Australia. Therefore, the AASB is of the view that the current level of focus on this activity (5%) is appropriate.

### *Engaging with stakeholders*

The AASB's preference is for the IASB to maintain its current level of focus on engaging with stakeholders. The AASB considers stakeholder engagement to be a critical element of the IASB's activities, and that the current percentage level of focus on this activity (20–25%) appropriately reflects this.

#### **Response to Question 1(b):**

The AASB considers that the activities undertaken by the IASB within the current scope of its work are sufficient and appropriate. Therefore, the AASB does not suggest the IASB undertake any further activities beyond what is specified above.

#### **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?

#### **Response to Question 2:**

The AASB is of the view that the current criteria used to assess the priority of financial reporting projects which could be added to the IASB's work plan are appropriate and extensive. Therefore, the AASB does not propose any changes to the existing criteria.

#### **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.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:
  - i. the nature of the issue; and
  - ii. why you think the issue is important.

### Response to Question 3(a):

The AASB recommends the IASB add projects related to intangible assets (*medium-sized* project) and going concern (*large* project) to its upcoming work plan as a **high priority**. The AASB additionally recommends the IASB add projects related to climate-related risks (*medium-sized* project), cryptocurrencies and related transactions (*medium-sized* project) and the statement of cash flows and related matters (*small* project) to its upcoming work plan as a **medium priority**. Refer below for further details on the proposed scopes for each of the projects we are recommending, the reasons for our recommendations and any key considerations for the IASB when potentially undertaking these projects.

#### *i. Intangible Assets*

The AASB strongly supports the IASB undertaking a project to review the existing requirements in IAS 38 *Intangible Assets*, focussing on two key matters. Specifically, the AASB recommends that the scope of the project include the development of principles, an objective and implementation guidance for the disclosure of relevant information about:

1. unrecognised internally generated intangible assets; and
2. unvalued recognised intangible assets, where an entity adopts a revaluation policy for classes of recognised intangible assets.

This broadly represents options (a) and (b) in paragraph B52 of the RFI, and would likely be a *medium-sized* project for addition to the IASB's upcoming work plan.

The AASB has obtained evidence that the current disclosure encouragements in paragraph 128(b) of IAS 38 are ineffective in providing sufficient information for stakeholders' economic decision-making. Furthermore, the AASB has received feedback suggesting that IAS 38 is outdated and in need of review to ensure the relevance and usefulness of the standard in the modern business environment.

The AASB additionally notes that, irrespective of whether the IASB initiates a project to amend the recognition/measurement requirements in response to the concerns of stakeholders noted in paragraph B49(b) of the RFI, the pervasiveness of intangible assets means there will continue to be significant unrecognised intangible assets and unvalued recognised intangible assets about which primary users of financial statements need information.

The AASB is in the process of finalising a project addressing the two matters identified above, with an AASB Staff Paper (working title of *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures*) expected to be published in late 2021. It is hoped that this paper will assist in any potential project relating to intangible assets that the IASB may initiate. The executive summary of the draft staff paper is included in Appendix 2 of this comment letter. Based on preliminary findings from the research, which is primarily but not solely Australian-based, the AASB has confirmed a financial statements information gap exists in respect of the two matters identified above.

The AASB's research has focused on intangible assets as defined and within the scope of IAS 38. However, as acknowledged in the IASB's ongoing project to revise IFRS Practice

Statement 1 *Management Commentary*, users need information about a broader range of unrecognised intangible resources that could be conveyed through management commentary.

Therefore, any project initiated by the IASB in this area would interact with the existing *Management Commentary* project currently on the IASB work plan. This interaction would provide an opportunity and basis for deliberations on the distinction between the type of information included in financial statements versus management commentary, thereby improving the management commentary guidance. For example, if non-financial quantitative information about unrecognised internally generated intangible assets were determined to be the appropriate basis for conveying information about such assets (perhaps for the reasons noted in paragraph B49(c) of the RFI), consideration could be given to whether the vehicle should be the financial statements or management commentary.

ii. Going Concern

The AASB strongly supports the IASB:

- (a) providing guidance on how the general requirements in paragraph 122 and paragraphs 125–133 of IAS 1 interact with paragraphs 25–26 of IAS 1 to ensure entities disclose the key factors which have led to their assessment that the entity is (or is not) a going concern;
- (b) providing additional guidance to preparers on how to assess whether there are significant doubts about the entity's ability to continue as a going concern, what mitigating actions may be considered and whether material uncertainties remain after that assessment through illustrative examples of events and conditions; and
- (c) helping to align the requirements in the accounting standards with the requirements in the auditing standards.

The AASB additionally strongly supports the IASB undertaking a research project to assess:

- (a) the situations in which financial statements are prepared on a non-going concern basis;
- (b) the extent to which local legislation and regulation regarding liquidation and solvency affect the basis of preparation of these financial reports and their content;
- (c) who the primary users of these financial statements are and their information needs; and
- (d) the extent of current diversity in practice and, therefore, the need for standard-setting in this area.

This broadly represents option (d) in paragraph B38 of the RFI and would likely be a *large* project for addition to the IASB's upcoming work plan.

In relation to going concern disclosures, the AASB has received feedback suggesting that:

- (a) there are issues surrounding inconsistency and inappropriate interpretation of the existing requirements in the IFRS Standards;



- (b) there is diversity in practice regarding the information disclosed in circumstances when the financial statements are prepared on a going concern basis, but management is aware of events or conditions that may cast significant doubt on this judgement; and
- (c) there is a misalignment between the disclosure requirements in IAS 1 and those in the auditing standard ISA 570 *Going Concern*, mainly when material uncertainty exists, which causes confusion in practice.

The AASB acknowledges that, in 2013, the IASB considered and rejected potential amendments to the going concern requirements in IAS 1. The AASB is also cognisant of the educational material *Going concern – a focus on disclosure* issued by the IFRS Foundation in January 2021. However, it is noted that:

- (a) recent concerns (outlined above) demonstrate the continued prevalence of this issue and the need for timely resolution;
- (b) despite the IASB's past concerns around the sensitivity of information relating to the going concern assessment, this disclosure may be required to meet the objective of the financial statements, as defined by IAS 1, by providing information that is useful for users' economic decision-making;
- (c) previous IASB concerns that amendments to the requirements would result in boilerplate disclosures and contradict the IASB's disclosure initiative may not be warranted as the provision of additional guidance on interpreting the current requirements neither promotes a disclosure checklist mentality nor contributes to disclosure overload;
- (d) many of the concerns previously raised by the IASB would apply to the disclosures which are now commonly included in the financial statements of many entities, and the AASB has not heard that this has caused any significant issues; and
- (e) the IASB's guidance issued in January 2021 is useful but provides only high-level guidance that may not address some of the major issues raised by stakeholders, and it may not be frequently utilised by all preparers as it is not included within IAS 1.

In relation to the preparation of financial statements on a non-going concern basis, feedback from stakeholders suggests that:

- (a) guidance is required to ensure consistency and comparability of financial statements when an entity is no longer a going concern;
- (b) there is diversity in practice and mixed views on the basis of preparation to be applied when an entity is no longer operating under the going concern assumption; and
- (c) there is support for further research to determine the underlying issues and the extent of diversity across entities and jurisdictions prior to undertaking any potential standard-setting solution.

The AASB acknowledges that, in 2014, the IASB did not recommend providing guidance on the preparation of financial statements by entities that are no longer operating under the going concern assumption as the IASB concluded that the benefit of providing further requirements at an international level may be limited due to the varying requirements across jurisdictions regarding the information that should be provided in liquidation. Therefore, we are supportive of the IASB undertaking a research project to provide a more

complete understanding of the underlying issue at hand, the extent of diversity in practice and, ultimately, the need for standard-setting as a potential future solution.

The AASB agreed that the issues outlined above should be addressed by the IASB at a global level as they are not specific to the Australian reporting environment. Therefore, AASB staff have developed the paper *Going Concern Disclosures: A Case for International Standard-Setting*, which serves to:

- (a) identify the issues and available evidence regarding the adequacy of going concern disclosures currently required by the Accounting Standards;
- (b) identify the issues relating to the lack of guidance on the basis of preparation where the going concern assumption is no longer appropriate; and
- (c) suggest to the IASB how to address the issues identified.

It is hoped that this paper may assist the IASB in its deliberations on whether to add a project related to going concern to its upcoming work plan and provide useful input should the IASB decide to undertake such a project.

*iii. Climate-related risks*

The AASB is supportive of the IASB undertaking a project to require the provision of further information on the effect of climate-related risks on the carrying amounts of assets and liabilities in the financial statements. This would be captured by option (a) in paragraph B11 of the RFI and, as per the RFI, would likely be a *medium-sized* project for addition to the IASB's upcoming work plan.

The AASB has received feedback that:

- (a) users of financial statements are increasingly reliant on information around climate-related risks when making economic decisions;
- (b) more qualitative and quantitative disclosure around climate-related risks is needed to assist users of financial statements in better understanding estimation uncertainty and whether climate-related risks are formally factored into valuations; and
- (c) the long-term nature of climate-related risks often results in their inadequate representation in the financial statements.

Therefore, the AASB supports the IASB's potential project to lower the threshold for disclosing information about sources of estimation uncertainty in IAS 1 as a means of promoting greater disclosure of climate-related risks.

The AASB acknowledges that, dependent on the results of the IFRS Foundation Trustees' ongoing review, the International Sustainability Standards Board (ISSB) may have a role to play in relation to the development of climate-related disclosures. We note that collaboration between the IASB and ISSB in this area will be essential.

The AASB further notes that a critical consideration for both the IASB and ISSB will be how climate-related risks can be incorporated into the financial statements in a manner that is meaningful to both sustainability and financial reporting preparers and users.

iv. Cryptocurrencies and related transactions

The AASB is supportive of the IASB undertaking a project to amend the scope of the Standards for financial instruments to include cryptocurrencies. This represents option (c) in paragraph B15 of the RFI and, as per the RFI, would likely be a *medium-sized* project for addition to the IASB's upcoming work plan.

Based on feedback received by stakeholders, the AASB notes that:

- (a) cryptocurrencies are becoming increasingly prevalent in the modern business environment and the current requirements in the IFRS Standards may not provide useful information when accounting for these assets; and
- (b) although existing guidance on accounting for cryptocurrencies is useful, it should be included in the IFRS Standards to ensure clarity and accessibility for stakeholders.

Additionally, the AASB has previously undertaken research on the accounting issues in relation to digital currencies (refer AASB report [Digital currency – A case for standard setting activity](#)). Based on the findings of this report, it was noted that there is a lack of clear guidance in the IFRS Standards in relation to the accounting for digital currencies. Although this research was undertaken in 2016, the AASB notes that many of the issues identified are still pertinent today.

Therefore, the AASB agrees that amending the scope of the Standards for financial instruments to include cryptocurrencies will ensure the provision of useful information to stakeholders, as the economic characteristics of cryptocurrencies are more similar to cash or other financial instruments than intangible assets.

v. Statement of cash flows and related matters

The AASB supports the IASB developing more effective disclosures about the ongoing maintenance expenses and the growth expenditure. This represents option (a) in paragraph B78 of the RFI and, as per the RFI, would likely be a *small* project for addition to the IASB's upcoming work plan.

The AASB has received feedback, primarily from users of financial statements, that:

- (a) there is a need for more effective disclosures about ongoing maintenance expenses and growth expenditure, due to the existing lack of separation between what is considered maintenance versus growth; and
- (b) better mapping of the statement of cash flows to other primary financial statements, such as the statement of profit and loss, would enhance the usefulness and relevance of such information to financial statement users.

**Response to Question 3(b):**

The AASB does not suggest any further projects for addition to the IASB's upcoming work plan which are not included in the RFI.

## **Appendix 2**

[Executive summary of intangibles staff paper to be included in final comment letter – refer Agenda Paper 4.1]

*Draft*