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24 September 2021

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
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Dear Dr Barckow

Request for Information– Third Agenda Consultation

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the Board) request for information *Third Agenda Consultation* (the RfI).

Overall, we believe that the Board's time is appropriately allocated to the different activities and that this allocation will remain largely appropriate for the next few years. However, we believe that two key areas will require further direct attention by the Board

- *Sustainability reporting related issues*: As noted in our letter dated 29 June 2021, we support the IFRS Foundation continued efforts to establish a sustainability standard-setter under its institutional framework. We also noted that it will be crucial that the two Boards cooperate on fundamental elements that will be common to both Boards to ensure connectivity between financial and sustainability reporting. Amongst others, this would include work on the conceptual framework and on management commentary (beyond the project currently on the work plan of the IASB Board). We believe that the proposed projects on disclosure of intangible assets and on climate and other sustainability-related risks disclosures discussed in the RfI would also benefit from the collaboration between the Board and a future new board working on international sustainability reporting standards.
- *Digital reporting*: We note that currently the time spent by the Board in this area is largely focused on taxonomy. We believe that Board should explore how digital reporting is changing the way investors consume information with a view to determine how this should be reflected in the way IFRS Standards are written. This seems to be a critical factor to consider as part of the Board's project on improving disclosure.

We generally agree with the criteria used for assessing issues that could be added to the Board's work plan. However, we believe that an additional criterion that the Board should consider in assessing whether to add a project on its agenda is the capacity of entities to deal with new IFRS Standards requirements and the frequency of these changes. For example, in the coming years, entities in many jurisdictions will be required to comply with new reporting requirements on sustainability reporting. This will limit the human and financial resources available to address significant changes in IFRS Standards. The Board's own capacity in the coming years will also be limited given the pending PIR for IFRS 9, 15 and 16 and considering the need to deal with emerging and urgent issues.

We also note that whilst there is a formal process in place to evaluate projects to be added to the Board's work plan, the process to be followed to remove projects from the work plan appears less well established. We suggest that it may be useful to formalise a process to evaluate periodically whether projects should remain on the agenda. We believe that this could involve assessing the projects against the criteria used by the Board to evaluate whether new projects should be added to the work plan.

We believe that the key projects that should be added to Board's work plan are as follows

- *New forms of "intangible assets"*: We note that the list of potential projects includes separate projects on cryptocurrencies and related transactions, commodity transactions and pollutant pricing mechanisms. These projects share the characteristics that they either involve a new form of asset or, in the case of commodity transactions, an existing form of asset used in innovative ways. Instead of addressing cryptocurrencies, commodity transactions and pollutant pricing mechanisms separately, we suggest that the Board should consider an overall large project on these that would include various building blocks that could be addressed in turn.
- *Intangible assets*: We suggest that the Board should consider improvements to the disclosures related to an entity's recognised and unrecognised intangible assets. We also believe that the Board should consider if and when a customer should recognise its rights and obligations under some service contracts as assets and liabilities. Indeed, we believe that it is important that the Board addresses the tension between the accounting for leases and certain service arrangements resulting from the recognition of leases contracts on the statement of financial position. Together, these could form a large project.
- *Climate and other sustainability-related risks disclosures*: We believe that targeted amendments to improve disclosures of estimation uncertainty could be introduced quickly and would help entities provide more relevant disclosures in line with the expectations of users of their financial statements. In addition, we believe that this medium-sized project could be completed within a reasonable timeframe.
- *Statement of cash flows and related matters*: We suggest that the Board takes on a medium-sized targeted project to improve certain aspects of IAS 7. In particular, we believe that the Board should address "non-cash transactions", including factoring, reverse-factoring transactions and other transactions where it may not be clear whether they involve an entity's cash flows (because, for example, a financial institution is acting as an intermediary). We believe that it would also be appropriate to assess whether the definition of cash and cash equivalents could be improved.
- *Variable and contingent consideration*: We believe that the Board should take on a medium-sized project to address variable payments related to the acquisition of assets in the scope of IAS 16, IAS 28 and IAS 38 and service concessions. We believe that as part of this project it would be appropriate for the Board to (re)consider variable lease payments in the scope of IFRS 16.
- *Going concern*: We believe that the Board should provide clarity in the requirements and definitions within IFRS Standards related to management's assessment of the entity's ability to continue as a going concern, as well as the specificity and expansion of disclosure requirements to provide users with more insights into an entity's expected future performance (specifically related to management's assessment of going concern).

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Amongst the other projects considered as part of the RfI, we believe that the project on the equity method should be prioritised. Indeed, we support the on-going Board's efforts to identify and resolve the issues most frequently encountered in the application of the equity method.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

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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?

Overall, we believe that the Board's time is appropriately allocated to the different activities and that this allocation will remain largely appropriate for the next few years.

However, we believe that two key areas will require further direct attention by the Board

- *Sustainability reporting related issues*: As noted in our letter dated 29 June 2021, we support the IFRS Foundation continued efforts to establish a sustainability standard-setter under its institutional framework. We also noted that it will be crucial that the two Boards cooperate on fundamental elements that will be common to both Boards to ensure connectivity between financial and sustainability reporting. Amongst others, this would include work on the conceptual framework and on management commentary (beyond the project currently on the work plan of the IASB Board). We believe that the proposed projects on disclosure of intangible assets and on climate and other sustainability-related risks disclosures discussed in the RfI would also benefit from the collaboration between the Board and a future new board working on international sustainability reporting standards.
- *Digital reporting*: We note that currently the time spent by the Board in this area is largely focused on taxonomy. We believe that Board should explore how digital reporting is changing the way investors consume information with a view to determine how this should be reflected in the way IFRS Standards are written. This seems to be a critical factor to consider as part of the Board's project on improving disclosure.

Some of the time required to allocate to these could be taken out of the time currently devoted to developing educational material. As IFRS Standards literacy has increased globally, it would seem appropriate that the time required in educational activities is decreased.

We recognise the importance of the IFRS for SMEs Standard to many jurisdictions. We believe that people who are actively involved in the SME community are best placed to develop the requirements of the IFRS for SMEs Standard, within the overall IFRS Standards framework. This has been acknowledged by the Trustees through the constitution of the SME Implementation Group (SMEIG). In fact, we believe that the SMEIG could be tasked with greater responsibility in identifying, evaluating, and drafting amendments of

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the IFRS for SMEs Standard, under the supervision and subject to approval by the Board. We note that the current SMEIG has a large number of members. We suggest that consideration should be given as to whether this work could be performed more efficiently if a subgroup of the SMEIG was tasked with this responsibility. We expect that the subgroup would carry significant outreach activities as part of its increased responsibility such that the benefits of the current broad composition of the SMEIG would not be lost.

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?

We generally agree with the criteria used for assessing issues that could be added to the Board's work plan, subject to the following observations and recommendations.

We believe that an additional criterion that the Board should consider in assessing whether to add a project on its agenda is the capacity of entities to deal with new IFRS Standards requirements and the frequency of these changes. For example, in the coming years, entities in many jurisdictions will be required to comply with new reporting requirements on sustainability reporting. This will limit the human and financial resources available to address significant changes in IFRS Standards. The Board's own capacity in the coming years will also be limited given the pending PIR for IFRS 9, 15 and 16 and considering the need to deal with emerging and urgent issues.

With respect to the existing criteria, we note that criteria 1-4 in Table 2 of the RfI are those that the Due Process Handbook indicates should be used by the Board in assessing whether new standards and major amendments should be added to the work plan. It is therefore appropriate that the Board uses these criteria. If indeed the Board uses other criteria (namely criteria 5-7 in Table 2), it may be appropriate that these should be added to the Due Process Handbook.

We also note that criterion 2 in Table 2 is worded slightly differently than the corresponding criterion in the Due Process Handbook. Whilst criterion 2 in Table 2 refers to "deficiency in the way companies report the type of transaction or activity", the Due Process Handbook refers to "whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports". The wording used in the Due Process Handbook appears more appropriate since it avoids the connotation that companies may be the source of the deficiency rather than the IFRS Standards. Indeed, in assessing a new project, it appears more relevant that the Board should focus on whether IFRS Standards (and not companies' own practices) can be improved to report transactions more appropriately.

We also note that criterion 3 in Table 2, and the corresponding criterion in the Due Process Handbook, indicates that in assessing whether to add a potential project the Board should consider "the type of companies" that are likely to be affected. We find this to be vague and suggest that it would be useful to clarify what is meant by "type of companies" and how this may influence the Board's assessment.

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.

We believe that the key projects to be added to the Board's work plan in priority should cover the following areas.

- *Intangible assets*: We believe that there are two keys aspects of IAS 38 that should be reconsidered by the Board.
    - Disclosures: We suggest that the Board should consider making improvements to the disclosure requirements related to an entity's recognised and unrecognised intangible assets. In new business models, in particular those based on digitalisation, internally generated intangible assets contribute significantly to the value of an entity. Yet many of these intangible assets (e.g. brands, data, and business processes) are typically not be recognised on an entity's statement of financial position leading to a lack of transparency on significant resources of an entity. Accordingly, we believe that it would be appropriate to require qualitative disclosures of the factors that influence the value of these assets and of the entity as a whole. For clarity, we are not suggesting that an entity should be required to provide quantitative fair value disclosures of its recognised and unrecognised intangible assets. Further, we are not suggesting that the Board should undertake a review of the principles applicable to the recognition of internally generated intangible assets as this would involve considerable efforts and would necessarily be a lengthy project. Instead, in order to improve, within a reasonable timeframe, the information provided to users of financial statements on the drivers of an entity's value, we strongly believe that the Board should focus its efforts on a disclosure project. Further, we suggest that this may be a project that would benefit of the collaboration between the Board and a future new board working on international sustainability reporting standards. We envisage this to be a medium-sized project.
    - Whether a customer should recognise its rights and obligations under some service contracts as assets and liabilities: The recognition of leases contracts on the statement of financial position has resulted in tension between the accounting for leases and certain service

arrangements. A key example of this tension is the accounting for software-as-service arrangements addressed by the IFRS Interpretations Committee in March 2019. As an increasing number of assets become available to entities through "as-service" arrangements (e.g. infrastructure-as-service, platform-as-service), it appears important that the Board assesses whether the requirements of IAS 38 provide an appropriate framework to account for such service contracts or whether specific requirements should be developed to determine if and when an entity should recognise its rights and obligations under service contracts as assets and liabilities. We envisage this to be a large project.

- *New forms of "intangible assets"*: We note that the list of potential projects in Appendix B of the RfI includes separate projects on cryptocurrencies and related transactions, commodity transactions and pollutant pricing mechanisms. These projects share the characteristics that they either involve a new form of asset or, in the case of commodity transactions, an existing form of asset used in innovative ways. In particular, these new intangible assets may be used as "currency" without strictly meeting the definition of financial assets. Instead of addressing cryptocurrencies, commodity transactions and pollutant pricing mechanisms separately, we suggest that the Board should consider an overall large project on these that would include various building blocks that could be addressed in turn. Our suggested approach would be as follows.
    - First, the Board could consider if and when these new intangible assets are in the scope of an existing IFRS Standard (e.g. IAS 38 or IFRS 9). If not in the scope of an existing IFRS Standard, the characteristics of the items that belong to a different class of assets could be identified.
    - For those items identified as belonging to a new class of asset, the Board could in turn address (i) recognition, (ii) initial and subsequent measurement, (iii) derecognition and (iv) lending transactions.
- *Climate and other sustainability-related risks disclosures*: Aside from addressing pollutant pricing mechanisms, we encourage the Board to consider lowering the threshold for disclosing information about sources of estimation uncertainty as proposed in paragraph B11(a) of the RfI. Further, we believe that this should not be limited to climate-related risks but should also consider other sustainability-related risks. Whilst current IFRS Standards provide a relevant framework to address the related issues, targeted amendments to improve disclosures of estimation uncertainty could be introduced quickly and would help entities provide more relevant disclosures in line with the expectations of users of their financial statements. We believe that this medium-sized project could be completed within a reasonable timeframe. This is also a project that could benefit from the collaboration between the Board and a future new board working on international sustainability reporting standards.
- *Statement of cash flows and related matters*: We suggest that the Board takes on a medium-sized targeted project to improve certain aspects of IAS 7. In particular, we believe that the Board should address "non-cash transactions", including factoring, reverse-factoring transactions and other transactions where it may not be clear whether they involve an entity's cash flows (because, for example, a financial institution is acting as an intermediary). We believe that it would also be appropriate to assess whether the definition of cash and cash equivalents could be improved to address issues such as "restricted cash" or cash pooling arrangements.
- *Variable and contingent consideration*: We believe that the Board should take on a medium-sized project to address variable payments related to the acquisition of assets in the scope of IAS 16, IAS 28 and IAS 38 and service concessions. We believe that as part of this project it would be appropriate for the Board to (re)consider variable lease payments in the scope of IFRS 16. Limiting the scope of the

project to these variable payment arrangements, which are the most commonly encountered in practice, increases the likelihood that the Board will resolve this issue in a timely manner. We believe that the project should address recognition and initial and subsequent measurement of the liability as well as the impact on the carrying amount of the related asset. We believe this could be achieved as part of a medium-sized project.

- *Going concern*: As noted in our response dated 1 February 2021 to the IAASB Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*, we believe that the Board should provide clarity in the requirements and definitions within IFRS Standards related to management's assessment of the entity's ability to continue as a going concern, as well as the specificity and expansion of disclosure requirements to provide users with more insights into an entity's expected future performance (specifically related to management's assessment of going concern). In particular, we believe that the existing requirements should be revised in order to provide a clear framework which

    - Requires the performance by management of an assessment of the entity's ability to continue as a going concern;
    - Expands the time period of management's assessment to cover twelve months from the date of approval of the financial statements;
    - Specifies that developments after the reporting date but before the financial statements are approved should, as necessary, be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10, Events After the Reporting Period; and
    - Defines clearly what is meant by "material uncertainty" and "significant doubt."

  In addition, we note that the requirement to disclose the judgements made by management in "close call" scenarios (where it is unclear whether a material uncertainty over going concern exists) is currently encapsulated only in an IFRS Interpretation Committee Agenda Decision (July 2014) referring to the general requirements of paragraph 122 of IAS 1 on significant judgements made in the process of applying the entity's accounting policies. This Agenda Decision is used in the IFRS Foundation's recently published educational material "Going Concern – A Focus on Disclosure" to illustrate different disclosures that might become appropriate as an entity's circumstances deteriorate. Whilst we believe this illustration is useful, we recommend that a clear and concise framework for disclosure relating to going concern be added to the IFRS Standards themselves.

  We believe these improvements to the requirements on going concern could be addressed as part of a small project.

We provide comments on the other projects listed in Appendix B of the RfI in our Appendix 2.

Question 4 – Other comments
Do you have any other comments on the Board's activities and work plan?
Appendix A provides a summary of the Board's current work plan.

We note that some projects have been on the Board's work plan for a considerable length of time. This includes projects such as *Availability of a Refund (Amendments to IFRIC 14), Dynamic Risk Management, Extractive Activities, Provisions—Targeted Improvements and Pension Benefits that Depend on Asset*

Returns. We also note that whilst there is a formal process in place to evaluate projects to be added to the Board's work plan, the process to be followed to remove projects from the work plan appears less well established. We suggest that it may be useful to formalise a process to evaluate periodically whether projects should remain on the agenda. We believe that this could involve assessing the projects against the criteria used by the Board to evaluate whether new projects should be added to the work plan.

Appendix 2

	Project	Priority	Scope	Comment
Potential	Intangible assets	High	Large	See our response to Question 3
Potential	Cryptocurrencies and related transactions	High	Large	See our response to Question 3
Pipeline	Pollutant pricing mechanisms	High		
Potential	Commodity transactions	High		
Potential	Climate-related risks	High	Medium	See our response to Question 3
Potential	Statement of cash flows and related matters	High	Medium	See our response to Question 3
Pipeline	Variable and contingent consideration	High	Medium	See our response to Question 3
Potential	Going concern	High	Small	See our response to Question 3
Other	Equity method	Medium	Medium	We encourage the Board to pursue its assessment of whether targeted improvements can be made to the equity method, in particular with respect to clarification of the principle underlying the equity method (measurement method or one-line consolidation), the assessment of significant influence, the scope of instruments to which the equity method applies and issues related to impairment. We did not rank the project this project as high because the issues that need to be addressed are for the most part "old" and entities have developed accounting policies to address them. Nevertheless, they remain a source of difficulties in the application of IFRS Standards.

	Project	Priority	Scope	Comment
Potential	Government grants	Medium	Medium	If the Board has the capacity to take on a project on government grants, we believe that the issues identified in the RfI should be addressed.
Potential	Separate financial statements	Medium	Medium	If the Board has the capacity to take on a project on separate financial statements, we believe that the key issues to be addressed should be the accounting for business combinations under common control and the accounting for the effects of some transactions between the parent and its subsidiaries when the transaction is not on market terms. However, we believe that research on the purposes for which separate financial statements are used (e.g. for tax purposes, capacity to pay dividends, etc) should be performed before undertaking work related to separate financial statements.
Potential	Borrowing costs	Medium	Small	If the Board has the capacity to take on a project on borrowing costs, we believe that it should limit the scope of this project to targeted improvements addressing issues submitted to the IFRS Interpretations Committees and/or raised in paragraph B6 of the RfI.
Potential	Negative interest rates	Medium	Medium	If the Board has the capacity to take on a project on negative interest rate, we believe that it should develop specific requirements for such rates, as proposed in the RfI.
Potential	Discount rates	Low	Large	If the Board was to take on a project on discount rate, we suggest that it should reconsider the requirements on discount rate in the various IFRS Standards with the objective of eliminating where appropriate variations in present value techniques. Whilst such a project may improve understandability of financial statements, we ranked it as "low" we believe that the Board's resources are better applied elsewhere.

	Project	Priority	Scope	Comment
Pipeline	Inflation	Low	Small	If the Board was to take on a project on inflation, we suggest that it should be limited to the recent issues raised with the IFRS Interpretations Committee.
Potential	Employee benefits	Low	Medium	If the Board decides to take on a project on employee benefits, we believe that it should focus on addressing issues relating to the discount rate. Whilst such a project would improve financial reporting, we ranked it as "low" because we believe that entities have developed appropriate techniques to address the issues that arise in practice and that appropriate transparency can be provided to the users of financial statements through disclosures.
Potential	Foreign currencies	Low	Medium	If the Board decides to take on a project on foreign currencies, we suggest that it should address the specific issues identified in paragraph B31 (a), (b) and (c) of the RfI. Whilst such a project may improve financial reporting, we ranked it as "low" because we believe that the Board's resources are better applied elsewhere.
Potential	Discontinued operations	Low	Medium	If the Board was to take on a project on discontinued operations, we suggest that it should address the specific issues identified in January 2016 by the IFRS Interpretations Committee. We note clarifying the purposes of presenting separately discontinued operations would help in determining how the standard should be applied. Whilst such a project would improve financial reporting, we ranked it as "low" because we believe that the current shortcomings of the IFRS 5 can be addressed by entities explaining how they have applied the Standard.

	Project	Priority	Scope	Comment
Potential	Operating segments	Low	Small	If the Board was to take on a project on operating segments, we suggest that it could consider improvements for aggregating operating segments into reportable segments. We ranked it as "low" because we are not convinced that meaningful improvements can be achieved.
Potential	Inventory/COS	Low	n/a	We are not convinced that addressing the potential issues identified in the RfI would result in insignificant improvements to financial reporting that would justify allocating resources of the Board to develop and stakeholders to implement.
Potential	Interim financial reporting	Low	n/a	We have not identified potential improvements to the existing requirements on interim financial reporting that would justify use of the limited resources of the Board.
Potential	OCI	Low	n/a	We have not identified potential improvements to the existing requirements on other comprehensive income that would justify use of the limited resources of the Board.
Potential	Income taxes	Low	n/a	We are not convinced that the Board could significantly improve the reporting of income taxes without a major overhaul of the Standard. We do not believe that this would represent an appropriate use of the Board's resources. We are also concerned that such a project could cause significant disruption to preparers at a time when they may not have the capacity necessary to implement such significant changes.

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