International Accounting Standards Board (IASB)’s technical activities’ update

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JIAR conference June 2023

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Agenda

• Overview of current work plan
• Update on major projects
• Connectivity between the IASB and the International Sustainability Standards Board (ISSB)
• Research opportunities related to the IASB’s standard-setting agenda
Overview of current work plan
## Consultations

### Recently published
- **Exposure draft proposing amendments to IFRS for SMEs Accounting Standard, International Tax Reform—Pillar Two Model Rules**
  - Comments due: 17 Jul 2023
- **Exposure draft proposing narrow-scope amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures**
  - Comments due: 19 Jul 2023
- **Request for information on PIR of IFRS 9—Impairment**
  - Comments due: 27 Sep 2023

### Forthcoming

#### Expected Q2 2023:
- Request for information on PIR of IFRS 15—Revenue from Contracts with Customers

#### Expected H2 2023:
- Exposure draft proposing amendments to IAS 32 Financial Instruments with Characteristics of Equity
Current projects are in different stages

Early stage of research phase
- Extractive activities

Later stage of research phase
- Business Combinations under Common Control

Decide project direction
- Financial Instruments with Characteristics of Equity
  - Business Combinations—Disclosures, Goodwill and Impairment
  - Dynamic Risk Management
  - Equity Method

Publish Exposure Draft
- Review of the IFRS for SMEs Accounting Standard
  - Management Commentary

Discuss feedback on Exposure Draft

Decide project direction

Issue IFRS Standard
- Primary Financial Statements
  - Subsidiaries without Public Accountability: Disclosures
  - Rate-regulated Activities
Update on major projects
Overview: research projects

- Early stage of research phase
- Issue Discussion Paper
- Decide project direction

1. Extractive Activities
2. Business Combinations under Common Control
Extractive Activities

Objective
• Provide more useful information about exploration and evaluation expenditure and activities accounted for applying IFRS 6 *Exploration for and Evaluation of Mineral Resources* by improving the transparency and comparability of this information

Project scope
• Explore developing requirements or guidance to improve a company’s disclosures about its exploration and evaluation expenditure and activities
• Explore removing the temporary status of IFRS 6

Next steps
• Decide project direction
Business Combinations under Common Control

Objective
• Develop reporting requirements to reduce diversity in practice and improve transparency

Project update
• In April 2023 the IASB discussed whether the current project direction is likely to result in the project moving into the standard-setting phase in the future

Next steps
• Decide project direction
Post-implementation reviews
Post-implementation reviews

Recently completed
- PIR of IFRS 9—Classification and Measurement
- PIR of IFRS 9—Impairment
- PIR of IFRS 15 *Revenue from Contracts with Customers*
- PIR of IFRS 16 *Leases*
- PIR of IFRS 9—Hedge Accounting

Ongoing

Forthcoming
Objective

• Assess the effects on stakeholders of applying the expected credit losses (ECL) requirements to financial instruments

Request for Information

Examines:

• general approach to recognition of ECL
• significant increases in credit risk
• measurement of ECL
• credit-impaired financial assets
• simplified approach
• loan commitments and financial guarantee contracts
• credit risk disclosures
• interaction with other requirements

Next milestone

• Published Request for Information
• Comment period closes 27 September 2023
PIR of IFRS 15—Revenue from Contracts with Customers

Objective

• Assess whether the effects of applying IFRS 15 on users of financial statements, preparers, auditors and regulators are as intended when the Standard was issued

Request for information

Will examine:

• identifying the performance obligations
• determining the transaction price
• determining the timing of revenue recognition
• principal versus agent considerations
• licensing
• disclosure requirements
• transition requirements
• interaction with other IFRS Accounting Standards
• convergence with US GAAP Topic 606

Next milestone

• Publish Request for Information end of June 2023
Standard-setting projects
—Examples
Overview: standard-setting projects

- Publish Exposure Draft
- Discuss feedback on Exposure Draft
- Decide project direction

Financial Instruments with Characteristics of Equity
Dynamic Risk Management
Review of the IFRS for SMEs Accounting Standard
Management Commentary
Primary Financial Statements
- Subsidiaries without Public Accountability: Disclosures
- Rate-regulated Activities

- Other (eg Project Summary)
Business Combinations—Disclosures, Goodwill and Impairment

Objective
• Improve information companies provide about their acquisitions at a reasonable cost

Current focus
• A package of disclosure requirements about business combinations (decision on some key aspects made in September 2022)
• Changes to the impairment test of cash-generating units containing goodwill in IAS 36 Impairment of Assets

Next milestone
• Publish Exposure Draft
Management Commentary

Objective

- Overhaul IFRS Practice Statement 1—building on innovations in narrative reporting and focusing on capital market needs

Evolving landscape

- Feedback on ED indicated support for the project, in particular from investors
- Calls to work together with the ISSB—the ISSB is consulting on its priorities (comments due on 1 September 2023)
- IASB discussed staff comparison with Integrated Reporting Framework and feedback on comparison

Next milestone

- Consider project direction
Primary Financial Statements

Objective

• Improve communication in financial statements
• Focus on information included in the statement of profit or loss

Proposals

• Require additional defined subtotals in statement of profit or loss
• Strengthen requirements for disaggregating information
• Require disclosures about management performance measures

Next milestone

• Issue IFRS Accounting Standard
Subsidiaries without Public Accountability: Disclosures

Objective
• Permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements; this would simplify the preparation of subsidiary financial statements

Current focus
• Discuss proposals in the Exposure Draft to develop a new IFRS Accounting Standard

Next milestone
• Issue IFRS Accounting Standard
Maintenance projects—Examples
Overview: maintenance projects

- Provisions—Targeted Improvements
- Climate-related Risks in Financial Statements
- Annual Improvements
- Amendments to IFRS 9: Classification and Measurement
- International Tax Reform—Pillar Two Model Rules (IFRS for SME)
- Lack of Exchangeability

Publish Exposure Draft
Discuss feedback on Exposure Draft
Decide project direction
Issue amendment
Amendments to IFRS 9: Classification and Measurement

Objective
• Narrow-scope amendments in response to the Post-implementation Review of IFRS 9 Classification and Measurement

Areas of focus
• Derecognition of financial liabilities settled through electronic cash transfers
• Contractual cash flow characteristics of financial assets
• Disclosure requirements for equity instruments for which fair value changes are presented in other comprehensive income

Next milestone
• Feedback on Exposure Draft published 21 March 2023
• Comment period closes 19 July 2023
Objective

- To explore whether and how financial statements can better communicate information about climate-related risks

Areas of focus

- Research the nature and causes of stakeholder concerns about the reporting of climate-related risks in the financial statements
- Consider possible courses of action, if any
- Consider the work of the ISSB to the extent that it applies to the financial statements

Next milestone

- Review research
Connectivity between the IASB and the ISSB
Feedback from consultations

**Importance of connectivity between the Boards**

Stakeholders expressed…

- strong support for IFRS Foundation’s creation of ISSB in part because of opportunity for connectivity between the IASB and ISSB
- but also sought prioritisation and progress of each board’s stand-alone projects
Why is connectivity between the IASB and ISSB important?

Connectivity in PROCESS

Examples:
- Information sharing
- Joint IASB-ISSB meetings

leads to

Connectivity in PRODUCT

Examples:
- Shared concepts (e.g., materiality)
- Complementary requirements (e.g., intangibles)

leads to

Better general purpose financial reporting

Better information for better decisions
What are general purpose financial reports?
IFRS Standards within the broader reporting landscape

- Sustainability-related financial disclosures
- General-purpose financial reports (investor focused)
- Financial statements
- Other corporate reports (broader stakeholder focus)
  - Jurisdictional initiatives
  - GRI
  - Management commentary
  - Integrated report

Other GAAP
Research opportunities in relation to the IASB’s standard-setting agenda
Developing IFRS Accounting Standards

1. Determine which projects to work on
2. Research possible solutions
3. Develops proposals
4. Issue Accounting Standard
5. Support consistent application of Accounting Standard
6. Check Accounting Standard works as intended and maintain it

Research and consultation

How does the IASB use academic research?
When is academic evidence considered?
Intangible Assets—this project will aim to review IAS 38 *Intangible Assets* comprehensively.

Statement of Cash Flows and Related Matters—as part of the research phase on such a project, the IASB will consider whether the project should aim to review IAS 7 *Statement of Cash Flows* comprehensively or make more targeted improvements.

Climate-related Risks in the Financial Statements—this project will consider whether and, if so, what narrow-scope actions might be needed in relation to accounting for climate-related risks in the financial statements.

Operating Segments

Pollutant Pricing Mechanisms
Research possible solutions

The IASB recently considered academic evidence in the research phase of these projects:

- Primary Financial Statements
- Extractive activities
- Business Combinations under Common Control
3 Develop proposals

The Discussion Paper—Business Combinations, Disclosures, Goodwill and Impairment

The IASB considered academic evidence when deliberating the feedback to the Discussion paper.
Check Accounting Standard works as intended and maintain it - Objectives

Literature reviews
- PIR of IFRS 15—Revenue from Contracts with Customers
- PIR of IFRS 9—Impairment
- PIR of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

Conferences
- Joint IASB, FASB and The Accounting Review Conference Nov 2022

Special Issues
- Application and impact of IFRS 9 Financial Instruments with Australian Accounting Review 2022
- Corporate Disclosures with Accounting in Europe and British Accounting Review 2022
Current initiatives

- IASB, EAA and EFRAG online workshop on the Post-implementation Review of IFRS 9-Impairment and IFRS 7-Financial Instruments: Disclosures on 30 June

- Special Issue Application and impact of hedge accounting requirements with Accounting & Finance Deadline 1 Sep 2023
  Watch our webinar for academics on this topic

- 2023 IASB Research Forum in conjunction with European Accounting Review and Accounting in Europe – 2-3 November at IESEG School of Management in Paris

- Open call for papers: 2024 IASB Research Forum with Abacus – 4-5 November at University of Sydney, Australia
Academic engagement

Follow IASB’s work plan changes (https://www.ifrs.org/projects/work-plan/)

Subscribe to https://www.ifrs.org/academics

Send us your research to academics@ifrs.org
### Relevant Research

Research helpful if it provides evidence to assess whether outcomes are in line with expectations

**Sample—Which companies have been affected by the Accounting Standard?**

**Review of**
- Financial statements
- Investor and analyst reports
- Publications of accounting firms
- Academic literature

**Interviews /Surveys /Experiments**
- Preparers, auditors and regulators
- Investors and analysts
Wider stakeholder engagement

Wide, transparent consultation with informed stakeholders enhances the quality of IFRS Standards.

Consultation can be carried out through various means.

Comment letters are the primary tool to obtain feedback. They provide considered, public responses to formal consultations. Comment letters are made public on the relevant project page within five working days of submission.
Write a comment letter to the IASB – demonstrate impact!

Letters are received and posted on public website

Letters are read and their content is ‘coded’

Feedback is analysed and summarised

Analysis and summary is reported to the IASB at a public meeting

IASB deliberates the feedback received

1000+ comment letters can be received over the course of a single project!
What makes a good comment letter?

- Responds to the questions as stated
- Specifies the paragraph(s) to which they relate
- Contains a clear rationale for the views expressed and provides related evidence
- Identifies any wording in the proposals that is difficult to translate, and
- Includes any alternatives that the IASB should consider, if applicable.

Comment letters need not answer all the questions in a consultation to provide helpful input.

Good comment letters by academics include

- Balanced citations of academic literature (both evidence in support and against the views expressed)
- Explanation of why arguments in support outweigh arguments against the views expressed
- Recommendation to the IASB.

14 comment letters from academics were submitted to the Discussion paper: Business Combinations—Disclosures, Goodwill and Impairment
Good comment letters are structured well

• In IFRS Foundation’ experience, most effective comment letters have:
  o A cover page summarizing the main points
  o A detailed analysis in an appendix
  o Clearly separated answers to the questions in the consultation

• When a letter is well structured the strength of the argument and quality of the analysis comes through much more.
Earlier in the process

The IASB seeks feedback from stakeholders throughout the project lifecycle.

<table>
<thead>
<tr>
<th>Research phase</th>
<th>Discussion paper (DP)</th>
<th>Exposure draft (ED)</th>
<th>Final Standard</th>
<th>Implementation activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define the problem</td>
<td>Identify and evaluate options</td>
<td>Evaluate proposed model</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The earlier in the process that we receive input…the more likely it is to affect the outcome!
Follow us online

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IFRS Foundation
International Accounting Standards Board
Disclosure of operating expenses by nature in the notes

### Statement of profit or loss 20X2

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(600)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>2400</td>
</tr>
<tr>
<td>Other income</td>
<td>500</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(400)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(300)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(200)</td>
</tr>
<tr>
<td>Impairment losses on trade</td>
<td>(100)</td>
</tr>
<tr>
<td>receivables</td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>1900</td>
</tr>
</tbody>
</table>

### Disclosure of operating expenses by nature (illustrating depreciation and employee benefits) 20X2

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>(400)</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(150)</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(150)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(50)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(50)</td>
</tr>
<tr>
<td><strong>Employee benefits</strong></td>
<td>(500)</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(200)</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(100)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(150)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(50)</td>
</tr>
</tbody>
</table>

1 Comparative reporting period not depicted in example for simplification purposes
2 Amortisation, impairment losses and write-down of inventory not illustrated
What are MPMs?

<table>
<thead>
<tr>
<th>Performance measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Financial performance measures</strong></td>
</tr>
<tr>
<td>For Example:</td>
</tr>
<tr>
<td>• Number of subscribers</td>
</tr>
<tr>
<td>• Customer satisfaction score</td>
</tr>
<tr>
<td>• Store surface</td>
</tr>
<tr>
<td><strong>Financial performance measures</strong></td>
</tr>
<tr>
<td><strong>(Sub)totals of income and expenses</strong></td>
</tr>
<tr>
<td><strong>IFRS-Specified</strong></td>
</tr>
<tr>
<td>For example:</td>
</tr>
<tr>
<td>• Operating profit</td>
</tr>
<tr>
<td>• Operating profit before depreciation amortisation and specified impairments</td>
</tr>
<tr>
<td><strong>MPMs</strong></td>
</tr>
<tr>
<td>For example:</td>
</tr>
<tr>
<td>• Adjusted profit or loss</td>
</tr>
<tr>
<td>• Adjusted operating profit</td>
</tr>
<tr>
<td>• Adjusted EBITDA</td>
</tr>
<tr>
<td><strong>Other measures that are not subtotals of income/expenses</strong></td>
</tr>
<tr>
<td>For example:</td>
</tr>
<tr>
<td>• Free cash flow</td>
</tr>
<tr>
<td>• Return on equity</td>
</tr>
<tr>
<td>• Net debt</td>
</tr>
<tr>
<td>• Same-store sales</td>
</tr>
</tbody>
</table>
Applying the 3 steps: Example 2—Net zero commitment

In 20X0, a manufacturer publicly announces its commitment to become ‘net zero’ by 20X5.

It announces it will:

a) immediately start changing its processes with the aim of reducing its greenhouse gas emissions by at least 60% by 20X5; and

b) in 20X5 and thereafter, offset any remaining emissions by paying the forestry commissions of specified countries to plant trees.

Is the present obligation criterion satisfied at 31 December 20X0?