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International Accounting Standards Board
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Re.: IASB Request for Information: Third Agenda Consultation

Dear Mr Barckow

The IDW is pleased to respond IASB's Request for Information: Third Agenda Consultation.

We welcome the fact that the IASB's work plan is subject to a comprehensive review every five years and that we are given the opportunity to inform the IASB as to what we consider to be the most urgent and significant issues and projects that the Board should address.

Although five years is a relatively long period of time, it does give the IASB the opportunity to start, continue and complete several projects. Therefore, the IASB should limit its selection to necessary and urgent projects that can be completed within a reasonable timeframe (reflecting available resources).

In our view, the Board's current agenda contains some important projects that need to be continued and finalised (e.g., Business Combinations under Common Control, Goodwill and Impairment). All these projects will continue to tie up considerable resources of the IASB in the immediate future.

Assuming the current level of resources remains substantially unchanged throughout 2022-2026, we consider the IASB's intention to start an additional two or three more large projects very ambitious. Furthermore, we believe that in the coming years the IASB will also increasingly need to address issues of interconnectivity between financial and non-financial/sustainable reporting, partly due to the anticipated establishment of an International Sustainability Standards

GESCHÄFTSFÜHRENDER VORSTAND:
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Board (ISSB) under the governance structure of the IFRS Foundation. Sufficient time and capacity should be planned to allow this. Moreover, we believe that it is also important for the IASB to leave some capacity free in order to be able to react to unforeseen developments and take on urgent projects in the short term, should this become necessary.

We also note that resource constraints do not apply solely to the IASB, but also to the entire corporate reporting ecosystem. To secure high-quality feedback as part of the IASB's well-established due process, the Board must ensure all stakeholders have a reasonable chance of providing input on the IASB's material, for example by considering the pace at which it issues material for comment. Their feedback ultimately contributes both to the quality of the IASB's standards and other documents, but also to wider acceptance within the corporate reporting community.

Given the limited resources and the current dynamics in corporate reporting, we would also encourage the IASB to consider deleting projects from its active, inactive and research agenda, and to establish suitable criteria for doing so.

The IDW generally agrees with the seven criteria for deciding whether to add a potential project to the Board's work plan as proposed. However, if – going forward – the IASB intends to apply them to every future assessment of whether a financial reporting issue should be put on the agenda it would be appropriate to amend paragraph 5.4 of the IFRS Foundation Due Process Handbook accordingly. We note that currently, only four of the seven criteria can be found there.

Regarding the Board's question of which financial reporting issues should be put on the agenda for the years 2022-2026, the IDW advocates adding the following two large new projects:

- 1) Intangible assets (including cryptocurrencies and related transactions)
- 2) Consideration of ESG-related aspects in IFRS financial statements (i.e., for example, climate-related risks and pollutant pricing mechanisms).

From our point of view, both projects are both significant and urgent.

Firstly, we believe that IAS 38 urgently needs a comprehensive revision. In our opinion, the standard is so outdated, that it does not adequately address many transactions and values resulting from more recent technical progress (e.g., 'digitalisation' and 'industry 4.0').

Secondly, we believe that the IASB should take a close look at climate-related aspects in IFRS financial statements. From an investors' point of view, in particular, this issue is of highly important. Given current socio-economic developments (and potential future discussions with the ISSB), we believe that the IASB must urgently review whether climate-related aspects are adequately presented

in IFRS financial statements or whether there is a need for further action – beyond the publication of the educational material in 2020. Moreover, accounting requirements for different types of pollutant pricing mechanisms are currently lacking.

In addition, we would like to comment on the specific questions posed in the Request for Information as follows:

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?*

In general, we agree with the strategic direction and the level of focus for each of the Board's six main activities. However, we have a few comments on the IASB's tasks and identified priorities in the context of some of these main activities.

Developing new IFRS Standards and major amendments to IFRS Standards

From our point of view, it is crucial that the IASB continues to progress certain selected major projects addressing fundamental questions and conceptual accounting issues, thus further developing the set of IFRS Standards.

On the one hand, the Board needs to both close existing gaps within the IFRS and address known conceptual weaknesses and inconsistencies – which cannot be remedied by minor or narrow-scope amendments. Typical examples include: (1) the current research project on *'Business Combinations under Common Control'*, which will close a long-standing regulatory gap regarding the accounting treatment of common control transactions, and (2) the research project on the *'Equity Method'*, which repeatedly causes issues in its practical application.

On the other hand, accounting must keep pace with current developments in the political, social and economic environment so that e.g., new types of transactions resulting from technical progress that did not exist even a few years ago, can also be adequately reflected in financial reporting. In this context, we consider a fundamental review of IAS 38, in particular, to be essential.

Usually, such standard-setting projects are comprehensive and thus very time-consuming and resource-intensive. In addition to the development of adequate standards and guidance, often numerous cross-cutting and sweep issues would also have to be considered. A lot of outreach activities have to be undertaken. This notwithstanding, we believe that such projects are of enormous importance to the achievement of the IASB's overall objective, i.e., the development of a relevant and high-quality set of IFRS Standards that are globally accepted. In this context, we also suggest the IASB improve its process for identifying and resolving cross-cutting issues (e.g., any impact of its new standards on existing guidance). In the aftermath of the recent wave of new major standards it became clear that subsequent to the initial phase of questions concerning the new standard itself, a second wave of questions emerged mainly focusing on the interactions between different standards. In many cases, these issues were passed to the IFRS IC, who, in many cases, noted that it was not in a position to resolve the issue since it required changes to the standards. Potentially this will impair trust in the quality of IFRS and be frustrating to many stakeholders. A more structured process around cross-cutting issues will help to mitigate this issue.

We consider the current focus of 40-45% of the IASB's total resources on this main activity to be appropriate.

As numerous Post-Implementation Reviews (PiR), e.g., of IFRS 9, IFRS 15 and IFRS 16, are due soon, many of the resources available for this main activity are already committed, and not available for new standard-setting projects over the next few years. Therefore, when considering how many resources to spend on the PiR in question, we urge the Board to ensure a reasonable cost-benefit ratio. In addition, it might be useful to manage some stakeholders' expectations of a PiR, by clarifying that a PiR generally does not involve calling a particular standard's principles into question nor is it designed to be a major overhaul of the guidance.

Stakeholder engagement

We agree that obtaining views as part of the standard-setting process is important to support the development of high-quality financial reporting requirements and promote acceptance of the standards. In this context, we consider the current level of focus of 20%-25% to be appropriate.

However, we do not consider it useful to increase this current level of focus further i.e., by greater engagement with a broader range of stakeholders through standing consultative groups, informal dialogue and similar events. Experience shows that stakeholders have limited capacity to engage intensively with the IASB's pronouncements at an early stage (e.g., in the research phase), in particular when they are issued at high frequency. We refer to our comment above on the constraints in the corporate reporting ecosystem. Any marginal benefit is therefore likely to be rather low, such that the IASB's resources would be better used elsewhere. The IASB should also take a look into leveraging technology to increase stakeholder involvement, in particular that of users, who ultimately are the beneficiaries of IFRS financial statements.

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?*

In general, we agree with the seven criteria for deciding whether a potential project should be put on the agenda as proposed.

In our view, the decision on whether to add a certain project to the IASB's work plan should always be made on a case-by-case basis, carefully weighing up the proposed criteria. One criterion alone should not be the deciding factor.

It is understandable that the needs of investors, as primary users of IFRS financial statements, must be given special consideration. However, in our view, the capacities of both the board and other stakeholder groups (e.g., preparers, auditors, etc.) should also be taken into account, both in terms of their contributing comments under the due process and implementing any final pronouncements. Furthermore, the expected benefits in terms of the quality of the standards

should be assessed from the perspective of all stakeholders - not just individual interests.

Finally, we would like to point out that if – going forward – the IASB intends always to apply these criteria in the future to assess whether a financial reporting issue is placed on the agenda, paragraph 5.4 of the IFRS Foundation Due Process Handbook should be amended accordingly. Currently, only four of the seven criteria proposed are included.

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.*

Assuming the current level of focus for activities related to new IFRS Standards and major amendments to IFRS Standards remains unchanged, we consider the IASB's intention to start two or three new large projects ambitious for the following reasons:

- Firstly, some of the projects included in the current work plan are quite significant from our point of view and thus need to be pursued. With regard to the status, these projects will continue to tie up a considerable amount of the IASB's resources (e.g., Business Combinations under Common Control, Equity Method).

- Further, following the anticipated establishment of an International Sustainability Standards Board (ISSB) under the IFRS Foundation's governance structure, the IASB will also increasingly have to address issues of interconnectivity between financial and non-financial/sustainability reporting in the coming years. Sufficient time and capacities should be planned to allow for this.

We would like to point out that the first questions concerning the consideration of environmental, social and governance (ESG) factors in the context of financial reporting have already emerged in practice. One example is the application of IFRS 9 with regard to the ever-growing market for 'green' financial instruments (such as green bonds). In our view, the IASB should clarify whether the increasing number of financial instruments whose contractual cash flows are linked to one or more ESG factors are, in principle, not eligible to fulfil the SPPI-criterion of IFRS 9 or whether certain of these contractual arrangements may be probably considered as 'basic lending'.¹

The upcoming PiR of IFRS 9 should be suitable for addressing this issue and filling the gap in existing regulations. However, in view of the current rapid European, but also global developments in this area, the finalisation of a possible revision of the standard subsequent to the PiR comes too late. In our view, in the short term it would be desirable to include a separate project aimed towards a limited scope amendment of IFRS 9 in the IASB's work plan.

- We also believe that the IASB should leave spare capacity to be able to react to unforeseen developments and take on urgent projects, as necessary.

The importance of having such free capacity became clear recently when the IASB had to react to the Coronavirus pandemic at short notice and introduce temporary relief for lessees to address pandemic-related rent concessions under certain conditions.

Given the Board's limited resources and the announced inclusion of at least two or three large new projects in the work plan for 2022-2026, we recommend that the IASB consider whether:

- all remaining research projects that are in the pipeline and other ongoing projects that are still at an early stage (i.e., research or outreach phase) must necessarily be included in the new work plan.

¹ For more details, please find enclosed the *IDW Knowledge Paper – Accounting for 'green' financing*, of 1 July 2021.

In our view, a re-evaluation based on the feedback received from this agenda consultation would be helpful and, if necessary, some of these projects should be cancelled or postponed. To ensure transparency around this, the IASB should formalise a process and develop corresponding criteria to then be added to the Due Process Handbook.

- the level of focus and the planned resources for the upcoming PiRs is appropriate or should be adjusted. (We refer to our answer to question 1).

The IDW advocates the addition of the following two large new projects to the IASB's agenda for the years 2022-2026:

- 1) Intangible assets (including cryptocurrencies and related transactions)
- 2) Consideration of ESG-related aspects in IFRS financial statements (i.e., for example, climate-related risks and pollutant pricing mechanisms).

Both project proposals would address current developments in the political, social, and economic environment. The need to address accounting for intangible assets primarily stems from technical progress and the resulting changes in business models, whilst the need to take greater account of climate-related aspects in financial reporting stems from socio-political developments, including a drive towards a more sustainable economy and society in which people want to live. This development has gained increasing momentum in recent years and is likely to have a profound impact on corporate reporting in its entirety (i.e., both financial reporting and sustainability reporting) in the future.

Project proposal 1: Intangible Assets

The Board should undertake a comprehensive review of IAS 38. In our view, the standard is now outdated such that it no longer provides useful information in respect of many new types of transactions and values. The standard does not adequately address the diverse issues associated with 'digitalisation' and 'industry 4.0'. For example, it is unclear how the financial statements should deal with cloud computing, agile software programming or artificial intelligence used by companies.

On the other hand, the standard does currently cover certain transactions and assets that did not exist at the time the standard was developed but whose inclusion in its scope – or at least the resulting accounting treatment – is questionable. This includes, for example, the accounting for intangible assets that are held for investment purposes or are traded, such as cryptocurrencies or emission rights.

In recent decades, the importance of intangible assets has steadily increased. This is reflected both in the significantly larger share of intangible assets within the total assets accounted for by many companies and the increasing number of

value factors of a company which are not recognised but play an important role in value creation (e.g., brands, efficient business processes and Big Data). In our view, this is one reason the gap between companies' book values depicted in their balance sheets (equity) and their market values on the capital market (market capitalisation) is constantly widening. Therefore, we believe that in the context of such a project, there is a need to discuss both the definition of intangible assets and which approaches – beyond a capitalisation requirement for internally generated intangible assets – are most suitable for closing the book value-market value gap.

In addition, intangible assets are subject to considerably greater valuation uncertainties or valuation leeway than tangible assets, which makes it more difficult to value them objectively; thus, limiting the comparison and usability of such information for a third party (e.g., an investor). Therefore, it will be necessary to clarify whether and, if so, how the accounting requirements for intangible assets can be reasonably adjusted.

In the context of this large project, we also suggest clarifying the accounting for cryptocurrencies and crypto-assets and crypto-liabilities (i.e., different types of tokens) from the perspective of both the issuer and the holder. In our view, the revision of IAS 38 might form a basis for determining the consequences for an appropriate accounting for cryptocurrencies and crypto-assets.

Project proposal 2: Consideration of ESG-related aspects in IFRS financial statements

The IDW has welcomed the IFRS Foundation's publication of educational material on the effects of climate-related matters on financial statements in November 2020. From our point of view, it is important to demonstrate that information on climate-related aspects is not only a matter for sustainability reporting but can also have a material effect on the financial statements. We believe that the publication of the educational material was a good first step in raising awareness of the issue among the diverse stakeholder groups. However, in our view, more detailed application guidelines (ideally supplemented by examples) are needed.

Furthermore, we are convinced that very soon not only material effects of environmental aspects will be within the focus of financial reporting, but also the effects of social aspects and aspects of corporate governance. For this reason, we support expanding the scope of the project to include due consideration of all ESG-related aspects in IFRS financial statements.

However, the educational material published in November 2020 only focused on the appropriate application of existing IFRS. We believe that as part of a more in-depth look at the impact of all ESG factors on financial reporting, it may also

become necessary to make some amendments to standards and possibly even to introduce new accounting requirements.

One example of a new accounting requirement needed in the context of considering ESG aspects in IFRS financial statements relates to the accounting treatment of pollutant pricing mechanisms.

In our view, a potential project on the consideration of ESG-related aspects in IFRS financial statements should include developing accounting requirements for various types of pollutant pricing mechanisms. They are becoming increasingly important, and we agree that the lack of accounting requirements in IFRS standards for these mechanisms has led to different practices in reporting their impact on companies.

Please find below our prioritisation of the potential agenda projects described in Appendix B:

Nr.	Potential project	Priority	Comments
1	Borrowing costs	low	
2	Climate-related risks	high	We refer to our answer to Question 3.
3	Commodity transactions	low	
4	Cryptocurrencies and related transactions	high	We refer to our answer to Question 3.
5	Discontinued operations and disposal groups	low	
6	Discount rates	low	
7	Employee benefits	medium	The Board should move ahead with this project as soon as appropriate resources are available.
8	Expenses – Inventory and cost of sales	low	
9	Foreign currencies	low	
10	Going concern	low	
11	Government grants	low	

Nr.	Potential project	Priority	Comments
12	Income taxes	low	
13	Inflation	low	This currently inactive project should be removed from the re-search programme.
14	Intangible assets	high	We refer to our answer to Question 3
15	Interim financial reporting	low	
16	Negative interest rates	low	
17	Operating segments	low	
18	Other comprehensive income	low	
19	Pollutant pricing mechanisms	high	We refer to our answer to Question 3.
20	Separate financial statements	low	
21	Statement of cash flows and related matters	medium	Of all the projects that we have classified as medium priority, a comprehensive revision of IAS 7 would be the most important project in our view. IAS 7 is an old standard whose conceptual weaknesses become apparent e.g., in the questions regularly addressed to the IFRS IC. Moreover, the standard has also caused problems within the current 'Primary Financial Statements' project.
22	Variable and contingent consideration	medium	

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We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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