ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

24 September 2021

Dr Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

***(By online submission)***

Dear Andreas

**RESPONSE TO REQUEST FOR INFORMATION ON THIRD AGENDA CONSULTATION**

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Request for Information on *Third Agenda Consultation* (the RFI) issued by the International Accounting Standards Board (the IASB or the Board) in March 2021.

The main activities and their respective level of focus as described in the RFI reflect the relevant strategic direction and an overall balance that is about right within the current scope of the IASB's work. That said, it is important that any capacity from the IASB to support any interaction with the work of a new sustainability standards board does not affect the IASB's capacity to deliver on its work plan. It is also timely for the IASB to give more prominence to the effect of digitalisation on its standard-setting activities, in tandem with technological advancements in the modern economy.

The IASB has identified suitable criteria for assessing projects to be added to its work plan, which are either consistent with the Due Process Handbook or already used in such an assessment. In prioritising particular projects over other research pipeline projects that stakeholders had identified as priorities, the IASB can further improve transparency by explaining how it determines the relative priorities.

It is important that the IASB continues prioritising the completion of projects on its current work plan and any unexpected but urgent projects that may emerge, instead of starting work on new projects concurrently that may lead to inefficient starts and stops. A long list of active projects at any point in time may put a strain on the limited resources of standard setters and other stakeholders, thereby preventing the IASB from receiving timely and/or quality feedback from a broad group of stakeholders as each project progresses.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

Our comments on the specific questions in the RFI are as follows:

| **Question 1—Strategic direction and balance of the Board's activities** |
|---|
| The Board's main activities include:<br>• developing new IFRS Standards and major amendments to IFRS Standards;<br>• maintaining IFRS Standards and supporting their consistent application;<br>• developing and maintaining the *IFRS for SMEs* Standard;<br>• supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;<br>• improving the understandability and accessibility of the Standards; and<br>• engaging with stakeholders.<br><br>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.<br>(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.<br>(b) Should the Board undertake any other activities within the current scope of its work? |

In our view, the main activities and the current level of focus for each activity as described in the RFI reflect the relevant strategic direction and an overall balance that is about right within the current scope of the IASB's work.

***Overall pace and level of resources***

During the last cycle, the IASB has reasonably balanced the pace of its activities, and the resulting changes to financial reporting. The IASB was able to deliver improvements to financial reporting and bring various projects to an advance stage without significant delays, while addressing unexpected urgent issues on a timely basis. If the IASB were to significantly increase its resources, and consequently the pace of activities and changes to financial reporting, jurisdictions might not have sufficient capacity to engage with the IASB and their stakeholders, provide timely and/or quality feedback as the project progresses, and implement the resulting changes to financial reporting.

Should the IFRS Foundation decide to establish a new independent board to set sustainability reporting standards, there would be some degree of interaction between the work of that board and the IASB's activities. At this point, it is unclear the extent of which the IASB's work on IFRS Standards would be affected by potential interaction with that board's work on sustainability reporting standards, such as climate-related risks disclosure. It is important that any capacity from the IASB to support such interaction does not affect the IASB's capacity to deliver on its work plan.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

In tandem with technological advancements in the modern economy, there are expected changes to what, how and when information is communicated to and consumed by users of financial statements. Such changes depend on common user information needs, and also the auditability and enforceability of the information necessary to meet those needs. Although the traditional boundary of financial statements may not change during the next cycle, it is timely for the IASB to give more prominence to the effect of digitalisation on its standard-setting activities, including how the IASB conducts those activities and how IFRS Standards can evolve to continue providing financial information that meet common user information needs. For example, the IASB can consider the effect of digitalisation in prioritising projects that are increasingly important to the modern technology and information-based economy, and in developing new requirements in IFRS Standards.

***Level of focus for each activity***

Retaining the current level of focus for each activity has the potential to enable the IASB to address known gaps and deficiencies in IFRS Standards and to be responsive to application and emerging issues, while continuing to maintain the IFRS Taxonomy that facilitates digital communication and consumption of financial information produced applying the Standards.

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

In our view, there is room for some flexibility in the timing of post-implementation reviews of new IFRS Standards and major amendments to the Standards.

The Due Process Handbook specifies that a post-implementation review normally begins after the new requirements have been applied internationally for two years, which is generally about 30–36 months after the effective date. Nevertheless, each Standard differs from another in terms of the time needed for practice to mature. There is a need for the IASB to allow sufficient knowledge and experience to develop before undertaking the review, without causing unnecessary delay to any changes necessary to address unexpected application challenges and cost-benefit outcomes.

Moreover, there are competing priorities between post-implementation reviews to ensure that a new Standard is meeting its objectives, and research or standard-setting projects to address known gaps or deficiencies in the Standards. It is important that the IASB works on those research or standard-setting projects to maintain the relevance of IFRS Standards, and paces its work such that those projects would not cumulate to a series of new IFRS Standards or major amendments with similar effective dates that could put a strain on implementation efforts.

*Developing and maintaining the IFRS for SMEs Standard*

There appears to be no compelling reason to significantly increase the level of focus on the *IFRS for SMEs* Standard, even though it is currently already very low relative to the range of activities relating to IFRS Standards.

Notably, the IASB is performing its second comprehensive review of the *IFRS for SMEs* Standard, which covers the strategic direction such as whether, how and when the *IFRS for*

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

*SMEs* Standard should be aligned with IFRS Standards. Despite so, the IASB has received fewer number of comment letters than what would have been typically received for consultation documents on major amendments to IFRS Standards.

Furthermore, according to the 166 IFRS profiles published on the IFRS Foundation website, the *IFRS for SMEs* Standard is:

- Required or permitted in more than 80 jurisdictions. However, it is unclear how widely the Standard is actually applied in these jurisdictions.
- Not used or not under consideration in about 70 jurisdictions.

Therefore, it is unclear whether the long-term costs of maintaining the *IFRS for SMEs* Standard would be justified by the benefits, for example, to entities that are seeking consistency with their larger peers or potentially migrating in time to IFRS Standards. Moreover, should the IASB finalise its project on *Disclosure Initiative—Subsidiaries that are SMEs*, some jurisdictions might decide to expand the scope of the reduced disclosure requirements to include other non-publicly accountable entities, for the purpose of their national GAAP that is based on IFRS Standards. Such a development could dilute the incentive for jurisdictions to adopt, and eligible entities to apply, the *IFRS for SMEs* Standard.

At some point, the IASB may need to consider the relative benefits and costs of maintaining the *IFRS for SMEs* Standard. The IASB can undertake a study on how widely the *IFRS for SMEs* Standard is applied in practice, and whether there are common issues that impede its broader application. The findings can inform the IASB's deliberation on the strategic direction for the *IFRS for SMEs* Standard. In the meantime, the IASB may explore initiatives that are necessary to increase the adoption of the *IFRS for SMEs* Standard among jurisdictions in which it is not required or permitted, and importantly, to increase the level of use in jurisdictions where its application is voluntary. It supports deepening of the collective knowledge and experience in the *IFRS for SMEs* Standard globally, which in turn enables the IASB to receive quality feedback on proposals from a broader group of stakeholders and timely submission of application and emerging issues that need to be addressed to improve consistent application.

| **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.<br>(a) Do you think the Board has identified the right criteria to use? Why or why not?<br>(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why? |

The IASB has identified suitable criteria for assessing projects to be added to its work plan. They are consistent with the criteria for deciding whether a proposed agenda item will address users' needs as described in paragraph 5.4 of the Due Process Handbook, or are

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

otherwise currently considered by the IASB for such an assessment which have worked well generally.

Nevertheless, we note that:

(a) Criterion 5—*The potential project's interaction with other projects on the work plan*: Even if a potential project has interaction with other projects on the work plan, the IASB's decision on whether to add the project to its work plan may differ amongst projects depending on circumstances. Specifically, the IASB needs to consider whether and when working on the related projects concurrently would be more appropriate and efficient, rather than a phase approach under which the decisions made for one project might drive the work on the other project.

(b) Criterion 6—*The complexity and feasibility of the potential project and its solutions*: The criterion may lead to a circular assessment of *whether* a potential project should be added to the work plan. The Due Process Handbook requires the IASB to be satisfied that it has sufficient information and understands the problem and the potential solutions well enough, such as from findings from its research programme, before adding a standard-setting project to the work plan. However, a consideration of the criterion may prevent that project from being added to the research programme in the first place. That said, the complexity of the potential project and its solutions, together with criterion 7—*The capacity of the Board and its stakeholders to make timely progress on the potential project,* collectively may affect the IASB's decision on *when* a potential project is added to its work plan.

In determining *when* a potential project is added to its work plan, we are supportive of the IASB considering the work streams of other standard setters, including any proactive work, to the extent that the findings may inform its work on that project.

We agree that the relative importance of a criterion can vary depending on the circumstances surrounding a potential project. Over the course of each cycle, the IASB needs to prioritise particular project(s) over other research pipeline projects that stakeholders had identified as priorities. Any potential projects that were not started during a cycle would be considered for prioritisation with other potential projects for the next cycle, and the same scenario could repeat. While the relative priorities do change with circumstances, it is important to provide transparency about the different priorities amongst research pipeline projects, particularly for stakeholders that had prioritised projects that did not start during the cycle. For example, the IASB could explain how it has determined the relative priorities, such as which criteria were used for the various projects, whether a criterion was given more weightage for particular projects than others, and why.

| **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.<br>(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 |

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

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.

***Priority of currently active projects***

It is important that the IASB continues prioritising the completion of projects on its current work plan for the reasons as described in paragraph 19 of the RFI, together with any unexpected but urgent projects that may emerge.

In doing so, the IASB should add new projects to its work plan when one or more existing projects are near completion, instead of starting work on new projects concurrently. The IASB can still make good progress on the new projects over the cycle, by leveraging on the proactive work already performed by various regional and national standard-setting bodies that has the potential to shorten the project life cycle.

In contrast, the approach of starting work on new projects concurrently requires an allocation of limited resources across more active projects, which may prolong the project life cycle and lead to inefficient starts and stops if circumstances change. Moreover, a long list of active projects at any point in time may put a strain on the limited resources of standard setters and other stakeholders, thereby preventing the IASB from receiving timely and/or quality feedback from a broad group of stakeholders as each project progresses.

***Potential projects that should be given priority***

High priority should be given to the below list of potential projects, arranged in alphabetical order:

(a) Borrowing costs

IAS 23 *Borrowing Costs* specifies that an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is defined as an asset that necessarily takes a *substantial period of time* to get ready for its intended use or *sale*.

The italicised wording in the definition of 'qualifying asset' may result in accounting outcomes that are neither useful nor easily understandable. For example, an entity is prohibited from

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

capitalising borrowing costs incurred in the construction of an asset for sale to customers that takes a substantial period of time—such as unsold development property, simply because the asset is ready for its intended sale from which revenue is to be recognised as the asset is being constructed. As a result, the entity would account for capitalisation of borrowing costs in a way that is fundamentally different from other costs that are directly attributable to bringing the qualifying asset to the necessary location and condition.

Such accounting outcomes arise partly because the principle in IAS 23 ceases to be compatible with the new concepts underlying the recognition of revenue and associated costs in IFRS 15 *Revenue from Contracts with Customers*. Therefore, the IASB could undertake a targeted project to improve aspects of IAS 23 to address the identified issues.

(b) Climate-related risks

Investors and other stakeholders place increasing importance on managing and reporting the risks—both physical and transition—and effects of climate change on an entity's business model and performance. Financial statements need to evolve to meet the information needs of those stakeholders.

Although IFRS Standards do not refer explicitly to climate-related matters, entities have to consider the risks and effects of climate change in applying the requirements in the Standards, as they do for any relevant facts and circumstances. It is timely for the IASB to explore potential enhancements to those requirements to improve the way and consistency in which entities consider and report those risks and effects on their financial position, financial performance and cash flows within the boundary of financial statements. For example, the IASB could consider the examples described in paragraph B9 of the RFI, and the topics discussed in its education material—*Effects of climate-related matters on financial statements*, as a starting point for further work.

(c) Commodity transactions

Commodities are held or used for various purposes and take a variety of forms. However, IFRS Standards provide only limited specific requirements for some types of commodity transactions. The lack of sufficient requirements may lead to diversity in practice, thereby affecting the quality and comparability of information that entities provide about commodity transactions.

Therefore, the IASB could undertake a project to develop an IFRS Standard that specifically applies to transactions involving commodities. The project could also consider developing additional guidance for specific requirements in IFRS 9 *Financial Instruments* that are particularly relevant for commodity contracts, such as in the areas of determining whether the contract is within the scope of IFRS 9 or when the contract satisfies or no longer satisfies the own use exemption after initial recognition, and accounting for 'day 1' gains/losses for long-term off-take commodity contracts.

(d) Cryptographic assets and related transactions

Cryptocurrencies are becoming more prevalent, with increasing prospects of going mainstream. However, applying the accounting required by IAS 38 *Intangible Assets* to cryptocurrencies does not always provide useful information, particularly in the areas of when and how fair value measurement is to be applied to cryptocurrencies. This is because cryptocurrencies do not share many similar economic characteristics with the conventional intangible assets that IAS 38 was designed to address.

Furthermore, other forms of cryptographic assets are being developed and issued for a variety of purposes. Such assets are becoming increasingly popular. Applying existing IFRS Standards to these cryptographic assets may not result in useful information, due to the nature of such assets and the purpose for which they are being held.

Accordingly, the IASB could undertake a project to develop accounting requirements for cryptographic assets and related transactions, from both the holder's and the issuer's perspectives.

(e) Discount rates

Present value measurement techniques are widely used in applying IFRS Standards. However, IFRS Standards contain variations in discount-rate requirements, such as the inputs to be included in determining the discount rates, resulting in varied discount rates across the Standards. Furthermore, some older IFRS Standards lack clear guidance on which inputs should be included or what those inputs are intended to reflect. Consequently, stakeholders often fail to appreciate the reasons for the variations in discount rates.

The IASB could undertake a project to reconsider the discount-rate requirements in all IFRS Standards with the objective of eliminating variations, when appropriate. The project could also consider whether additional guidance should be developed to guide the determination of commonly used discount rates.

(f) Going concern

IFRS Standards do not specify the basis for recognition, measurement and presentation, when an entity ceases to prepare its financial statements on a going concern basis. The requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* may not help the entity to develop appropriate accounting policies because the requirements in IFRS Standards and the concepts in the *Conceptual Framework for Financial Reporting* were developed on the basis that the going concern assumption is appropriate.

Addressing this gap in IFRS Standards would improve the quality and comparability of information provided by the financial statements, which is particularly important to existing shareholders, lenders and other creditors in assessing the entity's future cash flows over the period up to liquidation. Therefore, the IASB could undertake a project to develop requirements that specify the basis of accounting when an entity is no longer a going concern.

(g) Intangible assets

Intangible resources are increasingly crucial to the modern technology and information-based economy. Significant investments have led to new types of, and substantial growth in, intangible resources and related transactions, and the trend is set to continue as technology advances. The phenomenon is fuelling acquisitions and driving a record amount of goodwill arising from business combinations.

However, financial statements omit internally-generated goodwill, relationships and intangible resources arising from the research phase as a result of various recognition and measurement challenges. It leads to a loss of useful information and a lack of comparability between entities that grow organically and entities that grow through acquisitions, which cannot be adequately addressed through narrative financial reporting outside the financial statements. The fundamentally different accounting between internally-generated goodwill and acquired goodwill appears to be a root cause of the widely-debated issues surrounding the subsequent accounting for goodwill, including the non-timely recognition of impairment losses.

Moreover, the measurement required by IAS 38 does not always provide useful information about new intangible resources and related transactions that were not envisaged when the Standard was developed—for example, cryptocurrencies held for investment and emission rights that are traded as discussed in (d) and (h), respectively.

Therefore, the IASB could undertake a project to explore the recognition and measurement of internally-generated goodwill and other intangible assets.

(h) Pollutant pricing mechanisms

As jurisdictions transition towards net zero emissions in an effort to manage climate change, pollutant pricing mechanisms such as emission trading schemes may become more prevalent. Those mechanisms may give rise to specific accounting issues such as those listed in paragraph B69 of the RFI, which are expected to have a material effect on entities affected by such mechanisms.

IFRS Standards do not specifically deal with those mechanisms, and the lack of accounting requirements may affect the quality and comparability of information that entities provide about the effects of such mechanisms. Therefore, the IASB could undertake a project to develop accounting requirements for the most common types of pollutant pricing mechanisms.

The project scope could also include emission rights that are held solely for investment purposes by investors, as such rights are gaining prominence as a potentially attractive asset class.

| **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 do not have other comments on the IASB's activities and work plan.

We hope that our comments will contribute to the IASB's deliberation on the RFI. Should you require any further clarification, please contact our project managers Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg and Junwei Quek at Quek_Junwei@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council