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September 16, 2021

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Comments on “Request for Information- Third Agenda Consultation”

Dear Dr. Barckow,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the “Request for Information- Third Agenda Consultation”. Principal authors of this comment letter were Erich Kandler, Gerhard Margetich, Gerhard Prachner, Anita Seiwald, and Alfred Wagenhofer. In order to ensure a balanced Austrian view on the consultation, the professional background of these authors is diverse.

Best regards,
Romuald Bertl
Chairman

Comments on “Request for Information- Third Agenda Consultation”

GENERAL COMMENTS

AFRAC appreciates the Board’s work and also the numerous opportunities for interaction with Board members and staff. This exchange of experiences and ideas is very helpful in promoting high-quality financial reporting in Austria. We are happy to comment on the Third Agenda Consultation.

AFRAC generally agrees with the Board’s views as included in the RFI document. We have few comments on the allocation of capacity to the main activities. We also generally agree with the criteria for assessing the priority of financial reporting issues. Our focus in the comment letter is on the prioritisation of possible future financial reporting issues the Board could or should add to its work plan.

Specific comments on the Request are below.

SPECIFIC COMMENTS

QUESTION 1 - STRATEGIC DIRECTION AND BALANCE OF THE BOARD’S 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.

We generally agree with the current level of focus for the activities.

However, we have two comments and suggestions.

1. We understand the purpose of developing and maintaining IFRS for SMEs. From an Austrian perspective, there is little practical relevance and it is not clear whether this standard can be applied globally in a consistent manner. We understand that many countries allow application of IFRS for SMEs. But we also note that IFRS for SMEs are not compatible with full IFRS. We worry that such discrepancies undermine the brand perception of IFRS as global high-quality standards. We suggest considering the future of IFRS for SMEs as a strategic issue and, perhaps, reorienting the Board’s capacities more towards core activities.

2. We appreciate that supporting digital financial reporting is an increasingly important activity and that an official IFRS Taxonomy adds applicability and credibility to the classification system. However, digitalisation is neither the IASB’s key task nor primary expertise. Once the structure of the Taxonomy has been built, Taxonomy related issues should fall in the scope of developing standards and supporting the consistent application of IFRS. We believe the Board’s efforts should be directed towards ensuring that new standards are compatible with the requirements of digital reporting and consider how the principles-based standard setting is in line with the very specific, rules-based requirements of digitalization.

(b) Should the Board undertake any other activities within the current scope of its work?

We see no pressing additional activities that the board should undertake in the next agenda period, other than those mentioned in the answers to Questions 2, 3 and 4 below.

QUESTION 2 - CRITERIA FOR ASSESSING THE PRIORITY OF FINANCIAL REPORTING ISSUES THAT COULD BE ADDED TO THE BOARD'S WORK PLAN

(a) Do you think the Board has identified the right criteria to use? Why or why not?

We agree with the proposed criteria.

However, we see a conceptual distinction between the criteria 1–6 and criterion 7. The first six criteria are related to the contents of a potential new project and are judged independently of other potential projects. In contrast, criterion 7 can only be evaluated in relation to all other projects because there is limited capacity of the Board, and the Board must rank the projects based on the other criteria relative to each other. We suggest to acknowledge this two-step process explicitly and to amend the criteria as stated in the Due Process Handbook.

Criterion 7 should also include revisiting the then current work plan to determine whether a current project should be put on hold or even stopped to provide capacity to new, more important projects. For example, a project may turn out to become more complex or complicated after it was started. Thus criterion 7 should be applied to both, current and proposed projects, together.

(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

No, we see no need to consider other criteria.

QUESTION 3 - 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.

Topic	Prioritisation	Comments
Borrowing costs	Low	This is not widely important and does not warrant a separate project or topic.
Climate-related risks	Medium	<p>Given that a new ISSB will be created within the IFRS Foundation, there will clearly be a need to align their future IFRS sustainability standards with IFRS to avoid different and inconsistent requirements, or “double-reporting” for entities in various mandatory reports. This holds true for climate-related risk disclosures, but more generally, also for other sustainability risks.</p> <p>Thus, we see a need to broaden the proposed topic to sustainability risks, but no particularly high prioritisation before the ISSB develops its standards.</p>
Commodity transactions	Low	Although additional guidance for specific transactions could be helpful, there is also high risk of unintended consequences. We therefore believe that the board should not pursue this topic at this time.
Cryptocurrencies and related transactions	High	This topic is important and will gain further importance. The current reporting requirements (e.g., IAS 2 and IAS 38) do not apply to all existing or future crypto assets. Therefore, we see a high need for developing consistent guidance on this topic.
Discontinued operations and disposal groups	Medium	There are several practical issues related to IFRS 5 which should be addressed if the Board finds a feasible solution.
Discount rates	Medium	<p>This topic is a conceptually relevant issue, but that would be a major project. We see little chance to resolve it in a general and timely manner.</p> <p>Rather, we suggest selected amendments to avoid inconsistencies in some definitions and practical issues. Examples are the use of pre-tax and post-tax rates in IAS 36 (discussed to some extent in DP/2020/1) and measurement of provisions in IAS 37 versus IFRS 13 (regarding own credit risk).</p>
Employee benefits	Low	<p>IAS 19 works reasonably well and, given the sensitivity of the matter, we see limited merit in substantial changes to the accounting for employee benefits at this time.</p> <p>Amendments to accommodate hybrid post-employment benefit plans and constructive obligations may be addressed later.</p>

Expenses – Inventory and cost of sales	Low	This is not widely important and does not warrant a separate project or topic.
Foreign currencies	Low	This is a conceptually interesting topic but has no urgency as yet.
Going concern	Medium	<p>While this topic currently receives much attention, it appears to be difficult if not impossible to set a standard. Existing disclosure requirements might be extended to explicitly require managers to justify the going concern assumption in case of doubt.</p> <p>Going concern disclosures might also be required from a sustainability perspective and could be examined when aligning risk disclosures with future IFRS sustainability standards.</p>
Government grants	High	IAS 20 is one of the oldest standards and we see a strong need for a complete revision with respect to its conceptual basis and its coverage of the diversity of existing and possible government grants.
Income taxes	Medium	We think IAS 12 is outdated and needs a stronger conceptual basis in line with the conceptual framework. However, we also see little chance that this can be easily done. We therefore suggest focussing on amendments to address small issues, such as changes in tax rates.
Inflation	Low	We currently see little need for such a project.
Intangible assets	High	Intangible assets have further gained importance in many industries (such as IT). Current accounting methods may not be fit for this evolving importance, e.g., they may leave much room for arbitrary judgement.
Interim financial reporting	Low	This is a conceptually interesting, but not a pressing issue.
Negative interest rates	Medium	We suggest addressing this topic within the wider discount rate topic, where we recommended limited amendments to address inconsistencies (see above).
Operating segments	Low	IFRS 8 works reasonably well, and we see no need to address this topic.
OCI	Medium	We strongly believe that OCI should be fundamentally overhauled, particularly the conceptual inconsistencies regarding different recycling requirements. Yet we anticipate little chance to resolve it in a general and timely manner. We suggest retaining OCI on the agenda,

		but with medium priority as there are more pressing projects.
Pollutant pricing mechanisms	Medium	Pollutant pricing is a relevant topic and we see potential diversity in practice. More guidance would be helpful.
Separate financial statements	Medium	Conceptually, separate financial statements serve different information demands and are subject to different regulatory requirements than consolidated financial statements. This is not reflected in current IFRS that deal with separate financial statements but should be if IFRS were to be adopted for them. Yet we think other topics are currently more important.
Statement of cash flows and related matters	Low	This is a relevant topic, and there are several conceptual issues related with the statement of cash flows. However, given the recent work on General Presentation and Disclosures (ED/2019/7), there seems to be little chance for pushing this topic further.
Variable and contingent consideration	Low	This is an interesting but not a pressing issue. We believe that this matter can be dealt with minor amendments to existing standards.

(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.

Concerning the Board's current research projects, we think that the dynamic risk management project should be extended beyond interest rate risk. In particular, other risks, such as commodity risk, should be considered.

QUESTION 4 - OTHER COMMENTS

Do you have any other comments on the Board's activities and work plan?

We suggest considering a comprehensive review of IFRS.

Appendix C mentions some standards that could be improved by a review. We suggest that, in the longer run, the Board consider a project to review and align all existing standards, similar to the IAASB's review of the ISAs. Currently applicable standards date from 1975 to now. We note different conceptual foundations across standards, diverse principles, and differences in structure,

detail, and language of IAS and IFRS. We appreciate that an exhaustive review would consume a large portion of the Board's capacity but we see much merit in such a project. It would clearly go beyond a minor improvement or revision of any standard but may result in harmonized measurement concepts overall.