

27 September 2021

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

Via online submission: www.ifrs.org

Dear Dr Barckow

Request for Information Third Agenda Consultation (RFI)

CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide feedback to the International Accounting Standards Board (IASB) on its work priorities for the period 2022 to 2026. For the following reasons, it is our view that the IASB should take a holistic approach in determining its strategic direction for the coming five-year standard-setting work plan:

- The covid-19 global pandemic has changed our day-to-day work-life practices in many ways. The use of digital platforms and other technologies to meet, engage and collaborate in conducting commercial and other economic activities has allowed us to retain a semblance of normalcy whilst we seek to find a path through this health crisis. The use of technology is evident also in the current activities of the IASB, as it continues to communicate and engage with stakeholders in developing and maintaining International Financial Reporting Standards (IFRS), along with the support and guidance that is essential to their application. Even after we emerge from this health crisis, we believe the IASB should continue to leverage technologies in communicating and engaging with stakeholders as part of its standard-setting and support activities. We believe this approach is likely to free up some resources available to the IASB in conducting its six main activities. The IASB should identify how to embed technology-enabled solutions in conducting all of its activities more effectively and efficiently.
- In our [submission](#) in response to the 2015 Agenda Consultation, we suggested articulating within the work plan, the current and future projects that will address aspirational goals that look beyond addressing existing problems in financial reporting. We also recommended a project management approach that recognised and addressed the interdependencies between the different projects, to ensure project continuity and to avoid bottlenecks. We believe these recommendations remain relevant to this consultation.
- We agree with the observations in paragraph 15 and Diagram 3 of the RFI that all of the IASB activities are integrated to some degree, whilst activities relating to the “understandability and accessibility of the Standards” and “stakeholder engagement” affect all aspects of the IASB’s activities.

Feedback we have received from our stakeholders and members points to a clear need for the IASB to increase the resources it allocates to the activities relating to “understandability and accessibility of the Standards” and “digital financial reporting”.

Whilst the feedback in general was for no change to the resources allocated to the other activities of the IASB, there was some support for a reduction in resources allocated to the activity “new IFRS and major amendments to IFRS”. It may also be possible to reallocate some of the resources the IASB allocates to stakeholder engagement through efficiencies achieved by embedding technology-enabled communications and engagement as noted above.

In May 2021, CPA Australia hosted a policy think-tank event to engage with academics, standard-setters, regulators and other experts on the topic of “understanding accounting standards”. The outcomes from this event are set out in a report that we have included as **Attachment B** to this submission. We hope the IASB will find this report useful in developing its 2022-2026 work plan and beyond.

Paragraphs 3 to 5 of the RFI discuss the future strategic directions of the IFRS Foundation, including the possible establishment of a new board to set sustainability reporting standards. We note that any need for capacity from the IASB to support interaction between the work of the IASB and any newly established sustainability standards board will need to be considered in finalising the work priorities for the next five years. We presume the resources that may be required for such interaction will be in addition to the current resources at the IASB’s disposal.

We have provided our detailed responses to the questions raised in **Attachment A** to this submission. If you have any queries about this submission, contact Ram Subramanian, Senior Manager – Reporting Policy, on 03 9606 9755 or ram.subramanian@cpaaustralia.com.au.

Yours sincerely,

Dr Gary Pflugrath FCPA
Executive General Manager
Policy and Advocacy
CPA Australia

Attachment A

Response to Consultation Questions

Question 1—Strategic direction and balance of the Board’s activities

The Board’s main activities include:

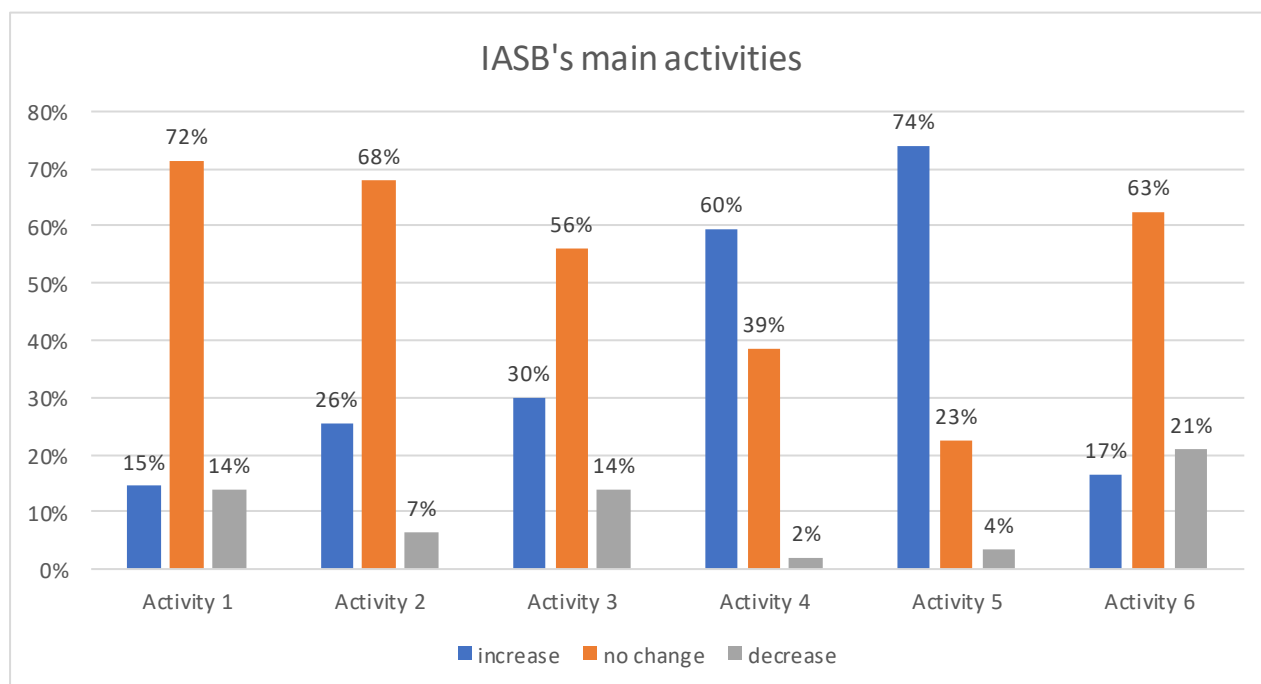
- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the IFRS for SMEs Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving 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?

Q1(a)

We conducted a polling exercise to gather feedback from members and stakeholders on the IASB’s allocation of resources across its six major activities. The following chart provides an overview of the responses received:



Based on this feedback, we have provided below our views on the six major activities of the IASB:

Developing new IFRS and major amendments to IFRS (decrease)

The IASB has several ongoing major projects to develop new IFRS and amend existing IFRS as set out in Appendix A to the RFI. The introduction of two new major IFRS in the form of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) and IFRS 16 *Leases* (IFRS 16) has given rise to several accounting challenges that those involved in IFRS based financial reporting are continuing to address. Those affected by IFRS 17 *Insurance Contracts* (IFRS 17) are also devoting significant resources in preparation for its implementation in 2023. The ongoing covid-19 pandemic has contributed to significant economic upheaval that has also caused disruption and uncertainty to the accounting profession. Given these ongoing challenges, we believe it would be appropriate to provide some respite to those involved in IFRS based financial reporting before introducing further major new changes.

Although many of the ongoing major projects are important to improving financial reporting, delaying some of these for the above reasons may allow the IASB to allocate some of the then unallocated resources to other main activities.

We note that the IASB also intends to conduct post-implementation reviews of IFRS 9 *Financial Instruments* (impairment and hedge accounting requirements), IFRS 15 and IFRS 16. These are important exercises that are likely to provide feedback to the IASB on many of the practical issues that have been encountered in the implementation of these Standards. As noted in paragraph 27(c) of the RFI, the IASB may need to factor in some capacity to address changes to these Standards that may arise from their post-implementation reviews.

Maintaining IFRS Standards and supporting their consistent application (no change)

We support that the IASB continues devoting the same level of resources as it currently does to this main activity. We note that this activity includes providing educational material which may also be relevant to the main activity of “understandability and accessibility of Standards”. Feedback we have received indicates strong support for an increase in resources allocated to understandability and accessibility of Standards, and so suggest an increase in resources allocated to this area (see below).

Developing and maintaining the IFRS for SMEs Standard (no change)

The Australian Accounting Standards Board has developed a Tier 2 reporting framework for entities with no public accountability. This framework has simplified disclosures based on the IFRS for SMEs. We believe the current level of resources allocated to this activity is sufficient.

Supporting digital financial reporting by developing and maintaining the IFRS Taxonomy (increase)

The current level of resources the IASB allocates to developing and maintaining the IFRS Taxonomy is appropriate and should continue.

Feedback we received through the polling we conducted (see above chart) and the Policy Think Tank event (see **Attachment B**) both indicate that the IASB should increase the resources it allocates to this activity. In addition to the resources the IASB allocates to developing and maintaining the IFRS Taxonomy, it may be appropriate for the IASB to undertake research to identify how technology can be used to improve the quality of IFRS based financial reporting. We make two suggestions in this regard:

- The report developed from the Policy Think Tank event (see **Attachment B**) recommends identifying and developing solutions involving machine or artificial intelligence to make many of the professional judgements associated with interpreting accounting standards.
- Accounting standards are still being developed for financial reporting that is paper based. The presentation and disclosure requirements included in IFRS continue to focus on information that is presented in paper based financial statements. Although it could be argued that IFRS taxonomies could be applied to such information to convert it into digital information, the underlying concepts and reporting requirements are largely driven by financial reporting that is paper based. A research project that explores how standard-setting could evolve to produce financial information that not only contributes to traditional financial statements, but also other digitally enabled reporting formats could be considered.

Improving the understandability and accessibility of the Standards (increase)

Feedback we received through the polling we conducted (see above chart) and the Policy Think Tank event (see **Attachment B**) both indicate that the IASB should increase the resources it allocates to this activity. We refer to **Attachment B** for further details on how the IASB could contribute to better understandability and accessibility of the Standards. In addition to the suggestions in **Attachment B** the IASB could undertake a review of IFRS that includes the standards, interpretations, agenda decisions and guidance material to remove or amend outdated and/or redundant material.

Engaging with stakeholders (no change)

Although the IASB should continue to allocate a similar level of resources to this important activity that allows stakeholders to participate in the IASB's standard-setting activities, as stated in our cover letter it may be possible to re-allocate some of the resources the IASB allocates to stakeholder engagement through efficiencies achieved by embedding technology-enabled communications and engagement. For example, prior to the onset of the covid-19 pandemic, a portion of the resources in respect of this activity would have been consumed by travel, accommodation, venue hire and related activities. The use of digital platforms to conduct meetings, conferences, webinars and other similar stakeholder engagement events has significantly reduced costs associated with physical attendance at such events. The IASB could re-allocate some of the costs saved from this shift in stakeholder engagement to other activities such as digital reporting and improving the understandability and accessibility of the Standards.

Q1(b)

As stated in our cover letter, the possible establishment of a new board to set sustainability reporting standards could give rise to another main activity for the IASB; that is, engaging with the sustainability standards board. We note that the need for capacity from the IASB to support interaction between the work of the IASB and a newly established sustainability standards board will need to be considered in finalising the work priorities for the next five years. We presume the resources that may be required for such interaction will be in addition to the current resources at the IASB's disposal.

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?

Q2(a) & (b)

We believe the IASB has identified appropriate criteria in determining the priority of financial reporting issues that could be added to the work plan.

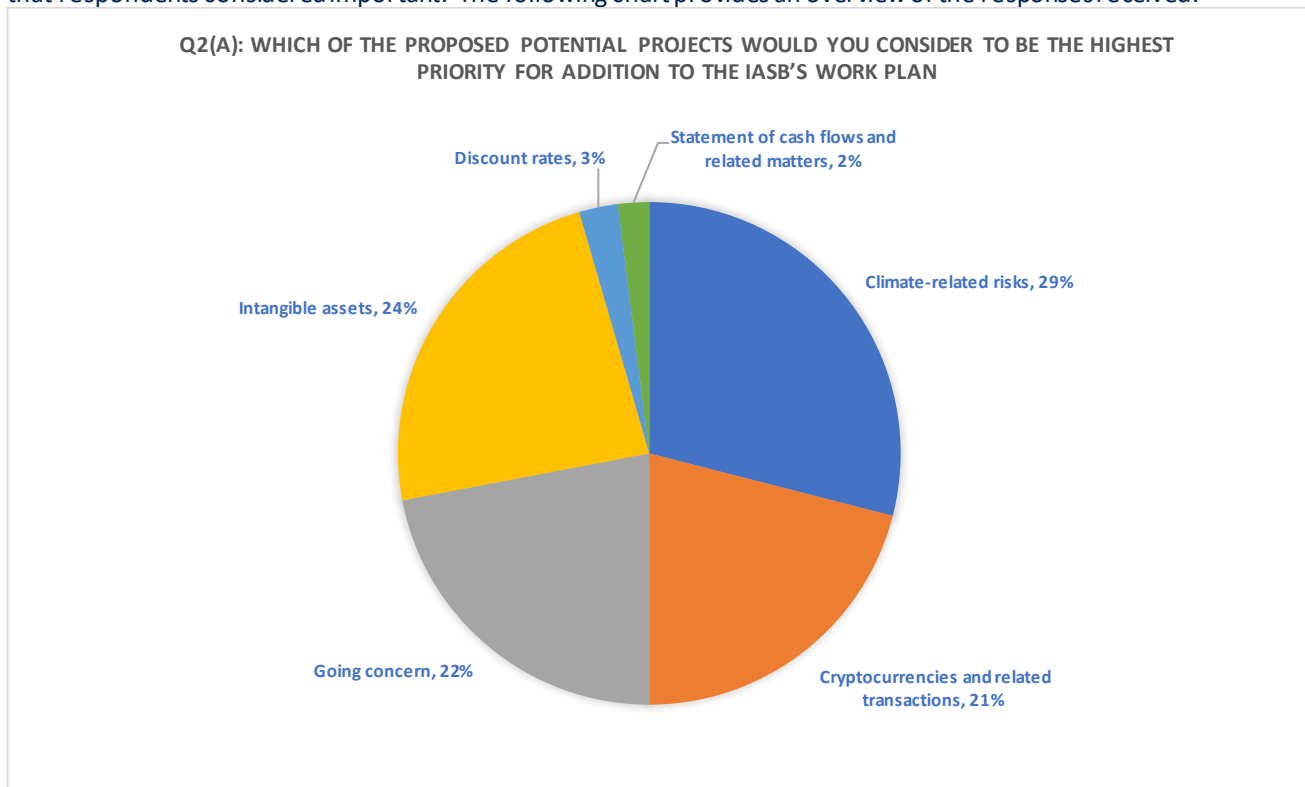
Question 3— Financial reporting issues that could be added to the Board’s work plan

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.

Q3(a)

We conducted a polling exercise to gather feedback from members and stakeholders on the potential projects the IASB could add to its 2022-2026 work plan. In conducting the polling exercise, we pre-selected six projects from the 22 potential projects that are listed in Table 5, Appendix B of the RFI with an option for feedback on any of the other potential projects that respondents considered important. The following chart provides an overview of the responses received:



Based on feedback we received, we provide our recommendations below on the potential projects the IASB could add to its 2022-2026 work plan:

Climate-related risks (high priority, large project)

The demand for financial reporting (and broader corporate reporting) to address climate-related risks is evident in the IFRS Foundation’s proposals to establish a new sustainability standards board. We also note the proposed new sustainability standards board is likely to focus on a climate-related standard as its first major project. We agree with the feedback received by the IASB (paragraph B9 of the RFI) that investors are demanding better qualitative and quantitative information about the effect of climate-related risks on assets and liabilities reported in the financial statements; and that the impact of climate-related risks should be considered in areas of financial statements that require estimates of the future (e.g., impairment). Related considerations would be to address coherence in any promulgated conceptual framework(s) and measures which would ensure that developments in IFRS in response to investor, lender and creditor expectations avoid gaps or inconsistencies with any future sustainability standards. Accordingly, we recommend that the IASB adds a high priority, large project on the topic of climate-related risks to its 2022-2026 work plan.

Intangible assets (high priority, large project)

IAS 38 was developed and issued more than 20 years ago, with minimal amendments to it since. The role of intangibles in capital markets have exponentially increased in that time, with much of the value generated and held in the form of intangibles not being captured in financial statements. This lack of ability for IFRS based financial statements to adequately capture and present and/or disclose the value of intangible assets held is undermining the value of IFRS based financial statements. It is our view that the IASB should undertake a high priority, large research project that explores how intangible assets (particularly internally generated intangible assets) could be better captured and presented in financial statements.

Going concern (high priority, medium project)

It is our view, supported by feedback we have received, that the IASB should revisit the current requirements in IFRS for the assessment and disclosure of the going concern basis. In 2020, the New Zealand Accounting Standards Board issued an amended accounting standard, *FRS 44 New Zealand Additional Disclosures* that included additional going concern disclosures to supplement IFRS based disclosures. In our [submission](#) to the consultation that preceded this amendment, we suggested that any change to going concern disclosures for a jurisdiction that adopts IFRS should be set by the IASB. Whilst we note the current requirements in IFRS for going concern assessment is adequate, we believe additional disclosure requirements should be added to support such an assessment. In addition, IFRS should also address the accounting basis that should apply if an assessment determines that the going concern basis is no longer applicable.

Cryptocurrencies and related transactions (medium priority, medium project)

Based on feedback we received, we suggest that the IASB undertakes a research project that explores the role and prevalence of cryptocurrency-based transactions in global capital markets. The IASB could also consider issuing an interim IFRS (similar to IFRS 14 *Regulatory Deferral Accounts*) whilst undertaking this research project.

Alongside such a research project that could inform any future standard-setting activity, the IASB should consider making amendments to existing IFRS to accommodate the accounting for crypto assets and liabilities. In our [submission](#) to the European Financial Reporting Advisory Group (EFRAG) consultation on this topic, we recommended that the IASB could undertake a project to amend/clarify IFRS to accommodate the accounting for crypto assets and liabilities..

Question 4— Other comments

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

We have no further comments.

Attachment B

UNDERSTANDING ACCOUNTING STANDARDS: OUTCOMES FROM THE FINANCIAL REPORTING POLICY THINK TANK

SEPTEMBER 2021

This report summarises the outcomes from a *CPA Policy Think Tank* event, exploring issues that affect the understandability and interpretation of accounting standards. The feedback and recommendations from the Think Tank will be of interest to members working in financial reporting, standard-setters and regulators.

Snapshot

In May 2021, CPA Australia hosted a *Policy Think Tank* to enable members interested in financial reporting to engage with academics, standard-setters, regulators and other experts on the topic of "understanding accounting standards".

This event provided early and mid-stage CPAs with an opportunity to share their experiences and recommendations on improving the accessibility of accounting standards that underlie financial statements.

As economic activities and transactions become more complex, accounting standards develop to capture and present information on these changes. These and other factors contribute to challenges surrounding the understandability and interpretation of accounting standards.

A team of University of Adelaide academics; Associate Professors Bryan Howieson FCPA and Janice Loftus FCPA, and researcher Dr Sabine Schuhrer CPA, conducted a research project "Are accounting standards understandable?" The findings from this research provided the backdrop to our event.

Around 100 people attended, including members from corporates, public practice, the public sector and academia. All participants have been, or are, engaged in different aspects of financial reporting, including preparation, auditing, teaching and advisory services.

Five key aspects were discussed:

1. Who are accounting standards for?
2. What are accounting standards?
3. Understanding the role and purpose of accounting standards

4. Recommendations for improving the understandability of accounting standards
5. Challenges for public and not-for-profit sectors in understanding accounting standards

Participants nominated the **complex structure and legalistic language of standards**, and **insufficient knowledge about the complex economic transactions**, as factors which make accounting standards difficult to understand.

Participants recommended **using technology, simpler language and visual aids in standards** as some of ways to address these challenges. They appreciated the value provided by professional accounting bodies, the large accounting firms, standards setters, and regulators in developing resources to simplify and guide users of accounting standards.

Are accounting standards understandable?

The University of Adelaide team analysed 65 accounting standards to measure their overall readability, based on the average length of sentences and the number of syllables per word. They found the accounting standards were either "difficult" or "very difficult" to read. The researchers also interviewed 25 financial statement preparers, auditors and other industry practitioners.

Key research findings

- Accounting standards are becoming increasingly complex and harder to understand and making them simpler would be beneficial.
- Older accounting standards are considered easier to understand than newer ones.
- Accounting standards include too much rules-based detail.
- Accounting standards are excessively long.
- The application guidance accompanying accounting standards is too generic.

- Help from technical experts is needed to interpret and understand accounting standards.

Coping strategies adopted by users

- Heavy reliance on material provided by large and mid-tier accounting firms, including digital templates.
- Reference to the basis for conclusions that form part of accounting standards.
- Relying on a national and international network of technical experts to discuss critical technical issues.
- Small entities reliance on audit firms and technical consultants.
- Public sector users reliance on specific financial reporting guidance, including those issued by Departments of Finance/Treasury and local government associations.

Think Tank recommendations

In view of these research findings, think tank participants offered the following recommendations to improve the understandability of accounting standards:

Using technology

- Digitalising jurisdiction specific accounting standards (noting that International Financial Reporting Standards (IFRS) are already digitalised – e-IFRS).
- Including hyperlinks for easy access to topics covered in multiple accounting standards.
- Identifying and developing solutions involving machine or artificial intelligence in making many of the professional judgements associated with interpreting accounting standards.

Improving language

- Using simple language.

- Considering the impact on understandability and interpretation when translating accounting standards into other languages.
- Avoiding use of double negative statements.

Improving content and presentation

- Providing a clear explanation of the rationale and objective behind each of the accounting standards.
- Providing hyperlinks to the *Conceptual Framework for Financial Reporting* (Conceptual Framework) and using hyperlinks for subject matter that is addressed in multiple accounting standards.
- Providing practical and specific examples (these could be hyperlinked through from the relevant paragraph in the body of the accounting standard).
- Making summary versions of accounting standards available, highlighting the key requirements.
- Making disclosures succinct.
- Including more visual aids and flowcharts.

Improving the process for developing accounting standards

- Considering the challenges faced by different users of accounting standards. Examples include:
 - public sector/not-for-profit sector specific accounting challenges
 - users with different levels of expertise
 - users for whom English is not a first language.
- Seeking feedback from practitioners on the applicability and auditability of accounting standards' requirements, prior to finalising and publishing them.

The role of professional accounting bodies

Professional accounting bodies should continue to:



- Advocate on behalf of their members to provide feedback that is relevant and representative of members' perspectives.
- Provide platforms to facilitate feedback on local and international consultations. Such platforms should encourage feedback from members who are less engaged in the development of accounting standards.
- Support their members through the publication of guidance, including articles, webinars, podcasts, and factsheets.
- Produce policy papers on challenging accounting issues.

Themes discussed

Insights that arose during discussion include:

1. Who are accounting standards for?

Participants identified a range of users of accounting standards, including preparers and auditors who use accounting standards to meet statutory and accountability requirements. Other users identified included investors, investment advisers, educators, professional accounting bodies, and researchers, among others. Participants considered interpreting company results and achieving consistency of financial reporting as key uses of accounting standards.

2. What are accounting standards?

The term "accounting standards" is often used to refer to both the main body of the accounting standard and the accompanying material. Accompanying material includes implementation material and guidance, illustrative examples, bases for conclusions, interpretations of the accounting standards, the Conceptual Framework and interpretive agenda decisions.

Other resources that can assist in understanding accounting standards include:

- frequently asked questions and technical pronouncements issued by standards setters

- resources published by large accounting firms
- guidance published by governments, regulators and standard setting bodies
- guidance issued by professional accounting bodies
- guidelines issued by the Treasury and local government associations for public sector financial reporting.

3. Understanding the role and purpose of accounting standards

Participants considered the question of why accounting standards have become difficult to understand. In many jurisdictions (including Australia) accounting standards have the force of law and the language used needs to be technically precise.

Newer accounting standards are becoming lengthier (examples include accounting standards on revenue and financial instruments) as they deal with complex economic activities and transactions. The use of extremely long sentences and double negatives adds to complexity. These challenges are further compounded for non-native English language-speaking users of accounting standards.

Some participants expressed the view that users of accounting standards should have an understanding of the economic basis underlying them. Although Accounting standards are expected to reflect the economic substance of transactions, they may be more difficult to understand for those who do not understand the underlying economic characteristics.

Therefore, accounting standards should be considered as a reference document that presupposes an understanding of the economic activities to which they relate, rather than be seen as a source of knowledge and education on underlying economic activities. For example, with complex transactions that involve financial instruments or leases, preparers are expected to possess a working knowledge of the underlying economic criteria as a prerequisite to understanding the requirements within the respective accounting standards.

4. Challenges in the public and not-for-profit sectors

Participants from public sector and not-for-profit (NFP) organisations identified challenges specific to these sectors. The accounting standards in some jurisdictions (e.g. Australia) are based on standards which are not developed specifically for the public or NFP sectors. Hence, important areas of reporting for these sectors, such as service performance reporting, are not addressed in the accounting standards.

Participants also flagged the importance of developing different conceptual frameworks to underpin accounting standards with public sector and NFP sector objectives.

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