acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

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Mouvement des Entreprises de France MEDEF

International Accounting Standards Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

27 September 2021

Dear Board Member,

## Re: Request for Information, Third Agenda Consultation

ACTEO welcomes the opportunity to provide views on the areas upon which the Board should focus its activity over the next few years.

Our views are laid out in the appendix. If you require any more information on any of these topics, please do not hesitate to contact us.

Yours sincerely,

| ACTEO | AFEP | MEDEF |
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| Lise CHORQUES | Lé Quang TRAN VAN | Karine MERLE |

**Appendix**

## 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.*

The body of IFRS has now reached a stage of maturity and has proved its value. We think that there are still some important projects which need to be pursued but these are now limited in number (see the small number of projects referred to in our response to Question 3) and thus the level of resources dedicated to standard-setting activity (new standards and major amendments) should be reduced for the benefit of other activities. It must be remembered that every development of a new standard or an evolution in an existing standard requires reporting entities to devote time and resources to its implementation. For this reason, no new project should be undertaken without there being a clear and obvious justification for it. Similarly, any new or revised standard should deal only with the limited and defined scope of the issue that has been identified, and should not call into question all the related fundamental principles and methods.

A further example of what is seen, at least from the French point of view, as lacking in justification is the current agenda decision on IAS 19 which may result in fundamental changes in the way French pension obligations are accounted for. The current practices have been well established for years without apparently causing any difficulty or encountering any challenge, but are now called into question without any warning.

In addition, because of their expertise in reporting, the finance departments in reporting entities will also be required to participate extensively in the implementation of the evolving set of sustainable reporting requirements. The resources available to them are not unlimited and it is necessary to choose between these competing demands. A further period of calm in the development of financial reporting would therefore be welcome.

We believe that the most important activity that the Board undertakes is the development and maintenance of IFRS standards of quality. We are therefore concerned by what in our view is the high level of issues referred to, and dealt with, by the IFRS Interpretations Committee (IFRIC). We wonder whether there are too many questions which do not meet the criterion of being of general interest and the cause of widespread divergence in practice are currently allowed to slip through the filtering process.

Some standards do appear complex and difficult to understand. We recognise that this is often a function of the complexity of the subject dealt with, but there are also standards which appear to deal with a relatively straight-forward topic in a complex manner. We therefore think that the activity of improving "the understandability and accessibility of our financial reporting standards" should be developed.

We are aware of the effort the Board has made in recent years to involve stakeholders, and in particular, preparers, in the development and maintenance of the standards. We are of the view that sustained engagement with the stakeholders is essential for the production of a set of IFRS standards of quality which are relevant and practical to implement. However, we think that the resulting output is still lacking in quality and ease of application.

We would therefore encourage the Board to study the types of problem raised with the IFRIC in order to identify the causes of the issues and whether there is a real underlying problem, and what may be done to improve the process and the product upstream. We think that an even greater effort might need to be made to develop pragmatic accounting solutions through further outreach and field testing with entities.

It may be necessary for the Board to devote some more time than the 5% indicated on improving the understandability, accessibility and quality of the Standards and to spend some more time on "engaging with stakeholders", particularly preparers.

We think the level of activity devoted to maintenance and support of consistent application of IFRS standards is about right.

Finally, in respect of digital reporting, with the full implementation of obligatory ESEF reporting in Europe we expect that there will be an automatic increase in the requirement for resources to be devoted to the questions and difficulties that will inevitably arise in the area of taxonomy.

In conclusion, we would summarise our view of the way the ED's proposal for the allocation of the Board's time and resources should be modified as follows:

- Pure standard-setting activity should be reduced and be concentrated only on the essential topics, amongst which we would expect the climate-related accounting issues to increase in significance quite rapidly;
- An increase in time spent on assuring the understandability, accessibility and quality of standards;
- An increase in time spent engaging with stakeholders;
- A natural increase in the time devoted to digitalisation and taxonomy as a result of the increased use of such reporting channels; and
- The effort to be spent on maintenance is about right.

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

We think that the Board's work plan should remain focused on the core activities that it has identified.

## 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?*

Overall we think that the criteria are appropriate except that we would emphasize that the criterion 1 of "the importance of the matter to investors" should always be linked to the cost that will be incurred by the preparer in applying the IFRS solution. Indeed, we think it is fair to comment that the outcome of the cost/benefit analysis always seems to be that, whatever the cost to the reporting entity, the benefit for the external users is higher and justifies the cost. It should be borne in mind that this cost will generally be one that will also be borne by the investor in the long run. It is important to make a distinction between investors who hold a financial stake in the outcome, and the analysts or advisors who may not be directly affected by the consequences of the accounting outcome.

## 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.*

Given the broad diversity of activities represented by the members of our association and the wide range of topics listed by the RFI, we cannot easily provide a weighted prioritization of the projects. However, the following are projects that many of our members have cited as being of particular interest.

**Climate-related risks and pollutant-pricing mechanisms**

In common with many countries, the European Union (EU) is currently highly focused on the issue of climate-related risks and their implication for a sustainable economy. A number of initiatives have been taken in this area that will inevitably have an effect on business activities and consequently on financial and non-financial reporting. In particular, emission-trading or -pricing schemes will probably increase in scope and will require suitable accounting representation. Although we are aware that some groups have now developed accounting policies, a practical and widely applicable successor to IFRIC 3 will probably become essential in the fairly short-term.

In view of the expected developments, we think that it would be useful if the Board were to allocate staff and board members able to deal rapidly with the new issues and instruments (quotas, financial instruments with sustainability linked features, etc.) that will surely arise. The Board may be able to benefit from the policies developed by those entities that have already dealt with these issues in order to facilitate this work. Perhaps it would also be appropriate to set up a specific task force working in liaison with the future non-financial standard setter.

**Intangible assets**

The need to review IAS 38 has been discussed for a number of years. There are currently a number of factors which lead us to think that it is now time to commence that work.
There are a number of factors which persuade us of this:

- There are new business models which involve new forms of asset, some of which appear to be at the borderline between intangible assets and financial assets, for example, bitcoins and other cryptocurrencies; the emissions-trading credits; costs incurred to access cloud-computing infrastructures;
- There appears to be a momentum in non-financial reporting towards requiring more information about the existence and value of intangible assets, including internally-generated assets, and value creation. The boundary between what should be accounted for and what should be excluded from financial reporting will be put under pressure from this;
- EU and other jurisdictions' development of sustainable economies will require information about intangible assets currently unrecognized;
- Any move towards the amortization of Goodwill also raises the issue of those intangibles included or excluded from it;
- EFRAG is currently undertaking a research project into intangible assets in the light of the above factors.

The above present problems both for recognition and measurement and indicate that a thorough review of both is required in addition to the disclosure aspect.

**Discontinued operations and disposal of groups (IFRS 5**) (item 5 Appendix B)

Many preparers find IFRS 5 difficult to understand and apply. A fundamental review of users´ needs should aim to identify the purpose and the scope of the standard and the type of information required. Areas of difficulty are:

- The scope of transactions covered by discontinued operations
- Guidance on the presentation of discontinued operations (such as, for example, whether eliminations are made for intra-group elements
- The hierarchical position of the requirements for disclosures of IFRS 5 (that is, does IFRS 5 override all disclosure requirements of other standards except for those on measurement?)
- The boundaries of a disposal group (that is, when is a partial disposal a *single transaction*?)

The treatment of a disposal group in the statement of cash flows is also a topic that could be incorporated in the project on the presentation of financial statements.

We note that after the 2015 Agenda Consultation the IASB decided to carry out a PIR on IFRS 5 but has not yet started this project. We believe that the arguments made then for a review of IFRS 5 are still valid and that this project should be given priority.

**Income Taxes IAS 12**

IAS 12 is a complex standard which has undergone some ad-hoc amendments on a piecemeal basis. We understand that the Board has no intention to revise it fundamentally. We think, however, that there are two topics related to the effect of changes in income tax rates which merit reconsideration.

In many jurisdictions, policy changes and reactions to crises can result in material amendments of rates and reversals of changes in corporation tax rates. In some cases, it becomes clear well before an enacted change becomes effective that it will probably not actually occur. The mechanism of IAS 12 can lead to very significant variations in provisions for deferred tax liabilities and assets which can have an ultimately misleading effect on the profit and loss account.

As an example of the difficulties that the current approach of IAS 12 to changes in tax rates can cause, take the evolution of rates in the UK between 2016 and 2021:

- The 2016 Budget announced a reduction in the corporation tax rate from 19% to 17% for the 2020 financial year;
- The 2016 Finance Act was passed approving the 17% rate for 2020;
- Between 2017 and 2019, there was a growing number of indications that the rate of 17% would not be applied in 2020;
- The 2020 Finance Act confirmed that the rate for 2020 and 2021 would remain at 19%;
- The 2021 Finance Act set the rate for 2022 at 19% and 2023 at 25%.

Following the principle of "enacted" or "substantially enacted rates", long-term deferred taxes expected to reverse in or after 2020 would be accounted for at 17% from 2016 until early 2020, even though it was more and more likely that this rate would never be applied, and then would be increased to 19%. In 2021 the deferred taxes would be measured at 25% for 2023 and beyond. These variations all lead to significant positive and negative effects in the profit and loss account. The effect can be magnified when a previously unrecognised "stock" of deferred tax liabilities and assets is accounted for as the result of a business combination.

We would therefore suggest that the Board examine the possibility of:

- Rendering the principle for the identification of the applicable income tax rate more flexible, perhaps by introducing a criterion of probability, particularly in the case of business combinations, and
- Recognising such variations in OCI, as is the case with the effects of some other long-term variations in rates, such as in employee benefits.

**IFRS 9**

The PIR of IFRS 9 is just starting up. Many entities, not just banks but also corporates in general, will provide responses to it. As part of this exercise, the IASB should take the time necessary to review both the issues of application the standard raises and the conceptual questions it poses, with the aim of improving the understandability of the standard. This should cover impairment and hedge-accounting methods as well as those areas which are missing from the current standard, notably the topic of own-use accounting.