

23 September 2021

Mr Andreas Barckow
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Submitted to: www.ifrs.org

Dear Andreas

Request for Information: Third Agenda Consultation

Thank you for the opportunity to comment on the Request for Information (RFI) *Third Agenda Consultation*. We are supportive of the work of the IASB and appreciate the opportunity to comment on the future projects being considered.

The RFI has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. We released a survey for New Zealand constituents and have received 35 responses from a wide range of stakeholders which contributed to the Board's deliberations when developing our submission. We have shared the New Zealand survey responses with IASB staff.

Strategic direction and balance of the IASB's activities

Feedback from our outreach has indicated that many preparers are still navigating the disruption and ongoing uncertainty caused by COVID-19 and there is some preparer fatigue from the implementation of recent major new IFRS® Standards. We therefore encourage the IASB to be mindful of this when developing its work plan for 2022–2026.

We also received consistent feedback that IFRS Standards have become increasingly complex and difficult to apply. We are supportive of the IASB reducing unnecessary complexity and ensuring IFRS Standards are more clearly articulated with consistent terminology and structure. However, we do not see this activity as being a re-write of existing IFRS Standards. In our view, the IASB can work on this going forward when it issues new IFRS Standards, amendments, guidance and other educational materials.

Given the significant advances in technology world-wide impacting the dissemination of information generally, we encourage the IASB to continue its focus on supporting digital financial reporting developments. Such an approach will likely involve supporting digital reporting initiatives beyond the current scope of the IFRS Taxonomy. This will be necessary to ensure that the work of the IASB keeps pace with future digital reporting developments. These initiatives should recognise that the traditional presentation of general purpose financial information in a single PDF or hard copy annual report will likely be replaced by digital reporting developments in the future. Digital developments will give individual investors and other users increased flexibility to customise and configure what information they receive and how the information is presented.

We encourage the IASB to consider financial reporting and future digital reporting developments in a holistic and strategic way across all its activities to ensure the financial reporting standards remain relevant in the future. We would appreciate some thought leadership from the IASB as to how the IASB's work and products will change in response to the significant technological changes occurring now and in the future.

Financial reporting projects to be added to the IASB's work plan for 2022-2026

In our view, the IASB should add three projects to its 2022–2026 workplan — intangible assets, discount rates and going concern. We rank intangible assets as our highest priority for IASB attention, followed by going concern and discount rates.

We think the time has come for the IASB to undertake a comprehensive review of IAS 38 *Intangible Assets* (IAS 38) to ensure that it is relevant for the current environment and achieves appropriate accounting outcomes that keep pace with future developments. We have therefore positioned this project as our highest priority. We consider the primary users of financial statements would benefit immensely from the IASB determining how the financial statements can provide a more complete view of an entity's intangible resources, as they are an important source of value for many entities.

IAS 38 was first issued in the late 1990s and has not had any substantive changes made to it over time. As a result, it has become outdated as a plethora of intangibles have developed and evolved since that time. These new varieties of intangibles could not have been anticipated when IAS 38 was first issued. We have observed that IAS 38 has been used as the avenue for addressing new digital-based assets that are difficult to categorise into other IFRS Standards. Because the Standard is not equipped to deal with these new and emerging intangibles, this approach is not leading to the best accounting outcomes.

While we recognise that climate-related risks are an important emerging issue that needs to be addressed by standard setters, we have not commented on a potential IASB project in this area. In our view, until the International Sustainability Standards Board (ISSB) is formally established and there is clarity as to how it will operate and integrate with the IASB, it would be premature to comment on a potential IASB project on climate-related risks as it relates to general purpose financial statements.

Our recommendations and responses to the specific questions in the RFI are provided in Appendix 1 to this letter with priority ratings included in Appendix 2. If you have any queries or require clarification of any matters in this letter, please contact Tracey Crookston (tracey.crookston@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Carolyn Cordery', written in a cursive style.

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix 1: IASB Request for Information (RFI) Third Agenda Consultation responses

RFI 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? If you think the Board should increase or decrease its current level of focus on each of its activities, could you please specify the types of work within each activity that the Board should increase or decrease.
- (b) Should the Board undertake any other activities within the current scope of its work?

Developing new IFRS Standards and major amendments to IFRS Standards – No change

1. It is difficult to decide if the current percentage allocations of the IASB’s main activities should change or not, without the benefit of knowing the agreed priorities of specific topics resulting from this consultation process. The IASB may be considering a specific topic through a standard-setting project, but the call from constituents may be that all they need is more education on that topic. We encourage the IASB to reconsider the balance between the main activity groups after deliberation on constituents’ specific topics and priorities following this consultation.
2. Subject to our comments in paragraph 1, we consider the balance of activities here should be kept unchanged, particularly as this activity does not exclusively include the development of new IFRS Standards but also includes the post-implementation reviews (e.g. of IFRS 9, 10, 11 and 12, 15 and 16).
3. Our constituents have advised that many preparers are still navigating the disruption and ongoing uncertainty caused by COVID-19 as well as working on the implementation of the recent major new IFRS Standards in particular, IFRSs 9, 15 and 16.
4. We appreciate the work undertaken by preparers and their call not to introduce any new major standards over the next 2–3 years. However, we encourage the IASB to focus on developing new standards and major amendments in the longer term, ensuring that there are appropriate public consultation and implementation periods. We are therefore supportive of the IASB commencing projects in 2022–2026 that will lead to the development of new IFRS Standards, guidance and educational materials.
5. However, in the current environment, we think it is more critical than ever that the IASB make a compelling case for a major amendment or developing a new IFRS Standard. The IASB needs to be confident at the outset that the new project will significantly improve the information provided to investors. This may require even more outreach by the IASB at the outset to obtain agreement about the exact definition of the problem to be solved and the relevant scope before a decision is made to proceed with a major project.
6. For example, the IASB recently issued a Discussion Paper DP/2020/1 *Business Combinations — Disclosures, Goodwill and Impairment* (DP) and one of the objectives of this project is to improve the goodwill and impairment test. Our response to the IASB recommended a holistic review of the accounting for goodwill and other intangible assets, including internally generated intangible items that are not recognised under current requirements in IFRS Standards. If this project proceeds as the DP suggests, with a narrow focus on goodwill and its

impairment, we think this could be an example of where there may be only marginal improvements for investors, yet the critical gap in information around intangibles (now prominent in many businesses), continues to grow.

Maintenance and consistent application of IFRS Standards – No change

7. As noted above, we received constituent feedback that there is a level of preparer fatigue with frequent major changes made to the requirements of IFRS Standards.
8. IFRS Standards have become increasingly complex, and we consider the IASB needs to focus on investing additional resources to assist with their understandability. In line with this, the 'providing educational materials' and 'simplification of the standards' aspects of this activity should be the IASB's priority areas for 2022-2026.
9. We also consider efficiencies could be made through the processing of narrow-scope amendments. This could be achieved by broadening the criteria for annual improvements to allow a broader range of amendments to be incorporated into this project. Alternatively, it may be possible to group narrow-scope amendments together in a single exposure draft. This will also help the IASB to streamline its engagement with preparers and standard setters.

Understandability and accessibility of the Standards – Prioritise across all IASB activities

10. As the activities relating to understandability and accessibility of the standards affects all aspects of the IASB's work we encourage the IASB to prioritise this across all of its activities.
11. We are supportive of the IASB reducing unnecessary complexity and ensuring IFRS Standards are more clearly articulated with a consistent terminology and structure. However, we do not see this activity as a re-write of existing IFRS Standards. In our view, the IASB can work on this going forward when it issues new IFRS Standards, amendments, guidance and other educational materials.
12. We also strongly encourage the IASB to explore how advances in digitisation are changing the way information is consumed and continue its focus on supporting digital financial reporting developments. We support the IASB improving accessibility by using technology to help stakeholders find materials that are most relevant to them and to understand how those materials relate to each other. We think this may require a more holistic and strategic approach than just focusing on the IFRS Taxonomy (see our comments below).

Stakeholder engagement – More engagement focussed on education

13. The level of activity for stakeholder engagement going forward is also difficult to answer because some responses from our constituents might suggest that:
 - (a) more engagement may be necessary; or
 - (b) the level of engagement remains unchanged, however, there is a change in the type of engagement that is undertaken.
14. We consider that an increase in engagement activities that focus on a large number of new IFRS standards and implementation projects might exacerbate the preparer fatigue outlined above. However, more engagement focussed on improving IFRS tools or educational material may be very welcome by constituents.

15. We agree that stakeholder engagement on formal consultations could be enhanced by the IASB exploring and using digital friendly approaches (e.g. the survey for the RFI Third Agenda Consultation) to supplement the comment letter process.
16. We encourage the IASB to continue to hold virtual events to communicate with stakeholders on consultation papers and exposure drafts. This ensures vital engagement and input at the early stages of IASB projects. We have found these events to be very successful in engaging New Zealand constituents and would like to thank IASB members and staff for their support with these over the last couple of years.
17. We also encourage the IASB to engage with a broader range of stakeholders (e.g. valuers) through consultative groups, informal dialogue and other events. A broader level of input will provide a different perspective and assist decision-making in relation to complex accounting issues. Consideration of a broader range of views as part of the standard-setting process will help to clarify the problem definition as well as address any practical application issues at an earlier stage.

The IFRS for SMEs Standard – Not used in our jurisdiction

18. We have no comments on the level of activity related to the *IFRS for SMEs* Standard because this is not used in New Zealand.

Digital financial reporting (IFRS Taxonomy) – Support for digitisation more generally

19. The RFI describes the IFRS Taxonomy as the focus of the digital financial reporting activity. We have no comment on the level of activity related to this activity because we have not adopted the IFRS Taxonomy in New Zealand.
20. Although we do not use the IFRS Taxonomy in New Zealand, we understand that it is a useful and efficient way of allowing preparers to tag the disclosures in their financial statements so that users can access and analyse the information electronically from the data. We observe that the IASB spends most of its time working on financial reporting standards and information content that contemplates financial statements in a single PDF or hard copy annual report. It appears to us that conversion to electronic delivery through the IFRS Taxonomy is a secondary process.
21. Given the significant advances in technology world-wide impacting the dissemination of information generally, we encourage the IASB to strategically position itself to ensure that its approach to digital financial reporting responds appropriately to the future digital needs of investors. Such an approach will likely involve digital initiatives beyond the current scope of the IFRS Taxonomy. This will be necessary to ensure that the work of the IASB keeps pace with future digital opportunities and remains relevant to the digital needs of investors and other financial statement users.
22. We encourage the IASB to step back and look at the wider issue of financial reporting and technology in a more holistic and strategic way than we observe it currently does. We would also appreciate some thought leadership from the IASB as to how the IASB's work and products will change in response to the significant technological changes occurring now and in the future.

RFI Question 2—Criteria for assessing which projects to add to the work plan

- (a) Do you think the Board 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?

23. We agree that the IASB has identified appropriate criteria when determining the priority of potential projects that could be added to the work plan. We acknowledge that balancing these criteria will always require an element of judgement.
24. However, we consider an additional criterion could be added to reflect the need for the IASB to respond to changes in the broader economic or regulatory environment. We commend the IASB's timely response to the economic impact arising from the COVID-19 pandemic, in adding the *Covid-19-Related Rent Concessions* project to its work plan and undertaking the due process required to finalise this amendment. We also acknowledge the responsiveness of the IASB to changes in the regulatory environment in its standard-setting response to interest rate benchmark reform.
25. We suggest the inclusion of "economic and regulatory environment impacts" as an additional criterion in assessing which projects to add to the work plan. This will assist the IASB in continuing to ensure that IFRS Standards remain relevant and ensure the allocation of resources is aligned with broader environmental changes.

RFI Question 3—Priority of financial reporting issues

- (a) What priority would you give each of the potential projects described in the RFI—high, medium or low. In particular, we would like to know if your prioritisation refers to all or only some aspects included in the project description—for example, a project on intangible assets may mean recognition and measurement of currently unrecognised intangible assets or improved disclosure requirements about unrecognised intangible assets.
- (b) Should the Board add any financial reporting issues not described in the RFI? Please explain:
 - (i) the nature of the issue; and
 - (ii) why you think the issue is important.

26. We have set out below the financial reporting projects we consider the IASB should prioritise when developing its 2022–2026 work plan.
27. We have recommended three projects because our preference is for the current level of focus on activities related to new IFRS Standards or major amendments to IFRS Standards to remain unchanged.
28. In Appendix 2, we have rated as high, medium and low, the 22 Appendix B potential projects and the Appendix C list of financial reporting issues.

Intangible assets – High priority, large-sized project

29. In our view, the time has come for the IASB to undertake a comprehensive review of IAS 38 *Intangible Assets* (IAS 38) to ensure that it is fit for purpose and achieves appropriate accounting requirements that keep pace with the developments in intangibles. We consider the primary users of financial statements would benefit immensely from the IASB determining how the financial statements can provide a more complete view of an entity's intangible resources, especially as they are an important source of value for many entities.
30. IAS 38 was first issued in the late 1990s and has not had any substantive changes made to it over time. As a result, it has become outdated as a plethora of intangibles have developed and evolved since that time. These new kinds of intangibles could not have been anticipated when IAS 38 was first issued. For example, developments in digital technologies, emissions trading rights, cryptocurrencies and cloud storage, were not (and could not) have been contemplated in the late 1990s.
31. We have observed that IAS 38 has been used as the avenue for addressing new digital-based assets that are difficult to categorise into other IFRS Standards. Because the Standard is not equipped to deal with these new and emerging intangibles this approach is not leading to the best accounting outcomes or meeting investor needs.
32. An example of the use of IAS 38 to establish accounting requirements for these new intangibles is the recent IFRS Interpretation Committee agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)*. The agenda decision provides explanatory material that indicates customisation and configuration costs associated with software as a service (SaaS) arrangement would often not result in the recognition of an intangible asset.
33. The constituent feedback we have received on the agenda decision is that customisation and configuration costs, which are often significant, are considered to provide future economic benefits to the reporting entity beyond the period in which the costs are incurred and therefore should be capitalised and recognised as an asset to faithfully represent the economics of the transaction. The agenda decision is constrained by the underlying principles and requirements of IAS 38 and results in an outcome that may not meet the needs of investors or other users of the financial statements.
34. This feedback is consistent with responses to the SaaS tentative agenda decision. We note that of the 19 comment letters received by the IFRS Interpretations Committee, only five respondents agreed with the analysis and conclusion. Many of the respondents considered the principles and requirements in IAS 38 do not provide an adequate basis for the customer to determine its accounting for these arrangements and suggested adding a standard setting project to the IASB's work plan.
35. A comprehensive review of IAS 38 would allow for the accounting for costs associated with other cloud-based computing arrangements¹ to be appropriately considered. In many cases implementation costs associated with cloud-based computing arrangements represent future economic benefits to the entity. However, in line with the recent agenda decision on SaaS

¹ For example, Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Desktop as a Service (DaaS) arrangements.

arrangements, the restrictive nature of the recognition criteria in IAS 38 often results in these costs being expensed immediately.

36. We also have some further feedback on the SaaS agenda decision process which we have outlined in the 'other comments' section of this letter.
37. In undertaking a comprehensive review of IAS 38 we consider the IASB needs to:
 - (a) ensure that it appropriately addresses requirements for the recognition and measurement of internally generated intangible assets (e.g. software and development costs);
 - (b) determine the extent to which emerging financial reporting issues (e.g. emission trading rights, cloud-based computing arrangements and crypto-currencies) should be addressed by an IFRS Standard on intangible assets; and
 - (c) consider any potential interrelationship between an IFRS Standard on intangible assets and any future sustainability standards² issued on intangibles.
38. We understand that the Australian Accounting Standards Board (AASB) is currently undertaking a domestic research project on intangible assets. The findings of this project will be a useful input into a comprehensive review of IAS 38.

Going concern – High priority, medium-sized project

39. The economic effects of COVID-19 are continuing to have a significant impact on the going concern assessments of many entities across the world. Many entities have been required to apply significant judgement and/or consider material uncertainties at the reporting date in assessing their ability to continue operating as a going concern.
40. As the IASB is aware, additional going concern disclosure requirements have recently been introduced into our New Zealand domestic standards. The two professional accountancy membership bodies for Australasia,³ whilst supporting our proposals, requested that we encourage the IASB to undertake a similar project in the forthcoming Agenda Consultation.
41. The going concern disclosure requirements introduced in New Zealand were developed in response to concerns raised by constituents.
 - (a) Diversity in practice over the disclosures provided in circumstances when the financial statements are prepared on a going concern basis, but management is aware of events or conditions that may cast doubt on this judgement.
 - (b) Investors, auditors and regulators wanted improved disclosures when management's going concern assessment involved significant judgement and/or material uncertainties.
 - (c) Tension in practice between going concern disclosure expected by the auditing standards versus the disclosure requirements in accounting standards.

² We understand preliminary discussions regarding the work of the International Sustainability Standards Board (ISSB) involve development of a global baseline standard focusing on enterprise value which may require the concept of what should be recognised as an intangible asset to be broadened.

³ Chartered Accountants Australia and New Zealand (CAANZ), and CPA Australia.

42. Although the recent focus on improving going concern disclosures has been influenced by the uncertainty and disruption caused by COVID-19, the benefits of an IASB project on going concern disclosures is expected to endure over the long term. The going concern assumption is a fundamental principle that underpins the preparation of the financial statements and therefore it is critical that appropriate disclosures are provided.
43. In our XRB survey on the IASB's Agenda Consultation we received strong support for the IASB to add a project on going concern as a high priority to its work plan. In particular, constituents highlighted the need to improve going concern disclosure requirements to close the expectation gap between what is required to be disclosed in the financial statements and disclosures expected by auditors.
44. Consequently, we consider the IASB should add a standard-setting project to its workplan to develop more specific going concern requirements about:
- (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and
 - (b) management's plans to mitigate the effect of any material uncertainties around the entity's ability to concern as a going concern.
45. Constituents also raised the following matters that we recommend the IASB consider under a comprehensive project on going concern:
- (a) the lack of a definition and limited guidance on the meaning of "material uncertainty";
 - (b) the limited guidance on how the going concern assessment should be conducted by management and the extent of analysis required about future operations; and
 - (c) whether a mandatory disclosure be introduced, regardless of the entity's going concern position, explaining the basis for applying the going concern assumption for the preparation of the financial statements.
46. This project will be helpful to:
- (a) users, to ensure they receive relevant and transparent information on the entity's going concern position;
 - (b) preparers, by increasing the specificity of the expected disclosures when the going concern assumption is subject to increased judgement and/or material uncertainties; and
 - (c) auditors, as this project should help align the disclosure requirements in the accounting standards with the disclosure expectations in the auditing standards when auditors are assessing the adequacy of the going concern disclosures.
47. We acknowledge that:
- (a) going concern is addressed in paragraphs 25, 26 and 122 of IAS 1 *Presentation of Financial Statements*;
 - (b) the IFRS Interpretations Committee issued agenda decisions on going concern in July 2010 and July 2014; and

- (c) the IASB published an educational article, *Going concern – a focus on disclosure*, in January 2021.
- 48. Notwithstanding these requirements and guidance, we consider more specific requirements, all in one place, in IAS 1, would substantially improve the provision of relevant information to users on going concern.
- 49. We therefore propose that the IASB adds a going concern project to its work plan as a high priority, medium-sized project as described in paragraph B38 parts (a) and (b) of the RFI.
- 50. As we have domestic standard-setting experience in this area, we offer our experience to support the IASB during this proposed project to amend IAS 1.

Discount rates – High priority

- 51. The current uncertain economic conditions caused by COVID-19 have posed an increased challenge for many entities in determining accounting estimates, in particular in estimating appropriate discount rates. The measurement of certain liabilities and long-term provisions is significantly impacted by the discount rate used for the time value of money and changes to the discount rate used introduce significant variability to the financial performance of an entity.
- 52. Constituents in New Zealand have raised several concerns about application challenges when determining the appropriate discount rate in different circumstances. These concerns arise from inconsistencies in IFRS Standards specifying:
 - (a) which types of inputs to use in a present value measurement technique; and
 - (b) how to determine the amount of the inputs.
- 53. The IASB's recent research project on *Discount Rates in IFRS Standards* identified similar concerns and noted inconsistencies between requirements relating to discount rates in IFRS Standards. Inconsistencies arise because different IFRS Standards adopt different measurement bases. Other inconsistencies, mostly relating to entity-specific current value measurements, arise partly because different IFRS Standards were developed at different times and with different areas of focus.
- 54. We note that IASB staff have indicated that the project produced a list of matters that staff will consider in the future when developing recommendations for IASB present value measurement requirements. However, it may be that a simple education tool will be an efficient and helpful response that addresses user understandability in relation to the use of discount rates in IFRS Standards.
- 55. For example, the IASB could publish guidance that sets out the respective standards, the discount rates used and the reason for the use of those rates, as some of the reasons for the different rates used in different standards are valid. Guidance will not address any inconsistencies that need to be remedied over time with standard-setting activity. However, it will help users to understand why specific discount rates are used in IFRS Standards and contribute to the IASB's activity of understandability of IFRS Standards.
- 56. It would also be valuable to constituents if the IASB added additional guidance on how entities should derive the inputs for discount rates in certain instances. As New Zealand does not have

a deep corporate bond market it can be difficult to determine market rates. Further, even if there is a market for corporate bonds, constituents can find it challenging to determine an appropriate discount rate that is entity and asset specific. For example, entities find it difficult to determine specific adjustments when they do not have a credit rating. Another option would be for the IASB to consider providing a practical expedient (e.g. use of the risk free rate) in certain circumstances.

57. In line with these comments, we would also support the IASB providing guidance, in the context of IFRS 16 *Leases*, on determining an appropriate credit margin and adjustment for security when determining the lessee's incremental borrowing rate. This guidance will be useful even in the instances where there is market information.
58. We therefore support the IASB including a project on the 2022–2026 work plan on discount rates. However, it may be that the scope can be modified to encompass more educational tools and guidance and to limit standard setting to those areas where there is a real deficiency in an IFRS Standard with respect to discount rates. This is in line with our comments above about the greater use of educational tools and guidance to improve understandability of the IFRS Standards as well as the need for the IASB to clearly define the problem before embarking on standard-setting activity.

Other comments

Climate-related risks

59. We consider that there is a need for better qualitative and quantitative information about the effect of climate-related risks on the carrying amount of assets and liabilities in the financial statements. We agree that disclosures on climate-related and emerging risks – that are useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity – should be provided in general purpose financial statements. These disclosures are particularly important given that climate-related and emerging risks impact the readers understanding of other information provided in the financial statements (e.g. measurement of assets).
60. Through our outreach activities, many constituents in New Zealand have highlighted the importance of the IASB developing disclosure requirements that encourage improved reporting on an entity's climate-related and emerging risks as they relate to information disclosed in the financial statements. Investors who use general purpose financial statements prepared in accordance with IFRS Standards have emphasised the increased influence of information about climate-related risks on their decision making.
61. We acknowledge the recent IASB guidance⁴ which explains how existing principles and requirements within IFRS Standards address the disclosure of climate-related risks and other emerging risks in the financial statements. We understand that climate-related and emerging risks are not addressed explicitly by IFRS Standards but are however addressed by existing principles.

⁴ [In Brief: Climate-related and other emerging risks disclosures: Assessing financial statement materiality](#) published November 2019; and [Effects of climate-related matters on financial statements](#) published November 2020.

62. The IASB guidance material is very useful but given the importance investors (and other stakeholders) are placing on climate-related risks we can see the need for standard-setting activity in the future. However, now is not the right time to commence any such activity as discussed further below.
63. We note that the Trustees of the IFRS Foundation are currently working through the formation of a new International Sustainability Standards Board (ISSB) and that this Board will likely have an initial focus on developing climate-related disclosures.⁵ Before any work should be considered by the IASB on climate-related disclosures as it relates to general purpose financial statements, the relationship between the focus of activities of the IASB and the ISSB will need to be clearly articulated.
64. Inevitably, there will need to be some level of integration between IFRS Standards issued by the IASB and sustainability standards issued by the ISSB. However, we recommend that the establishment of the ISSB and the development of sustainability standards be given time to mature first before considering any amendments to IFRS Standards.
65. In line with our comments above, we have not specifically commented in this submission on the climate-related risks project proposed in the RFI. Until the ISSB is formally established and there is clarity as to how it will operate and integrate with the IASB it would be premature for the IASB to commence a project on climate-related risks.

IFRS Interpretations Committee Agenda Decision Process

66. As noted earlier, we have received feedback that the recent SaaS Agenda Decision issued by the IFRS Interpretation Committee is causing a significant amount of concern by users of IFRS Standards in New Zealand. Many reporting entities consider that customisation and configuration costs (which are often significant) related to SaaS arrangements will provide future economic benefits to the reporting entity beyond the period in which the costs are incurred. As such, many New Zealand entities applying IFRS based standards have previously concluded that these costs should be capitalised to faithfully reflect the underlying economics of the transaction.
67. The explanatory material in the agenda decision issued in April 2021 has resulted in many entities coming under significant time pressure to change their accounting policy and reverse previous amounts capitalised before seeking approval of their 30 June 2021 annual financial statements. We have also heard that the resulting change in accounting treatment has significantly impacted some SaaS funding arrangements which are based on expected levels of capital expenditure.
68. In the case of the SaaS agenda decision, the IFRS Interpretations Committee has issued an agenda decision that is technically aligned with the principles of the accounting standards, but we note the accounting outcomes are significantly different to how many entities have interpreted and applied the applicable IFRS standards in practice. When a tentative agenda decision is not broadly accepted⁶, and/or the agenda decision is likely to have a material

⁵ We have similar initiatives currently underway in New Zealand as the Government recently announced that it plans to introduce a mandatory climate-related financial disclosure regime which will require certain entities to report climate-related financial disclosures in accordance with a standard(s) to be developed by the External Reporting Board (XRB).

⁶ We note the SaaS agenda decision was only supported by 5 out of 19 total respondents.

impact on how the IFRS Standards are currently being applied in practice, we suggest the IASB gives increased consideration to adding a standard-setting project to its work plan in response to the issues raised.

69. In addition, when an agenda decision is expected to have a widespread impact and result in a material change to existing accounting practices, we encourage the IASB to give clear direction on when it expects an entity to implement the resulting changes in accounting policy. In these circumstances an entity should be given appropriate time to implement the changes. For example, in the same way as when a new standard (or amending standard) is given an effective date that allows for a reasonable implementation period.
70. We note that the IASB has said that it expects entities to be entitled to “sufficient time” to implement changes in accounting policy that result from an agenda decision. We also note the comments of the IFRS Interpretations Committee Chair that the Committee has in mind a “matter of months rather than years”. However, in the circumstances described above we either encourage the IFRS Interpretations Committee to include an effective date with the agenda decisions issued, or for the issue to be addressed through an IASB standard-setting project.
71. The divergence of views on the SaaS tentative agenda decision and the concerns arising from the subsequent consideration of explanatory material in the agenda decision issued further highlights the need for the IASB to prioritise a project on its work plan for intangible assets.

Review of the equity method

72. We would also like to acknowledge and support the separate submission to the IASB by Professor Mike Bradbury and the other New Zealand researchers who have encouraged the IASB to undertake a fundamental review of equity accounting.

Appendix 2: Potential IASB projects and priority rating

Described projects	Proposed NZASB priority rating
Potential IASB projects	
Borrowing costs	Low
Climate-related risks	Medium
Commodity transactions	Low
Cryptocurrencies and related transactions	Medium
Discount rates	High
Employee benefits	Low
Expenses — inventory and cost of sales	Low
Foreign currencies	Low
Going concern	High
Government grants	Medium
Income taxes	Medium
Intangible assets	High
Interim financial reporting	Low
Negative interest rates	Medium
Operating segments	Medium
Other comprehensive income	Medium
Separate financial statements	Low
Statement of cash flows and related matters	Medium
Research pipeline projects	
Discontinued operations and disposal groups	Low
Inflation	Low
Pollutant pricing mechanisms	Medium
Variable and contingent consideration	Low
Other financial reporting issues suggested to the Board	
Align the definition of cost in IFRS Standards	Low
Clarify the accounting for transactions with owners (including government owners) acting in their capacity as owners	Low
Converge IFRS 13 <i>Fair Value Measurement</i> with International Valuation Standards	Medium
Develop accounting requirements for assets acquired at no cost (from related and third parties)	Medium

Described projects	Proposed NZASB priority rating
Develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied	Medium
Develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements	Low
Review the accounting for shares bought back to replace shares granted in share-based payment transactions	Low
Review the requirements of IAS 33 <i>Earnings per Share</i> in the light of changes to the business environment and the Conceptual Framework for Financial Reporting	Low
Review the requirements of IAS 36 <i>Impairment of Assets</i>	Medium
Review the requirements of IAS 41 <i>Agriculture</i> , focusing on immature biological assets that cannot be sold in their current condition	Low