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13 October 2021

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
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Dear Board Members,

**RESPONSE TO REQUEST FOR INFORMATION – THIRD AGENDA CONSULTATION ("RFI")**

ISCA sought views from its members on the above RFI through a four-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We welcome and appreciate the opportunity to share our feedback on the Board's consultation on its workplan from 2022 to 2026 as it is pertinent for the Board to engage stakeholders on a regular basis, especially so for IFRS to stay relevant in the marketplace.

Our detailed comments and responses to the RFI are set out below.

**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?

We are supportive of the Board's main activities. The percentage of the level of focus of the Board's main activities should be proportional to the specific areas or issues. Hence, we are of the view that the Board should consider the feedback from this RFI in the allocation of resources and level of focus accordingly.

We note that the Board has an existing mechanism ("Annual Improvements to IFRSs") for the issuance of non-urgent amendments to existing standards on a biennial basis (once every 2 years). Notwithstanding this, the Board should consider issuing specific or targeted amendments to Standards to address issues relating to lack of clarity and diversity in practice, as and when they are identified. Such amendments would be helpful to users in applying the standards in a timely and consistent manner.

We appreciate the Board's efforts in deliberation of feedback gathered on proposals for new or amended standards. Perhaps the Board might want to consider enhancing another channel for gathering feedback. For instance, conducting outreaches where the responses can be more informal; this can potentially attract more stakeholders to share their comments instead of submitting formal comment letters.

**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?

We agree that the seven proposed criteria the Board considers in deciding whether to add a potential project to its work plan is comprehensive. However, it would be helpful if the Board could consider the possible use of weightage in its assessment of each criterion when deciding whether to add a project to its work plan. Furthermore, it would be useful if the Board could explain how it assesses each criterion before deciding to add medium size or large size projects to its 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 r 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.

The following table provides a summary of our proposed ranking of projects listed in Appendix B in the RFI with due considerations given to both Singapore and Asian markets.

| High Priority | Medium Priority | Low Priority |
|---|---|---|
| 1) Climate related risks | 1) Borrowing Costs | 1) Discontinued operations and disposal groups |
| 2) Pollutant pricing mechanisms | 2) Cryptocurrencies and related transactions | 2) Discount rates |
| 3) Commodity transactions | 3) Going Concern | 3) Employee benefits |
| 4) Government grants | 4) Interim financial reporting | 4) Expenses – Inventory and cost of sales |
| 5) Intangible assets | | 5) Foreign currencies |
| | | 6) Income taxes |
| | | 7) Inflation |
| | | 8) Negative interest rates |
| | | 9) Operating segments |
| | | 10) Other comprehensive income |
| | | 11) Separate financial statements |
| | | 12) Statement of cash flows and related matters |
| | | 13) Variable and contingent consideration |

## A. <u>High Priority Projects</u>

### 1) Climate-related Risks and 2) Pollutant Pricing Mechanisms

There has been an increased focus on climate change and sustainability in Singapore and worldwide. In Singapore, regulators such as Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX) are placing greater emphasis on green / sustainable finance, climate change and disclosure of sustainability issues for corporates. This is evident from the following initiatives:

- SGX has issued a public consultation on its own sustainability reporting rules by consulting the market on whether they should incorporate the Task Force on Climate-

Related Financial Disclosures (TCFD) recommendations into their listing rules while introducing a format for climate disclosures for listed companies.

- MAS has launched its Green Finance Action Plan[1] to support a sustainable Singapore and to facilitate Asia's transition to a sustainable future.
- In the financial institutions space, MAS launched the guidelines on environmental risk management[2] for banks in 2020 and is also considering rolling out mandatory climate related financial disclosures for financial institutions.

As evidenced from the above, investors would require quality information about effects of climate-related risks in the financial statements, including better disclosures.

Climate Impact X (CIX)[3] is a joint venture funded by DBS Bank, Standard Chartered Bank, Temasek Holding and the Singapore Exchange. CIX will offer platforms and products that cater to the needs of different buyers and sellers of carbon credits through the formation of a new global carbon exchange and marketplace in Singapore by end of 2021. The set-up of carbon trading exchanges escalates the need for reporting of these carbon credits in the financial statements.

We also support establishing of a Sustainability Standards Board (SSB) to work on a global sustainability reporting standard, given that there is no one uniformly adopted sustainability reporting standard and diversity noted in sustainability disclosures. In addition, we are supportive of the alignment of the global sustainability reporting standard with financial reporting standards.

Based on the above reasons, we recommend that "Climate-related Risks" and "Pollutant Pricing Mechanisms" be classified as high priority projects and that they should be addressed together, considering that these two topics are intricately linked to each other.

**3) Commodity Transactions**

Commodity transactions are quite common among corporates in Singapore, being one of the largest commodity hubs in Asia. Along with the collapse in commodity prices during the COVID-19 pandemic in 2020, there were a number of high profile fraud / bankruptcy cases[4] among commodity trading companies in Singapore. These fraud / bankruptcy cases resulted in losses suffered by banks that had extended loans to these commodity trading companies. As a result, banks might be less willing to extend credit to such companies in future. The regulators have

[1] https://www.mas.gov.sg/development/sustainable-finance

[2] https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management

[3] https://www.sgx.com/climate-impact-x-cix

[4] https://asiatimes.com/2020/04/singapores-oil-traders-at-risk-of-collapse/

since stepped in to improve the practices around commodity financing. The Association of Banks in Singapore has published a code of best practices[5] for commodity financing in November 2020.

We note that the above fraud / bankruptcy cases partially stemmed from inadequate financial disclosures in the financial statements and poor internal controls. This may have resulted in banks having less comprehensive information about the operations and financial position/ performance of these companies. In addition, we observed that some commodity trading companies may take huge positions on the guise that these transactions are for "own-use", when in fact they are for speculation purposes.

From our preliminary analysis of financial statements of commodity trading companies, we have identified the following areas of weakness: (i) diversity in disclosure of financial risk management policies and information; (ii) insufficient disaggregation of derivative financial instruments and other disclosures; (iii) potential diversity in accounting treatment of physical forward contracts.

In consideration of the above, we are of the view that the Board should focus on how to distinguish the accounting for own-use contracts as compared to contracts executed for trading purposes. This would provide greater clarity and consistency about whether these contracts should be measured at fair value and how they are presented or disclosed in the financial statements. The Board should also review the disclosures required for risk management by commodity traders to better reflect the type of risks the entity has undertaken in its entirety for both physical trades and derivatives.

With the recovery of commodity prices from the COVID-19 period levels and possibility of a super cycle (i.e. an extended period of growth driven by strong demand), many entities may have an increased interest in the trading of commodities.

Based on the above, we recommend that "Commodity Transactions" be a high priority project and the Board's focus should be on commodity traders and not customers in commodity trades.

**4) Government Grants**

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* was first issued in April 1983 with minor amendments made in 2009 for alignment to IFRS 9 *Financial Instruments* in respect of loans with below market rate interest.

Being one of the older standards, the requirements in IAS 20 are likely not as relevant and consistent with the current IFRS framework. For example, the concept of matching revenue and cost is no longer applicable. In addition, there is diversity in practice since entities are given an

[5] https://abs.org.sg/docs/library/code-of-best-practices-commodity-financing.pdf

accounting policy choice to present similar government grant income either as a deduction against the related expenses or present it as 'other income' (net vs gross presentation).

Government grants are common in Asia for certain businesses, such as new start-ups and social enterprises. In addition, some governments gave grants to businesses to tide them through the COVID-19 period. For instance, the Singapore government issued several COVID-19 relief measures such as the Jobs Support Scheme, Property Tax Rebates, Foreign Worker Levies/Rebates during the COVID-19 period. In this respect, ISCA issued several Financial Reporting Bulletins[6] to guide entities on the application of SFRS(I) 1-20 or FRS 20 *Government Grants* (i.e. Singapore equivalent of IAS 20) in the accounting for these COVID-19 relief measures.

Based on the above, we recommend that "Government Grants" be a high priority project and the Board should consider targeted amendments to the IAS 20 for more timely review of this Standard.

**5) Intangible assets**

According to Ocean Tomo research[7], intangible assets accounted for 90% of S&P 500's market value in 2020, increasing from preceding periods. In a UK Treasury report[8], the total value of the five most valuable companies in the world amounts to £3.5 trillion, however, they only have £172 billion of tangible assets on their statements of financial position.

In a digital economy, more companies (e.g. Grab, Uber, Facebook) possess intangible resources such as customer bases, brands, efficient business processes, data etc, which may not be allowed to be recognised in the financial statements. Valuation of such intangible resources is difficult and subjective.

We note the Board's efforts in the inclusion of guidance on the disclosures of intangible assets as part of the proposed revised IFRS Practice Statement on Management Commentary. However, this Practice Statement is not mandatory and not adopted by entities in Singapore. Therefore, the Board should consider taking a phased approach, where the first step would be to require improved disclosures about intangibles (whether they meet the criteria to be recognised or not). Considering the lack of consistent valuation methodologies for intangible assets, it might be too ambitious to undertake a comprehensive review of the standard on intangible assets at this juncture, or to change their recognition criteria.

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[6] https://isca.org.sg/standards-guidance/financial-reporting/technical-guidance-issued-by-isca-technical-division/technical-guidance-issued-under-codification-framework/financial-reporting-bulletins

[7] https://www.oceantomo.com/intangible-asset-market-value-study/

[8] https://knowledgeasset.blog.gov.uk/2021/03/24/the-untapped-value-of-intangible-assets-in-the-public-sector/

Preparation of the information required for this additional disclosure could help entities to identify intangible assets that do not meet the criteria to be recognised as assets. Such information could then be highlighted in their management commentary to better inform stakeholders about the resources of the entity.

In view of the above, we recommend that “Intangible Assets” be classified as a high priority project.

## B. <u>Medium Priority Projects</u>

### 1) Borrowing Costs

With reference to paragraph B6(b) of the RFI, we agree that the definition of qualifying asset may be too restrictive, specifically when borrowing costs incurred are excluded for the construction of goods for sale to customers as published in IFRIC’s Agenda Decision[9] in March 2019.

As highlighted in ISCA’s comment letter[10] to the Tentative Agenda Decision[11] in February 2019, we disagreed with IFRIC’s views to not allow capitalisation of borrowing costs for transfer of units by a real estate developer who recognises revenue over time to customers.

Based on the above reasons, we recommend that “Borrowing Costs” be a medium priority project and the Board should undertake a targeted project to improve the definition of qualifying asset in IAS 23 *Borrowing costs*.

### 2) Cryptocurrencies and Related Transactions

The set-up of crypto-exchanges worldwide and increased use of DeFi (decentralised finance) may result in the increased usage of cryptocurrencies. With more prevalent use of cryptocurrencies as a form of payment by end-users, including large corporations, cryptocurrencies have been subjected to increased scrutiny by many regulators around the world. For example, China recently banned cryptocurrency mining while financial regulators banned banks and payment companies from providing bitcoin-related services.

[9] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/ias-23-over-time-transfer-of-constructed-good-mar-19.pdf

[10] https://isca.org.sg/docs/default-source/default-document-library/tech/skm_95819021115210.pdf

[11] https://isca.org.sg/docs/default-source/default-document-library/tech/tentative-ad-overtime-transfer-of-constructed-good.pdf

In March 2020, ISCA issued Financial Reporting Guidance 2[12], providing guidance on the applicable requirements in respective standards for the accounting for cryptocurrencies / cryptoassets from the holder's perspective.

With the development of central bank digital currencies by several central banks, such as in China, UK and Singapore, the accounting requirements in IAS 38 *Intangible Assets* might not be adequate to address the economic characteristics of cryptocurrencies that are similar to cash. In addition, there is a lack in guidance in the marketplace on the accounting for cryptocurrencies from the issuer's perspective. Hence, we propose the Board to undertake a project relating to the accounting of cryptocurrencies from the issuer's perspective.

Based on the above reasons, we recommend that "Cryptocurrencies and Related Transactions" to be considered as a medium priority project.

### 3) Going Concern

The on-going COVID-19 pandemic has further stressed the importance of entities' performing a proper going-concern assessment and providing adequate disclosures in the financial statements when required. In such cases investors will need to have sufficient information to understand management's going-concern assessment. We note that at times, management's disclosures about going concern seem inadequate or in a boilerplate manner.

Therefore, we suggest that the Standards should provide more prescriptive disclosure requirements about the management's going-concern assessment.

We found that the educational material "Going concern – A focus on disclosure"[13] that the Board issued in January 2021 is useful for stakeholders in applying the going concern assessment especially during the COVID-19 pandemic period. Hence, we encourage the Board to issue more of such materials when appropriate. While this serves as a good interim measure, some entities may not read or apply the Board's educational materials.

Based on the above reasons, we recommend that "Going Concern" to be a medium priority project.

### 4) Interim Financial Reporting

When applying SFRS(I) 1-34 *Interim Financial Reporting* (i.e. Singapore equivalent of IAS 34 *Interim Financial Reporting*), we note inconsistencies in the requirements compared to other

[12] https://isca.org.sg/docs/default-source/default-document-library/tech/frg-2-accounting-for-cryptoassets-from-a-holder-s-perspective.pdf?sfvrsn=42787f3_0

[13] https://www.ifrs.org/content/dam/ifrs/news/2021/going-concern-jan2021.pdf

standards under SFRS(I) (i.e. IFRS) framework. For example, there is a lack of clarity on the transition disclosures for the application of a new or amended standard as shared in paragraph B54(a) of the RFI.

Based on the above, we recommend that “Interim Financial Reporting” be a medium priority project.

Should you require any further clarification, please feel free to contact myself or Ms Jezz Chew, via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
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Financial Reporting;
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