



**The Institute of  
Chartered Accountants  
of Pakistan**

**CA  
PAKISTAN**

**HEAD OFFICE**

September 27, 2021

(Submitted Electronically)

International Accounting Standards Board  
London, United Kingdom

**IASB's Request for Information: Third Agenda Consultation'**

Dear Board Members,

The Accounting Standards Board of the Institute of Chartered Accountants of Pakistan (ICAP) is pleased to comment on the Request for Information: *Third Agenda Consultation*, published by the International Accounting Standards Board (the Board/ IASB) in March 2021.

We acknowledge and commend IASB for the considerable progress made, since the 2015 agenda consultation. We also welcome the IASB agenda consultation and believe that this will transpire into a robust and effective IASB work plan for 2022 to 2026.

We are broadly supportive of the IASB's activities and level of focus. However, we have noted suggestions for the increased level of focus in the maintenance and implementation support for existing standards, digital financial reporting, and the understandability of the standards.

We also agree with the IASB's identified areas that should be considered for the development of the work plan for next five years. Based on the interest and concerns of stakeholders in Pakistan, we suggest IASB gives maximum priority to the topics of non-going concern accounting and accounting of income taxes.

The **Appendix** to this letter provides our detailed responses to the questions asked in the IASB's Request for Information (RFI).

We hope our comments would be helpful to the Board's deliberations on its agenda and creation of work plan for 2022 to 2026. For questions concerning our comments, please contact the undersigned, at [sohail.malik@icap.org.pk](mailto:sohail.malik@icap.org.pk)

Yours truly,

  
Sohail Malik  
Director Technical Services

Encls: as above

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Chartered Accountants Avenue, Clifton, Karachi-75600 (Pakistan). Ph: (92-21) 111-000-422, Fax: 99251626

Website: [www.icap.org.pk](http://www.icap.org.pk), E-mail: [info@icap.org.pk](mailto:info@icap.org.pk)



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

### ICAP response to question 1

ICAP understands the IASB's position that an increased focus on a particular activity would cause the availability of fewer resources and lesser focus on other activities. Keeping this in mind, we suggest that the level of focus on certain areas requires reconsideration, and our suggestions are as under:

IASB activity	Current level of IASB focus and effort	ICAP suggestion
New IFRS Standards and major amendments to IFRS Standards	40%–45%	Decrease
Maintenance and consistent application of IFRS Standards	15%–20%	Increase
The IFRS for SMEs Standard	5%	Unchanged
Digital financial reporting	5%	Increase
Understandability and accessibility of the Standards	5%	Increase
Stakeholder engagement	20-25%	Unchanged





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### **New IFRS Standards and major amendments to IFRS Standards**

In the last few years, IASB has issued some of the significant IFRS Standards ((i.e. IFRS 9, Financial Instruments, IFRS 15, Revenue from Contracts with the Customers, IFRS 16, Leases, IFRS 17, Insurance Contracts). We also note that certain other important topics are part of IASB's current work plan.

We understand that because of IASB's commendable efforts in developing the above-noted IFRS Standards, in coming years, comparatively lesser focus could be on the development of new standards. We believe that the existing set of IFRS Standards need improvements and amendments (where required) with the underlying aim to make those standards relevant, clearer, and robust. Coming years could be a period of consolidation for IASB, focusing and concentrating its efforts on improving the currently issued set of IFRS Standards. In this context (in our response to question 3(a)), we have highlighted areas and levels of priority for IASB's consideration, based on our jurisdiction's experience.

### **Maintenance and consistent application of IFRS Standards**

We suggest IASB increases its level of focus towards the maintenance and consistent application of IFRS Standards.

The increased focus should entail more educational material. We appreciate and acknowledge IASB's efforts in developing timely and relevant educational material on the latest issued IFRS Standards (i.e. IFRS 9, IFRS 15, IFRS 16, and IFRS 17). We suggest IASB should also consider the development and publication of similar levels of educational materials for other IFRS Standards.

IFRS IC Committee has been playing an important role in supporting the consistent application of IFRS Standards. Increased and timely resolution of emerging matters by the IFRS IC Committee could also address the complexity and diversity in the application of IFRS Standards.

We also link the understandability and clarity of a standard to the development and maintenance of the standard. An enhanced understanding of IFRS requirements would lead to enhanced and consistent application. In this context, as explained below, the understandability aspect of IFRS Standards requires a holistic study and examination of the current literature.

### **Understandability and accessibility of the Standards**

As noted above, we understand that the 'understandability' of IFRS Standards depends on two important factors:

- the structure and drafting convention of IFRS Standards; and
- the comprehensiveness of the basis for conclusions

We appreciate IASB's approach in developing the last set of major standards (IFRS 9, IFRS 15, IFRS 16, and IFRS 17). We believe that to understand the context and basis of requirements of these latest developed standards, the basis for conclusions provides very useful and insightful discussions and rationales.

Based on this positive experience, we believe that the basis for the conclusion of other IFRS Standards should also be further developed and improved for common understanding and consistent application of these standards. We believe that this requires a holistic re-evaluation of



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the current version of IFRS Standards. IASB may prioritize its activities by identifying and working on the standards that apply to most of the entities (such as IAS 8, IAS 2, IAS 16, IAS 23, IAS 24, etc.). We expect this approach to align the complete IFRS Standards to a consistent drafting convention and the same level of comprehensiveness will lead to improved and consistent understanding and application of IFRS Standards.

### **Digital Financial Reporting**

Digital financial reporting is an area where IASB should increase its focus.

We appreciate IASB's efforts on digital financial reporting and note that IASB has been developing and maintaining IFRS taxonomies. Further, IASB also issued educational guides and supporting material to aid understanding and use of the IFRS taxonomy.

However, based on our implementation experience of digital financial reporting in Pakistan, we believe more efforts and outreach aspire from IASB. Countries lacking local expertise in XBRL technology are facing challenges in the adoption and implementation of IFRS taxonomy developed by IASB.

We recognize that IFRS taxonomy development is a fundamental part of a digital financial reporting project, however; we have experienced that the scope and scale of understanding digital financial reporting are much broader than IFRS taxonomy development.

From the perspective of effective awareness and implementation of digital financial reporting, IASB should contemplate developing a strategy and methods to increase advocacy, enhance stakeholder's understanding, and support the implementation of digital financial reporting. This would require linkages and leveraging the support of other relevant stakeholders. For example, IASB may consider developing linkage with XBRL International. IASB may consider forming a specific group of jurisdictions that have successfully used IFRS taxonomies and have implemented XBRL based corporate financial reporting systems. We also suggest that IASB, through the engagement of other stakeholders, develops more guidance material on the design, use, and functioning of XBRL taxonomy. Increased focus and efforts would help countries in adopting and adapting digital financial reporting.



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**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?

**ICAP response to question 2**

We broadly agree with the seven (07) criteria identified by IASB (in paragraph 21 of RFI) for assessing the priority of financial reporting issues that could be added to its work plan. We note that one criterion is 'importance of the matter to investors'. As financial reporting matters are relevant for many stakeholders, and limiting its importance to investors requires IASB's attention. In this context, we suggest IASB to base the criteria on the importance of the matter to stakeholders (rather, only investors).

We do not have any additional suggestion for IASB.





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### 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.

### ICAP response to question 3

- (a) ICAP, primarily based on the experience, concerns and interests of Pakistan's financial reporting stakeholders, has listed the priority for each of the potential projects.

Project	Priority	Explanation
Going concern	High	<p>We observe that the current requirements of IFRS Standards, on how management should assess the going-concern basis of preparation, need more clarity and implementation guidance.</p> <p>Further, we also agree that the IFRS Standards should contain specific accounting requirements about the basis on which entities should prepare financial statements when the going-concern assumption is inappropriate.</p> <p>We suggest, IASB to carry out a project to determine whether there is a need for a separate standard-setting or improvement in existing IFRS Standards would be sufficient.</p>



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Project	Priority	Explanation
Income taxes	High	<p>In line with paragraph B43(c) of RFI, we note that the current version of IAS 12 lacks specific requirements about how to account for various and emerging types of taxes.</p> <p>In our jurisdiction, we have an alternative minimum tax regime, which requires an entity to pay higher of tax based on the taxable profit or a defined percentage of revenue or another benchmark. The amount of alternative minimum tax paid in a year over tax based on taxable profit is adjustable against future tax liability. The IAS 12 does not contain any specific guidance on recognition of current and deferred tax in such a scenario. IFRS IC Committee agenda decisions on similar matters (tonnage based income tax) and discussion of taxable profit/ loss (as a notion of net of income and expenses) show to the divergent understanding and practices across jurisdictions.</p> <p>We also believe that such a hybrid taxation system could also be prevalent in other jurisdictions.</p> <p>There is also a need to include further guidance on identification and accounting of tax credits under IAS 12.</p> <p>The stakeholders have frequently approached us for guidance on application of IAS 12 requirements in these areas and there is significant diversity in views and practices.</p> <p>Therefore, we suggest IASB give a high priority to improving IAS 12.</p>
Government grants	Medium	<p>In Pakistan as well as internationally, because of COVID-19 pandemic, the governments have been providing direct or indirect support to the businesses in different forms. For example, in Pakistan, the commercial banks introduced subsidized financing products, which were fully or partially sponsored by the central bank. We note that earlier this year, European Central bank also raised an accounting query regarding application of IAS 20 on certain loans (i.e. TLTRO III).</p> <p>As highlighted in paragraph B40(b), we have observed varied interpretations of IAS 20 requirements by the stakeholders and diversity in practices in the recognition and measurement of such schemes.</p> <p>Because of governments intervention through support schemes (including lower rate loans) to revive the</p>





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Project	Priority	Explanation
		economy, and varied understanding and accounting practices across many stakeholders, we suggest that IAS 20 should be reviewed and improved as a medium priority project.
Intangible assets	Medium	<p>In our jurisdiction, we have observed no significant implementation challenge on application of IAS 38 requirements.</p> <p>However, we also share the concern of stakeholders (including local and international) that IAS 38, Intangible Assets, requires a comprehensive review.</p> <p>The existing requirements of IAS 38 require a fresh look and perspective, as this standard was originally issued in 1998 (with improvements and changes brought in subsequent years). In the backdrop of developments in the business environment and technologies, IAS 38 warrants a comprehensive review.</p> <p>We believe that a complete review of accounting requirements of intangible assets demands consistent and extensive efforts and resources at IASB level. This makes it a long-term project, and considering resource limitations, IASB could categorise it as a medium priority project.</p>
Other comprehensive income	Medium	<p>We suggest IFRS Standards to introduce principle-based requirements regarding the recognition of income and expenses in the other comprehensive income and their subsequent recycling.</p> <p>However, as the concerns reported by the stakeholders are not very significant, we consider IASB to give the project a medium priority.</p>
Variable and contingent consideration	Medium	<p>We understand that the requirements of IFRS 15 about variable and contingent consideration need further clarification and application guidance, as there is varied interpretation and diversity in practice.</p> <p>IASB could address this aspect through a targeted improvement in IFRS 15.</p>
Discount rates	Low	In Pakistan, we have not observed widespread concerns related to the varied discount rate requirements. Based on this, we suggest that variation in discount rate requirements (because of different measurement bases between IFRS Standards) should be addressed as a low priority project.





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Project	Priority	Explanation
Borrowing costs	Low	In Pakistan, our stakeholders have not shared significant implementation challenges regarding application of IAS 23, <i>Borrowing Costs</i> .
Climate-related risks	Low	<p>The impact of climate related risks on the financial statements globally as well as in Pakistan is a relevant but new subject.</p> <p>For our stakeholders, it is an emerging subject of discussion. As of now, we have not observed notable concerns reported by stakeholders for provision of specific guidance on effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements.</p>
Commodity transactions	Low	Stakeholders in Pakistan have not raised substantial concerns about the provision of specific guidance on accounting of commodity transactions in the IFRS Standards.
Cryptocurrencies	Low	Currently, in Pakistan, the central bank has prohibited from holding or dealing in cryptocurrencies. However, the subject of digital currencies is currently under active study by the central bank. Therefore, from our perspective, presently, the matter of specific accounting guidance for cryptocurrencies under IFRS Standards does not need immediate attention of IASB. However, the future developments in Pakistan (on the permissibility of cryptocurrencies by the central bank), may warrant a need for specific accounting guidance in the future.
Discontinued operations and disposal groups	Low	Stakeholders have not highlighted significant implementation challenge about the application of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .
Employee benefits	Low	<p>Our stakeholders have not highlighted significant implementation challenges about application of paragraph 3 of IAS 19, <i>Employee Benefits</i>.</p> <p>(i.e. determination of discount rates for post-employment benefit obligations.)</p> <p>Further, the other concern highlighted in the agenda consultation regarding specific requirements for hybrid plans (i.e. with the characteristics of both defined contribution and defined benefit plan), is presently not prevalent in our jurisdiction.</p>



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Project	Priority	Explanation
Expenses— Inventory and cost of sales	Low	Our stakeholders have not highlighted significant implementation challenges on IAS 2, <i>Inventories</i> .
Inflation	Low	Macro-economic conditions of Pakistan have not caused entities to apply IAS 29, <i>Financial Reporting in Hyper Inflationary Economies</i> . Given aforementioned, we have no observable data about IAS 29 application.
Interim financial reporting	Low	Our stakeholders have not noted significant implementation challenges on application of IAS 34, <i>Interim Financial Reporting</i> .
Negative interest rates	Low	Negative interest rates are not prevalent in Pakistan.
Operating segments	Low	In Pakistan, we have not observed significant implementation challenges about the application of IFRS 8, <i>Operating Segment</i> .
Pollutant pricing mechanisms	Low	In our jurisdiction, pollutant pricing mechanisms are currently not prevalent.
Separate financial statements	Low	We have not noticed significant implementation challenges of stakeholders about the application of IAS 27, <i>Separate Financial Statements</i> .
Statement of cash flows and related matters	Low	Our stakeholders have not highlighted significant implementation challenges or concerns regarding IAS 7, <i>Statement of Cash Flows</i> .

- (b) Currently, we do not have any suggestions for the Board to add any financial reporting issues not described in Appendix B to its work plan for 2022-26.





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**Question 4**

Do you have any other comments on the Board's activities and work plan?  
Appendix A provides a summary of the Board's current work plan.

**ICAP response to question 4**

ICAP does not have any other comments on IASB's activities and work plan.