IASB

Meeting Summary

September 2022

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Overview

The IASB met in London on 20-22 September. The following items were discussed:

Equity Method

The staff recommended that when measuring the carrying amount to be derecognised in a partial disposal would identify the cost of the specific portion of the investment being disposed of or, if it cannot be identified, apply the last-in, first-out method. They also recommended relief to allow the weighted average method to be used as a practical expedient for equity method investments held prior to the transition date. Several IASB members expressed concerns about the approach and more work will need to be undertaken. The IASB decided that when an equity accounted investee issues equity instruments, and the investor continues to apply the equity method, an ownership interest increase would be treated as a purchase of an additional interest whereas a decrease would be a partial disposal. The IASB also discussed application questions related to transactions between an investor and its associate or joint venture and acknowledged conflicts between the requirements in IFRS 10 and those in IAS 28.

Goodwill and Impairment

The IASB made several changes to its preliminary views in relation to disclosures about the objectives and rationale for the business combinations an entity has made, including an exemption from some of the disclosure requirements when disclosure would be seriously prejudicial to the entity's objectives for the business combination. The IASB decided that, if some disclosure requirements are required only for a sub-set of business combinations, the focus should be on *strategically important* business combinations—i.e. those for which failing to meet the objectives would seriously put at risk the entity achieving its overall business strategy.

Post-implementation Review (PIR) of IFRS 9—Classification and Measurement

At this meeting, the IASB discussed questions relating to matters raised by respondents to the RFI that are not covered by other staff papers. The staff recommended that the IASB not consider further issues related to: derecognition and whether 'substantially all of the risks and rewards' of a financial asset have been transferred; assessing whether the entity has a practice of settling similar contracts net in cash when considering using the 'own use exemption'; the disposal of equity instruments classified as FVTOCI; whether interest rates contractually linked to an index that adjusts the time value of money based on a market interest rate and/or inflation rate introduce 'leverage' in the context of recent significant rises in inflation rates; and whether rates including a leverage factor imposed by the government should follow IFRS 9 for regulated rates guidance and, if so, how to consider whether the rate provides exposure to risks or variability in the contractual cash flows that are inconsistent with a basic lending arrangement. The staff therefore recommend that questions about purchased or originated credit-impaired financial assets be considered as part of the upcoming PIR of the impairment requirements in IFRS 9. IASB members were generally supportive of the staff suggestions, but no decisions were made.

Financial Instruments with Characteristics of Equity (FICE)

The IASB decided to clarify that: IAS 32:23 would apply to an obligation to redeem own equity instruments settled in a variable number of another type of own equity instruments. It decided that on expiry of a written put option on own equity instruments: the financial liability would be reclassified to the same component of equity as that from which it was reclassified on initial recognition of the put option; and the cumulative amount in retained earnings related to the put option would be permitted to be reclassified to another component of equity but amounts previously recognised in profit or loss on remeasuring the financial liability would not be reversed. Furthermore, written put options or forward purchase contracts on own equity instruments are presented gross rather than net.

Primary Financial Statements

The IASB decided not to proceed with any specific requirements for unusual income and expenses. It also decided that all entities would classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category. It withdrew the proposal that an entity classify incremental expenses in the investing category but confirmed the proposal that the specified subtotals listed (in paragraph 104 of the ED) are not management performance measures and adding ‘operating profit or loss and income and expenses from investments accounted for using the equity method’ to the list of specified subtotals. Lastly, it withdrew the proposed prohibition on a mixed presentation of operating expenses.

Work Plan

The staff provided an update on the IASB’s work plan since its last update in May 2022. The IASB decided to consider in the second half of 2023 when to begin the PIRs of the hedge accounting requirements of IFRS 9 and the requirements of IFRS 16. The IASB also discussed clarifying the purpose of a PIR and managing stakeholder expectations about their objectives.

PIR of IFRS 15 Revenue from Contracts with Customers

The staff anticipate that they will undertake outreach from October 2022 to Q1 2023. The RFI is expected to be published in H1 2023, with a 120-day comment period.

Contractual Cash Flow Characteristics

In 2022, the IASB added a project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset’s contractual cash flow characteristics (i.e. the ‘solely payments of principal and interest’ (SPPI) requirements). The IASB decided to clarify that for contractual cash flows to be SPPI, a basic lending arrangement does not give rise to variability in cash flows due to risks or factors that are unrelated to the borrower, even if such terms and conditions are common in the specific market in which the entity operates. The IASB also decided to set out the factors when a financial asset that includes contractual terms that change the timing and amount of the contractual cash flows can be consistent with a basic lending arrangement and therefore have SPPI cash flows. The IASB further decided to clarify that the reference to ‘instruments' in paragraph B4.1.23 of IFRS 9 include lease receivables.

Extractive Activities

The staff presented papers summarising their reviews of disclosure-related stakeholder feedback from research carried out between 2018 and 2021, relevant academic literature and relevant jurisdictional requirements and a sample of annual filings. Overall, IASB members expressed support for the proposed direction of the project and for the three suggested areas for further research. It was noted that it was very important to communicate clearly to stakeholders that these are the only topics that will be taken forward in this project, and that other potential areas identified have now been scoped out. The IASB was not asked to make any decisions.

Maintenance and consistent application

At its June 2022 meeting, the IFRS Interpretations Committee voted to finalise the agenda decision *Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)*. The staff recommended that, rather than finalising the agenda decision, the IASB explore amending IFRS 9. In relation to the forthcoming amendments to IAS 1 for non-current liabilities with covenants, the staff recommended that the IASB clarify requirements around the early application of the 2020 amendments and the 2022 amendments. IASB members agreed with the staff recommendations. Several IASB members noted that the IASB should move quickly as it affects almost all entities in all industries. The Chair acknowledged this but said that it is important to note that the staff recommendation uses the term 'explore standard-setting' which means that it is not certain yet that standard-setting will be undertaken. Only if the issue can be resolved in a timely fashion without significant disruption would the IASB move to standard-setting.

Rate-regulated Activities

The staff recommended that the IASB clarify that an entity would apply IFRIC 12 first and then, apply the requirements of the proposed new Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities. IASB members generally agreed that IFRIC 12 should be applied before the new Standard, however there were mixed views about how to achieve this.

Equity Method

Cover paper (Agenda Paper 13)

The IASB has been discussing, as part of its equity method research project, the application question: How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

The IASB selected a preferred approach to the application question and asked the staff to develop further analysis applying its preferred approach. The IASB is also considering the implications for an alternative approach.

- Preferred approach: After obtaining significant influence, an investor measures its additional interests in an associate as an accumulation of purchases. An investor recognises, at the date of purchasing an additional interest, its additional share in the fair value of the associate's net assets and measures that additional interest at the fair value of the consideration transferred.
- Alternative approach: After obtaining significant influence, an investor measures its investment in the associate as a single asset. An investor measures its aggregated share of the associate's net assets at fair value and remeasures the cost of the investment at fair value at the date of acquiring an additional interest in an associate while retaining significant influence.

The purpose of this meeting was to:

- Continue discussions from the June 2022 meeting on the disposal of an interest in an associate while retaining significant influence
- Continue discussion on other changes in an associate's net assets
- Introduce the application question on transactions between an investor and its associate

At the October 2022 IASB meeting, the staff plan to ask if the IASB agrees to continue with the equity method research project, based on the project's progress to date.

If the IASB agrees to continue with the equity method research project, the staff plan to:

- Continue discussing application questions on the inconsistency between the requirements in IFRS 10 and those in IAS 28, and to refine its analysis and develop recommendations for decision-making at a future meeting
- Ask the IASB to decide on the preferred or the alternative approach to applying the equity method for changes in an investor's ownership interest in an associate while retaining significant influence
- Present the staff analysis on other application questions within the scope of the project
- Ask the IASB whether to extend the scope of the project to other application questions that the IASB received

There was no discussion of this paper.

Partial disposals—how to measure the portion to be derecognised (Agenda Paper 13A)

The purpose of this paper was to discuss possible practical methods of measuring the portion of the carrying amount of an investment in associate to be derecognised to decide if the IASB should amend its tentative decision at the June 2022 meeting.

Staff recommendation

The staff recommended the IASB:

- Retains its tentative decision from the June 2022 meeting—an investor applying the preferred approach to a partial disposal, while retaining significant influence, would measure the portion of the carrying amount of an investment in an associate to be derecognised using
    - A specific identification method, if the investor can identify the specific portion of the investment being disposed of and its cost
    - The last-in, first-out (LIFO) method, if the specific portion of the investment being disposed of cannot be identified
- If the IASB decides to proceed to standard-setting, it considers a relief to allow the weighted average method to be used as a practical expedient on transition for an investment in an associate held at the transition date

IASB discussion

A few IASB members agreed with the conclusions drawn out in the paper and favoured the preferred approach along with a transition relief by applying the weighted average method.

However, some IASB members did not support the recommendations put forward in the paper. They said that these investments are typically viewed as a single pool of shares and the preferred approach considers them to be separate layers. One IASB member said the recommendations may be giving an option to choose which layer they sell and that could allow room for manipulation.

One IASB member pointed out that he did not support the accounting policy choice on this matter. He also asked if the weighted average method would be an option and that companies could change to weighted average if they were using other methods previously.

Some IASB members said it was important that there is a consistent approach for acquisitions and disposals of these investments and that must be factored in when deciding the way forward.

The Chair also pointed out that the IASB need to give due consideration to how subsequent measurement, specifically impairment, would be performed and whether that would consider the investment as a single unit of account or as different layers. He mentioned that it was important that there is consistency between subsequent measurement and derecognition.

A few IASB members also pointed out that the weighted average method, if implemented, should not be called a transition relief because it might not only be applicable on the date of transition but probably also when the relevant transactions take place in the future after the transition date.

Some IASB members acknowledged that it is important to understand how the stakeholders, users and preparers of the financial statements would view these investments and whether they think of this as one unit or account or as different layers within one investment. Also, it would be good to understand from the stakeholders on whether they think the recommendations are practical and achievable for all types of entities.

Changes in an associate's net assets that change the investor's ownership interest (Agenda Paper 13B)

At its April 2022 meeting, the IASB asked the staff to develop the analysis of its preferred approach. Based on the IASB's tentative decisions to date, the preferred approach would require an investor:

- To purchase an additional interest in an associate while retaining significant influence, to: (i) recognise the additional share in the fair value of the associate's net assets at the purchase date; (ii) measure the cost of the additional interest at the fair value of the consideration transferred; (iii) recognise any difference between (i) and (ii) as goodwill or a bargain purchase gain in profit or loss
- To make a partial disposal while retaining significant influence, to: (i) recognise the fair value of the consideration received; (ii) derecognise a portion of the carrying amount of its investment in the associate; (iii) recognise the difference between (i) and (ii) as a disposal gain or loss; and (iv) reclassify a proportion of amounts recognised in other comprehensive income to profit or loss (paragraph 25 of IAS 28)

The purpose of this paper was for the staff to illustrate how an investor could apply the preferred approach to changes in the associate's net assets that change an investor's ownership interest while retaining significant influence.

Staff recommendation

The staff recommended the IASB proposes that when there is a change in an associate's net assets from the issue of equity instruments:

- If an investor's ownership interest increases and the investor retains significant influence, an investor applying the preferred approach recognises the increase as a purchase of an additional interest
- If an investor's ownership interest decreases and the investor retains significant influence, an investor applying the preferred approach recognises the decrease as a partial disposal

IASB discussion

Most IASB members agreed with the staff recommendations and that it was a logical solution to the questions raised and that these are economic events that change the entity's investments and should go through the profit or loss statement.

One IASB member mentioned that it must be cautiously assessed if the dilution of interest is economically the same as a partial disposal because there is no consideration received, and hence if the impact should go through profit or loss. Another IASB member agreed and said that it must be considered whether this meets the definition of income and expense under the *Conceptual Framework*.

One IASB member suggested that in case the change is a passive event i.e. it does not change the ownership type, that the change is not measured and is explained through a disclosure.

IASB decision

10 of the 11 IASB members voted in favour of the staff recommendation.

Transactions between an investor and its associate–an acknowledged inconsistency between the requirements of IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (Agenda Paper 13C)

This paper introduced, as part of the equity method project, application questions related to transactions between an investor and its associate. The following application questions are in the scope of the project and relate to transactions between an investor and its associate:

- How should an investor account for gains and losses that arise from the sale of a subsidiary to its associate, applying the requirements of IFRS 10 and IAS 28
- In a downstream transaction, whether an investor recognises its share of a gain that exceeds the carrying amount of its investment in the associate
- In an upstream transaction, whether an investor eliminates its share of gain or loss from the carrying amount of the investment in the associate or the acquired asset
- Whether the provision of service and transactions, that are not transfer of assets, are subject to the requirements for upstream or downstream transactions

The staff presented 4 alternatives in their agenda paper:

- Alternative 1—account for all contributions and sales applying IFRS 10
- Alternative 2—apply IFRS 10 requirements and then overlay with IAS 28 requirements (overlay approach)
- Alternative 3—apply IFRS 10 to contributions and sales of businesses and of assets depending on whether they are ordinary activities (mixture)
- Alternative 4—account for all contributions and sales of businesses applying IFRS 10 and account for all other contributions and sales applying IAS 28 (Reviving 2014 Amendment)

The objective of this paper was to introduce how the equity method might be applied to the application question, which relates to an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28. The IASB was not asked to make decisions at this meeting. The staff will use the feedback from this IASB meeting to refine the analysis and develop recommendations for decision-making at a future meeting.

IASB discussion

Many IASB members indicated their preference towards Alternative 2. One IASB member mentioned they preferred this alternative as it does not amend the existing IFRS 10 and IAS 28.

Two IASB members noted their concerns around Alternative 3 and Alternative 4 being complex by introducing additional aspects. Another IASB member mentioned that he did not prefer these alternatives as they created differences in how an asset is formed.

A few IASB members supported Alternative 1 and Alternative 4 as well. One IASB member asked for some time to be spent with users who have similar arrangements and transactions to understand how these would work. Another IASB member said they did not prefer Alternative 1 as it required amendments to IAS 28 and the project was not to change the existing principles.

A few IASB members mentioned that the distinction between a reporting entity and a group was not clear.

Goodwill and Impairment

Cover paper (Agenda Paper 18)

In March 2020, the IASB published DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*. The comment period for the DP ended on 31 December 2020.

In 2021, the IASB discussed the feedback received in response to the DP and decided to prioritise, amongst other things, performing further work to make decisions on the package of disclosure requirements about business combinations and to then redeliberate its preliminary view that it should retain the impairment-only model to account for goodwill.

As part of the IASB's work, the staff have performed further research on disclosures about business combinations.

The purpose of this meeting was to ask the IASB to make decisions on the way forward for the package of disclosure requirements about business combinations.

Background and alternatives to consider (Agenda Paper 18A)

This paper summarised the IASB's preliminary views on the possible improvements to be made to the disclosure requirements of IFRS 3, namely:

- The introduction of more specific disclosure objectives
- Requirements to disclose information about the subsequent performance of a business combination
- Requiring additional quantitative information about expected synergies from a business combination

Almost all users agreed with the IASB's preliminary views. However, respondents raised practical concerns regarding the information that would be required under the preliminary view, namely:

- The commercial sensitivity of the information
- That such information could be seen as 'forward-looking'
- That an entity may be unable to disclose information that is representative of the business combination following integration of the acquired business in existing operations
- The auditability of the information

The IASB therefore discussed potential alternatives to the preliminary views to respond to the practical concerns, namely:

- Requiring an entity to disclose information prescribed in the preliminary views only for a subset of business combinations
- Exempting an entity from providing certain disclosures in specific circumstances
- Requiring only qualitative information
- Specifying which metrics an entity should disclose

In this paper, the staff considered if any of the above alternatives should not be considered and recommend that the IASB should not consider further requiring only qualitative information or specifying which metrics an entity should disclose.

The IASB was asked if they agree with the staff recommendation.

Board discussion

There was no significant discussion of this topic. The IASB agreed with the staff recommendation and unanimously voted in its favour.

Amending the IASB's preliminary view (Agenda Paper 18B)

In this paper, the staff outlined their recommendations to the IASB that they should amend their preliminary views to:

- Include an exemption from disclosing management's objectives for a business combination, the metrics and targets management will use to monitor those objectives, and quantitative information about the expected synergies arising from a business combination
- Not include an exemption from disclosing the strategic rationale for a business combination or disclosing actual performance in subsequent periods
- Design the exemption so that it applies if the disclosure of the information described in the first item would be seriously prejudicial to the entity's objectives for the business combination, and supplement the exemption with application guidance
- Require an entity to disclose information about the strategic rationale and quantitative information about expected synergies for all 'material' business combinations
- Require an entity to disclose information about the objectives for a business combination, the metrics and targets the entity will use to measure achievement of those objectives, and the subsequent achievement of those objectives, for a subset of 'material' business combinations
- Describe and identify a subset of 'material' business combinations as those which are 'strategically important', which will be determined using a closed list of qualitative and quantitative thresholds
- Require an entity to disclose information about the subsequent performance of a business combination and expected synergies
- Require an entity to disclose information to help a user understand the benefits that an entity's management expected from a business combination when agreeing the price to acquire a business and the extent to which the business combination is meeting management's objectives

The IASB was asked if they agree with these staff recommendations.

Board discussion

<u>Recommendations on exemption</u>

IASB members generally supported the staff direction, agreeing that there is a need to compromise with a disclosure exemption in certain circumstances in order to otherwise require the proposed package of disclosures.

Some members expressed concerns about some of the terminology used, and what it meant for the exemption to not apply to disclosure of 'actual performance', if there is only a 'general risk of weakening competitiveness', or if the required information is 'publicly available', highlighting it may be unclear what those terms mean.

Some members also noted that in some cases, even explaining the reason for taking an exemption may implicitly disclose privileged or confidential information.

When asked to vote on each question, the IASB voted:

- Unanimously for providing a disclosure exemption from disclosing management's objectives for a business combination, the metrics and targets management will use to monitor those objectives, and quantitative information about the expected synergies arising from a business combination
- Unanimously for not including an exemption from disclosing the strategic rationale for a business combination
- Unanimously for not including an exemption from disclosing actual performance, with respect to disclosure of actual performance only, in subsequent periods

- 5:6 against not including an exemption from disclosing actual performance, with a comparison to the forecast performance, in subsequent periods
- Unanimously for designing the exemption so that it applies if the disclosure of the information described in the first item would be seriously prejudicial to the entity's objectives for the business combination, and supplement the exemption with application guidance

Recommendations on a subset

IASB members were generally supportive of requiring certain disclosures only for a subset of business combinations. Most members preferred the idea of a closed list of thresholds, as proposed by the staff, to improve comparability across entities. Some members also suggested that 10% of revenue should be included as a quantitative threshold in the closed list.

When asked to vote on each question, the IASB voted:

- Unanimously for disclosing information about the strategic rationale and quantitative information about expected synergies for all 'material' business combinations
- Unanimously for disclosing information about the objectives for a business combination, the metrics and targets the entity will use to measure achievement of those objectives, and the subsequent achievement of those objectives, for a subset of 'material' business combinations
- 10:1 for identifying the subset of 'material' business combinations as those which are 'strategically important', and that shall be determined using a closed list of qualitative and quantitative thresholds

Requiring additional disclosures about business combinations

IASB members were supportive of the staff recommendations. When asked to vote on each question, the IASB voted:

- Unanimously for disclosing information about the subsequent performance of a business combination and expected synergies
- Unanimously for disclosing information to help a user understand the benefits that an entity's management expected from a business combination when agreeing the price to acquire a business and the extent to which the business combination is meeting management's objectives

Exemption from disclosure requirements (Agenda Paper 18C)

In Agenda Paper 18B, the staff recommended that the IASB's preliminary view be amended to include an exemption from some of the disclosure requirements when disclosure of the required information would be seriously prejudicial to the entity's objectives for the business combination.

In this paper, the staff analysed how to design such an exemption and application guidance on applying such an exemption.

How to design an exemption

The staff suggested that the exemption should be designed to allow an entity not to disclose a particular item of information in situations in which disclosing that item of information can be expected to prejudice seriously any of the entity's objectives for the business combination.

Application guidance on applying the exemption

The staff suggested that the IASB should supplement the exemption with application guidance, including requiring an entity to:

- Consider whether it is possible to disclose information at an aggregated level to resolve concerns while still meeting the objective of the disclosure requirements
- Disclose the reason for applying the exemption separately for each item of information

- Assess in future periods whether the circumstances leading the application of the emption still exist.

The application guidance should also specify situations in which the exemption would not be permitted, including:

- A general risk of potential weakening of competitiveness due to disclosure is not, on its own, sufficient to apply the exemption
- The exemption should not be applied to avoid disclosing information only because that information may not be considered favourably by the market
- The information is disclosed in other publicly available material
- If competitors are already likely to have access to the information from public or non-public documents or other sources or would be unable to act on the information in a manner that can be expected to prejudice seriously any of the entity's objectives for the business combination

Board discussion

The analyses in this paper were discussed together with Agenda Paper 18B.

Identifying a subset of business combinations (Agenda Paper 18D)

In Agenda Paper 18B, the staff recommended that the IASB's preliminary view be amended to require certain disclosures for only a subset of business combinations. In this paper, the staff analysed how to describe such a subset, and how to identify that subset of business combinations.

Describing the subset of business combinations

The staff suggested that, if some disclosure requirements should be required for only a subset of business combinations, that subset should be described as those which are 'strategically important' business combinations: business combinations for which not meeting the objectives would seriously put at risk the entity achieving its overall business strategy.

Identifying 'strategically important' business combinations

The staff suggested that 'strategically important' business combinations should be identified using a closed list of thresholds, for which meeting any one of the thresholds would require an entity to disclose information for that business combination. The staff suggest using a mixture of quantitative and qualitative thresholds.

Board discussion

The analyses in this paper were discussed together with Agenda Paper 18B.

Post-implementation Review (PIR) of IFRS 9—Classification and Measurement

Other matters raised in PIR feedback (Agenda Paper 3)

The IASB has been discussing feedback to the Request for Information (RFI) *Post-implementation Review of IFRS 9 – Classification and Measurement* since March 2022.

At this meeting, the IASB discussed questions relating to matters raised by respondents to the RFI that are not covered by other staff papers presented to the IASB and the feedback from the July 2022 meeting of the Accounting Standards Advisory Forum (ASAF).

Questions related to matters raised at RFI not discussed in other papers

Derecognition of financial assets

A few respondents used the opportunity to raise long-standing questions regarding derecognition requirements, including: clarifying which risks need to be considered when assessing whether 'substantially all risks and rewards' of a financial asset have been transferred; giving more application guidance on assessing whether an entity has retained control over the financial asset in case the entity neither transferred nor retained substantially all the risks and rewards; and to improve guidance on accounting for an entity's 'continuing involvement'.

In the staff's view, the derecognition requirements have been applied to a wide variety of transactions over a long period, and the staff is not aware of any evidence that the derecognition criteria are not meeting the objective of providing useful information to users. Some ASAF members acknowledged that there is diversity in practice on certain questions but did not consider the issue to be a priority for the IASB to address. The staff recommend that no further action be taken on this as the matter is not widespread or expected to have a material effect.

Cash received via electronic transfer as settlement for a financial asset

A few respondents asked the IASB to consider the implications of the tentative decision of the Interpretations Committee on its agenda decision titled *Cash Received via Electronic Transfer as Settlement for a Financial Asset*. The respondents stated that it would have significant impacts on long-standing and established practice.

The staff note that similar comments were received by the Committee on their tentative agenda decision in September 2021 before finalising their decision in June 2022. As this matter is subject to the IASB's decision on Agenda Paper 12A, the staff are not making any recommendations.

Contracts to buy and sell non-financial items

A few respondents asked for more guidance related to:

- Assessing whether the entity has a practice of settling similar contracts net in cash when considering using the 'own use exemption'
- The 'unit of account' in applying the requirements for contracts to buy or sell a non-financial item
- Accounting for a change in management's intention for such a contract after initial recognition

The staff believe the requirements meet the objective of ensuring that contracts with the economic characteristics of a financial instrument are accounted for appropriately. Some ASAF members acknowledged that there is diversity in practice on some of these issues and that more guidance would be helpful. However, they did not consider the issues to be a priority for the IASB to address. The staff recommend that no further action be taken on this as the matter is not widespread or expected to have a material effect.

Equity investments and OCI—transaction costs

A few respondents noted that there is diversity on practice in the accounting for transaction costs on the disposal of equity instruments under OCI presentation election and in accounting for the difference between the fair value of the equity investment on the date of disposal and the transaction price.

The staff understand that the OCI presentation election requirements provide an adequate basis for an entity to determine the appropriate accounting treatment. Some ASAF members confirmed that there is diversity in practice in their jurisdictions but did not expect the matter to be widespread or have a material effect. The staff recommend that no further action be taken on this as the matter is not widespread or expected to have a material effect.

Financial assets and financial liabilities held for trading

A respondent asked for more guidance on the term “held for trading” to ensure consistent application, for instance structured liabilities issued by a bank to satisfy clients’ investment needs and a gradual reduction in an equity stake when the entity has the intention to sell the remaining stake.

The staff note that classifying an instrument as held for trading is part of the business model consideration as required in IFRS 9. In the staff’s view, IFRS 9 provides an adequate basis to determine whether a financial instrument is held for trading. The staff recommend that no action is taken on these items, as IFRS 9 provides an adequate basis to determine whether a financial instrument is held for trading.

Purchased or originated credit-impaired (POCI) financial assets

A few respondents asked for more guidance for applying the requirements relating to POCI financial assets in cases where derecognition and re-recognition of an existing exposure due a substantial modification in contractual cash flows take place and calculating the credit-adjusted effective interest rate (EIR) at the appropriate level of granularity in cases of purchasing a portfolio of consumer debt rather than individual exposures.

The staff do not believe that questions around the application of the credit-adjusted EIR can be analysed without considering the relevant impairment requirements. The staff therefore recommend that questions about POCI financial assets are considered as part of the upcoming PIR of the impairment requirements in IFRS 9.

Feedback from the July 2022 ASAF meeting

Contractual inflation adjustments and leverage

Some respondents questioned whether interest rates contractually linked to an index that adjusts the time value of money based on a market interest rate and/or inflation rate introduce ‘leverage’ in the context of recent significant rises in inflation rates.

The staff previously expressed the view that a contractual link to an unleveraged inflation index represents consideration for the time value of money on the principal amount outstanding. This view remains relevant regardless of the level of inflation. ASAF members confirmed that inflation-linked financial instruments are common in some jurisdictions, but they are not aware of widespread diversity in practice in assessing the contractual cash flow characteristics of these instruments. The staff therefore recommend that no further action is taken on this matter.

Regulated interest rates and leverage

Respondents asked whether rates including a leverage factor imposed by the government should follow IFRS 9 for regulated rates guidance and, if so, how to consider whether the rate provides exposure to risks or variability in the contractual cash flows that are inconsistent with a basic lending arrangement.

The staff previously noted that the feedback indicates that diversity in practice exists and that there could be a material effect in specific jurisdictions. The ASAF members reported that the issue is not widespread across jurisdictions and only appears to be prevalent in specific countries such as Hungary. The staff therefore believe that the application question does not meet the criteria for a submission to be made to the Interpretations Committee and recommends that no further action is taken on this matter.

The staff asked the IASB whether they agree with their recommendation as set out under each individual question above.

IASB discussion

IASB members were overall supportive of the staff suggestions related to the application questions. Two IASB members asked the staff to further explain why they have concluded that these matters are not widespread even if there are questions about it. The staff clarified that they have not receive evidence following the RFI that these issues are widespread. In addition, they asked the ASAF members for their view on all of these issues, which is that even if there are questions in isolated instances, they do not think that any of these issues are pervasive or that it would have a material effect on entities' financial statements overall.

No decisions have been made.

Financial Instruments with Characteristics of Equity (FICE)

Obligations to redeem own equity instruments (Agenda Paper 5)

In June 2018, the IASB published Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity.* At this meeting, the staff asked the IASB for tentative decisions on proposed clarifications related to the accounting for obligations to redeem own equity instruments applying IAS 32.

Staff recommendation

The staff recommended that the IASB proposes clarifying amendments to IAS 32 with the following effects:

- Paragraph 23 would also apply to an obligation to redeem own equity instruments that is settled in a variable number of another type of own equity instruments
- On initial recognition of the obligation to redeem own equity instruments, the debit entry would be recognised against a component of equity other than non-controlling interests (NCI) (in the case of obligations involving NCI) or other than issued share capital (in the case of other obligations to purchase own shares) if the entity does not already have access to the returns associated with an ownership interest
- On expiry of a written put option on own equity instruments, the financial liability would be reclassified to the same component of equity as that from which it was reclassified on initial recognition of the put option
- On expiry of a written put option on own equity instruments, the cumulative amount in retained earnings related to the put option would be permitted to be reclassified to another component of equity but amounts previously recognised in profit or loss on remeasuring the financial liability would not reversed

The staff also recommended clarifying that written put options or forward purchase contracts on own equity instruments are presented gross rather than net, to:

- Align with the accounting for other obligations that are conditional on events or choices that are beyond the entity's control
- Assist users of financial statements in assessing the entity's exposure to liquidity risk. Settlement of the obligation reduces net assets by the gross amount of the cash outflow unlike other derivatives that result in the receipt of assets and not own shares

The staff will consider whether any additional disclosures are required for obligations to redeem own equity instruments in a future meeting along with other potential clarifications made to IAS 32 as part of this project.

The staff asked the IASB whether they agree with their recommendations.

IASB discussion

Overall, IASB members believe that the staff recommendations are in alignment with what the IASB have previously discussed.

One IASB member disagreed with the information provided in the paper on separate financial statements and noted that this goes beyond the scope of the project. The staff agreed that this does not fall within the scope of the project and whilst the paper commented on separate financial statements, it did not form part of the recommendations they had proposed.

Another IASB member noted that whilst he 'does not disagree' with the recommendations, it will be a significant shift to current practice. He, therefore asked the staff to ensure they explain the rationale for the amendments clearly in the exposure draft.

One IASB member agreed with the recommendation that when a written put option expires, the cumulative amount in retained earnings related to the put option is reclassified to another component of equity. However, the IASB member requested that when the staff look at disclosures they consider additional disclosures for this to explain movements in retained earnings.

IASB members disagreed with the initial measurement and subsequent measurement elements on the paper. IASB members did not agree that the financial liability should be measured at the capped amount if the fair value of the liability is smaller than the capped amount. However, the staff confirmed that this is an existing principle within IAS 32. The staff confirmed that their recommendations do not relate to initial measurement and that subsequent measurement is in scope of IFRS 9, which does not form part of this project. As IASB members have highlighted this as an issue, the staff will consider how best to address this and potentially ask for feedback on this in the FICE exposure draft.

An IASB member disagreed that written put options and forwards should be presented gross. However, if users want to see potential cash outflow (i.e. a liability on the balance sheet) he disagreed that the debit would go to owners' equity and should instead be recognised in NCI. The IASB and the staff discussed this further during the meeting but no conclusion was reached.

IASB decision

10 out of 11 voted in favour of the staff's recommendations.

Primary Financial Statements

Cover note and summary of feedback and redeliberations (Agenda Paper 21)

In December 2019, the IASB published Exposure Draft ED/2019/7 *General Presentation and Disclosures.* The comment period ended on 30 September 2020. In this meeting, the IASB continues its redeliberations of the proposals in the ED.

Unusual income and expenses (Agenda Paper 21A)

Background

This paper continued the IASB's discussions on unusual income and expenses. It setd out a summary of the IASB's redeliberations on this topic so far, and an analysis of whether the IASB should continue to propose a definition of unusual income and expenses.

Staff recommendation

The staff recommended that the IASB does not proceed with any specific requirements for unusual income and expenses as part of this project.

IASB discussion

IASB members emphasised the importance of unusual income and expenses as a specific requirement but acknowledged that deliberating this further may result in unnecessary delays to the completion of this project. Many IASB members believed that the research should be captured so the definition of unusual income and expenses may be explored in the future. Many IASB members also believed that communication of why the IASB reached this decision should be clearly explained to avoid unintended signalling to the stakeholders.

IASB decision

All the IASB members agreed not to proceed with any specific requirements for unusual income and expenses as part of this project.

Entities with specified main business activities—Associates and joint ventures (Agenda Paper 21B)

Background

This paper set out the staff analysis and recommendation relating to the proposal in the ED for entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method outside of the operating category.

Staff recommendation

The staff recommended that the IASB require entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category. As a result, all entities would classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.

IASB discussion

Some IASB members expressed concern over the recommendation to require entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category because there are businesses whose main business activity is to invest in associates and joint ventures and by requiring the income and expenses from associates and joint ventures accounted for using the equity method to be accounted for in the investing category would not be reflective of the performance of the entity. Therefore, some IASB members believed that there should be an exception for some businesses such as insurers to classify income and expenses from associates and joint ventures accounted for using the equity method in the operating category. Other IASB members asked whether it would be possible to address this in a narrow-scope amendment to IFRS 17. However, many IASB members disagreed with allowing exceptions for specific industries as these would be made on an arbitrary basis.

IASB decision

9 of the 11 IASB members voted in favour of requiring entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category. As a result, all entities would classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.

Investments in subsidiaries, associates and joint ventures (Agenda Paper 21C)

Background

This paper set out the staff analysis and recommendations for aspects of the proposals relating to investments in subsidiaries, associates and joint ventures in the ED. This paper discussed the feedback on, and clarifications required, for classification of income and expenses from investments in subsidiaries, associates and joint ventures in separate financial statements as well as clarification of the classification of income and expenses from investments in subsidiaries accounted for at fair value through profit or loss in accordance with IFRS 9 in consolidated financial statements as a consequence of the clarifications related to separate financial statements. This paper also considered whether the IASB should provide guidance on assessing whether investments in subsidiaries, associates and joint ventures are investments as a main business activity.

Staff recommendation

The staff recommended that the IASB clarify that income and expenses from associates and joint ventures not accounted for using the equity method includes income and expenses from associates and joint ventures accounted for at cost and in accordance with IFRS 9 applying IAS 27 and at fair value through profit or loss (FVTPL) in accordance with IFRS 9 applying IAS 28. The staff also recommended the IASB to require income and expenses from investments in subsidiaries not accounted for using the equity method to be classified in the investing category unless investing in subsidiaries is a main business activity and clarify that income and expenses from subsidiaries not accounted for using the equity method includes income and expenses from all subsidiaries that are accounted for FVTPL in accordance with IFRS 9 applying IFRS 10 and at cost and in accordance with IFRS 9 applying IAS 27. Furthermore, the staff recommended the IASB require that an entity classifies income and expenses from subsidiaries accounted for using the equity method in the investing category in its separate financial statements. Lastly, the staff recommended the IASB clarify that the way an entity groups subsidiaries, associates and joint ventures for the purposes of assessing whether investing in subsidiaries, associates and joint ventures is a main business activity should be consistent with the way it groups investments into categories for determining the measurement basis (paragraph 10 of IAS 27).

IASB discussion

IASB members agreed with the staff's recommendation to clarify that income and expenses from associates and joint ventures not accounted for using the equity method includes income and expenses from associates and joint ventures accounted for at cost and in accordance with IFRS 9 applying IAS 27 and at FVTPL in accordance with IFRS 9 applying IAS 28 because this achieves a more aligned and consistent presentation in specific jurisdictions. However, some IASB members questioned whether the choice to account for investments in subsidiaries using the equity method should determine the classification of income and expenses from subsidiaries because if a preparer had chosen to account for its investments in subsidiaries at cost or at FVTPL, it could classify its investments in subsidiaries in the operating category. The staff clarified the classification of investment in subsidiaries is determined by the entity's main business activity.

IASB decision

The IASB voted in favour of clarifying that income and expenses from associates and joint ventures not accounted for using the equity method includes income and expenses from associates and joint ventures accounted for at cost and in accordance with IFRS 9 applying IAS 27 and at FVTPL in accordance with IFRS 9 applying IAS 28.

All IASB members voted in favour of requiring income and expenses from investments in subsidiaries not accounted for using the equity method to be classified in the investing category unless investing in subsidiaries is a main business activity

They also voted in favour of clarifying that income and expenses from subsidiaries not accounted for using the equity method includes income and expenses from all subsidiaries that are accounted for FVTPL in accordance with IFRS 9 applying IFRS 10 and at cost in accordance with IFRS 9 applying IAS 27.

All IASB members voted in favour of requiring that an entity classifies income and expenses from subsidiaries accounted for using the equity method in the investing category in its separate financial statements.

Lastly, all IASB members voted in favour of clarifying that the way an entity groups subsidiaries, associates and joint ventures for the purposes of assessing whether investing in subsidiaries, associates and joint ventures is a main business activity should be consistent with the way it groups investments into categories for determining the measurement basis (paragraph 10 of IAS 27).

Classification of incremental expense (Agenda Paper 21D)

Background

This paper set out staff analysis and recommendations which respond to stakeholder comments relating to the proposed requirement in the ED for an entity to classify incremental expenses incurred generating income and expenses from investments in the investing category (i.e. 'incremental expenses in the investing category'). The analysis considered the effects of the IASB's tentative decisions in redeliberations relating to the classification of income and expenses in the investing category.

Staff recommendation

The staff recommended that the IASB withdraw the proposed requirement in the ED for an entity to classify incremental expenses in the investing category.

IASB discussion

IASB members agreed to withdraw the proposed requirement in the ED for an entity to classify incremental expenses in the investing category because the costs outweigh the benefits. However, one IASB member questioned whether an exception could be made for transaction costs being incremental costs. Many IASB members disagreed with the suggestion because they would want the requirements to be principle-based rather than rule-based. The IASB members agreed that this consideration can be reflected in the basis for conclusion (BC).

IASB decision

All IASB members voted in favour of withdrawing the proposed requirement in the ED for an entity to classify incremental expenses in the investing category.

Specified subtotals (Agenda Paper 21E)

Background

This paper addressed stakeholders' feedback on the proposals in the ED for subtotals specified by IFRS Accounting Standards (referred to as 'specified subtotals'). This paper also presented the staff analysis on whether, in light of the tentative decisions on other topics in the project, the IASB should revise the list of specified subtotals proposed in the ED.

Staff recommendation

The staff recommended that the IASB confirm the proposal that the specified subtotals listed in paragraph 104 of the ED are not management performance measures (MPMs) and add 'operating profit or loss and income and expenses from investments accounted for using the equity method' to the list of specified subtotals in paragraph 104 of the ED. In addition, the staff recommended the IASB confirm the examples of subtotals similar to gross profit listed in paragraph B78 of the ED and clarify in the application guidance that MPMs can be reconciled to a specified subtotal regardless of whether or not the subtotal is presented in the statement of profit or loss.

IASB discussion

Some IASB members questioned whether the specified subtotal of 'operating profit or loss and income and expenses from investments accounted for using the equity method' is required in call cases. The staff clarified that the specified subtotal is required if it is necessary to communicate the performance of the entity. One IASB member highlighted that it is not a strong argument to say that reconciliations between the MPM and subtotals are not required because it is apparent from their presentation in the financial statements. This is because the definitions of each metric would not only need to be apparent but would also need to be clear for the purpose of digital reporting. Some IASB members expressed concerns with allowing preparers to reconcile an MPM to a specified subtotal that is not presented in the statement of profit or loss because although users will generally understand how to reconcile to the specified subtotal, it may be difficult to obtain information to perform the calculation themselves. One IASB member highlighted that the location for presenting the reconciliation of an MPM to the specified subtotal should be next to where the MPM is presented.

IASB decision

The IASB voted in favour of confirming the proposal that the specified subtotals listed in paragraph 104 of the ED are not MPMs and add 'operating profit or loss and income and expenses from investments accounted for using the equity method' to the list of specified subtotals in paragraph 104 of the ED.

All IASB members voted in favour of clarifying in the application guidance that MPMs can be reconciled to a specified subtotal regardless of whether or not the subtotal is presented in the statement of profit or loss but with minimum reconciliation to a specified subtotal excluding effects of tax and non-controlling interest.

Presentation of operating expenses (Agenda Paper 21F)

Background

This paper continued the deliberations on the proposal set out in the ED relating to the presentation of operating expenses in the statement of profit or loss and asks for the IASB's decisions on whether to confirm, withdraw or revise those proposals.

Staff recommendation

The staff recommended that the IASB expands the explanation in the description of the function of expense method to clarify how this involves allocating and aggregating operating expenses according to the activity to which the consumed economic resource relates and provides application guidance to clarify the interaction between the function of expense method and the principles of aggregation and disaggregation and the roles of the primary financial statements.

In addition, the staff recommended that the IASB requires entities to include in cost of sales the carrying amount of inventories recognised as an expense during the period when presenting cost of sales and requires entities that present functional line items to disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

Furthermore, the staff recommended that the IASB confirms the proposal to require operating expenses to be presented in the statement of profit or loss using a classification based either on their nature or function and confirms the proposal to include application guidance on deciding which method of presenting operating expenses provides the most useful information, including the factors set out in paragraph B45 of the ED.

Moreover, the staff recommended that the IASB withdraw the proposed prohibition on a mixed presentation of operating expenses and require entities, when considering which method to use, to consider the roles of primary financial statements and provide examples when a mixed presentation might provide the most useful information.

Lastly, the staff recommended that the IASB provide application guidance to clarify the requirement for consistent presentation of operating expenses from one reporting period to the next and how to label nature line items when a mixed presentation is used.

IASB discussion

IASB members were supportive of the staff's recommendations but expressed that it would be helpful to understand what is included in the expense by function line items. The staff clarified that preparers should consider the general requirement to present additional financial information where it is necessary for the understanding of the financial statements. The IASB members agreed that it is difficult to prohibit mixed presentation as the existing requirements may also result in mixed presentation. One IASB member asked the staff to clarify that the factors noted in paragraph B45 of the ED are not exhaustive. In addition, the IASB member asked the staff to clarify that paragraph B45(b) of the ED provides an example of the presentation method of a manufacturing company, however, this may apply to other industries. The IASB member asked the staff to clarify that when determining what is 'most useful' information, the preparer should apply this consistently similar to applying an accounting policy choice. In addition, the IASB member asked the staff to clarify that the preparer is firstly required to determine what is the most useful presentation and then consider the role of the financial statements.

IASB decision

All IASB members voted in favour of expanding the explanation in the description of the function of expense method to clarify how this involves allocating and aggregating operating expenses according to the activity to which the consumed economic resource relates.

They also voted in favour of providing application guidance to clarify the interaction between the function of expense method and the principles of aggregation and disaggregation and the roles of the primary financial statements.

All IASB members voted in favour of requiring entities to include in cost of sales the carrying amount of inventories recognised as an expense during the period when presenting cost of sales.

They also voted in favour of requiring entities that present functional line items to disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.

All IASB members voted in favour of confirming the proposal to require operating expenses to be presented in the statement of profit or loss using a classification based either on their nature or function.

They also voted in favour of confirming the proposal to include application guidance on deciding which method of presenting operating expenses provides the most useful information, including the factors set out in paragraph B45 of the ED.

All IASB members voted in favour of withdrawing the proposed prohibition on a mixed presentation of operating expenses and require entities, when considering which method to use, to consider the roles of primary financial statements and provide examples when a mixed presentation might provide the most useful information.

All IASB members voted in favour of providing application guidance to clarify the requirement for consistent presentation of operating expenses from one reporting period to the next and how to label nature line items when a mixed presentation is used.

Work Plan

Update (Agenda Paper 8)

This paper provided an update on the IASB's work plan since its last update in May 2022. The purpose of this paper was to provide a holistic view of the IASB's technical projects to support decisions about whether to add or remove projects, as may be discussed in individual project papers and an assessment of overall progress on the work plan, including project prioritisation and timing.

Completed projects

In February 2022, the IASB completed the Post-implementation Review (PIR) of IFRS 10-12 and concluded that the Accounting Standards are working as intended. The IASB published the Report and Feedback Statement in June 2022.

In July 2022, the IASB published a feedback statement summarising the feedback on the Request for Information (RFI) and the IASB's activities and work plan for 2022 to 2026.

New projects

In May 2022, the IASB decided to add a high-priority project to clarify particular aspects of the requirements for assessing a financial asset's contractual cash flow characteristics, based on feedback on the PIR of the classification and measurement requirements in IFRS 9.

In July 2022, the IASB decided to add a standard-setting project to its research pipeline to clarify the requirements in IFRS 9 for modifications of financial assets and liabilities and applying the effective interest method.

Regarding PIRs:

- In July 2022, the IASB began the PIR of the impairment requirements in IFRS 9
- The staff will present its plan to begin the PIR of IFRS 15 at this meeting
- The staff will present its updated considerations of when to begin the PIRs of the hedge accounting requirements in IFRS 9 and of IFRS 16 at this meeting

Expected Final Amendments in 2022

The IASB issued the amendments *Lease Liability in a Sale and Leaseback* in September 2022. It further expects to issue the amendments *Non-current Liabilities with Covenants* in November 2022.

Consultation documents

In September 2022, the IASB published IASB/ED/2022/1 *Third edition of the* IFRS for SMEs *Accounting Standard*. The comment period ends on 7 March 2023.

The agenda paper did not ask the IASB to make any decisions.

IASB discussion

One IASB member asked whether the project on sale and leaseback of an asset in a single-asset entity (IFRS 10 and IFRS 16) in the maintenance pipeline could be linked with the project on equity method. The staff confirmed that they are already liaising closely with the equity method project staff and will continue to do so.

Another IASB member asked whether the timing for IASB consultation documents will take the ISSB's consultation documents into account. The staff confirmed that for the time being the boards will coordinate their consultation documents so not to overwhelm stakeholders with too many consultations at the same time.

Post-implementation reviews—Objectives and process (Agenda Paper 8A)

Recent deliberations have highlighted that there are different understandings among stakeholders about the objective and outcomes of a PIR. These different understandings have arisen because the IASB has only completed four PIRs since the process started and the description has evolved as the staff have learned.

This purpose of this paper was to provide a clarified description, located in Appendix A of the paper, of the objective and process for PIRs.

The IASB members were asked whether they had any questions or comments on the paper.

IASB discussion

IASB members generally welcomed the document as there was a need for clarification after the PIR of IFRS 10-12. Stakeholders had certain expectations for that PIR that were not met. For example, stakeholders expected that the IASB would revisit some of the decisions it had made during the development of the Standards.

It was noted that application issues raised during the PIR should be submitted to the IFRS Interpretations Committee (IFRS IC). One IASB member highlighted that even before the PIR, stakeholders should be encouraged to submit application issues to the IFRS IC. It should be clarified that there is no need to wait until the PIR has started.

Some IASB members asked whether the document was in line with the IFRS Foundation's Due Process Handbook (DPHB). The staff replied that the Due Process Oversights Committee had previously confirmed that the document would be in line with the DPHB.

IASB members suggested to incorporate some of the language used in this document in future RFIs to clarify the objective of the PIR.

Timing of the post-implementation reviews of the hedge accounting requirements of IFRS 9 and of IFRS 16 (Agenda Paper 8B)

This paper considered when the IASB should begin the PIRs of the hedge accounting requirements of IFRS 9 and of the requirements of IFRS 16.

Staff recommendation

The staff recommended that the IASB consider in the second half of 2023 when to begin the PIRs of the hedge accounting requirements of IFRS 9 and the requirements of IFRS 16.

Board discussion

PIR of the hedge accounting requirements of IFRS 9

IASB members generally agreed with the staff recommendation. It was noted that most financial institutions still apply the IAS 39 requirements for hedge accounting, presumably because they are waiting for the outcome of the project on dynamic risk management (DRM). However, it is clear that the IASB cannot wait for the DRM standard to be finalised, become effective and be implemented. Therefore, one option could be to do the PIR in two phases, i.e. corporates first and then financial institutions. While postponing the hedge accounting PIR by one year would not provide much help in that regard, it may be useful to ease the pressure on staff resources who are currently working on a multitude of financial instruments projects. In addition, IASB members are not aware of pressing issues with the IFRS 9 hedge accounting requirements.

It was noted that there are some banks, predominantly in Asia, who are applying the hedge accounting requirements of IFRS 9. Consequently, a phased approach may not be necessary.

All IASB members agreed with the staff recommendation.

PIR of IFRS 16

IASB members generally supported to delay the beginning of the PIR to 2023. It was noted that the pandemic had a significant impact on lessors and lessees and therefore it would be good to wait another year to have more evidence how the Standard held up during that stress test. One IASB member disagreed and said, while not disagreeing with the delay, the pandemic should not be cited as a reason as the Standards should be able to withstand crises.

One IASB member said that the delay is necessary as there is not enough data in the real estate industry, but she was not sure that a one-year delay would be enough. The Chair offered a phased approach as a solution, i.e. conducting the PIR for the real estate industry at a later stage. An IASB member disagreed with this. In his view, conducting PIRs at different times for different industries was warranted for the IFRS 9 hedge accounting requirements because of the unique circumstances with DRM, but should not be done for other Standards.

It was also noted that a delay would be beneficial as it would prevent conducting the PIRs of IFRS 15 and IFRS 16 at the same time, which would put a strain on stakeholder resources. It should however be communicated that preparers can already submit application questions to the IFRS IC.

All IASB members agreed with the staff recommendation.

Post-implementation Review (PIR) of IFRS 15 *Revenue from Contracts with Customers*

Project plan (Agenda Paper 6)

In November 2021, the IASB decided to begin the PIR of IFRS 15 in the second half of 2022.

The PIR process consists of two phases:

- Phase 1: the IASB identifies matters to be examined, drawing on discussions with the IFRS Interpretations Committee, the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the PIR
- Phase 2: the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

This paper set out a plan for Phase 1.

For the PIR of IFRS 15 the IASB will consider whether:

- There are fundamental questions (i.e. 'fatal flaws') about the clarity and suitability of the core principle and the five-step revenue recognition model in IFRS 15
- The benefits to users of financial statements of the information arising from applying the IFRS 15 requirements are broadly as expected (or whether, for example, there is significant diversity in application)
- The costs of applying some or all of the IFRS 15 requirements and auditing and enforcing their application are broadly as expected (or whether there is a significant market development since IFRS 15 was issued for which it is costly to apply its requirements consistently).

This objective will determine the questions to discuss with stakeholders in Phase 1 outreach. The objective will also provide the IASB with a framework to analyse feedback for the purpose of determining the scope of the request for information.

Based on previous PIRs and considering the due process for PIRs, the staff expect the PIR will take around 18–24 months to complete. The anticipated timeline for phase 1 of the PIR can be summarised as follows:

- Phase 1 outreach—October 2022 to Q1 2023
- Publication of the Request for Information (RFI)—H1 2023
- Comment period for the RFI—120 days (subject to future IASB discussion)

The IASB was not asked to make any decisions at this meeting.

IASB discussion

IASB members said that this is a highly anticipated PIR and in order to ask the right questions in the RFI, constituents are urged to input even before the RFI is published, for example via their Accounting Standards Advisory Forum (ASAF) member. It was important to hear from all jurisdictions and all business sectors as this Standard is very wide-reaching.

It was noted that the Standard is substantially converged with US GAAP. One IASB member highlighted that the IASB, the US Financial Accounting Standards Board (FASB) and The Accounting Review (TAR) are hosting a joint conference entitled 'Accounting for an Ever-Changing World' early November. Given the Standard is largely converged, the conference papers on revenue may be of particular interest to the staff to gather evidence.

One IASB member requested to add a question in the RFI with regard to internal control processes. The staff confirmed that they would look into ways to incorporate this.

Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)

General requirements (Agenda Paper 16A)

In May 2022, the IASB decided to start a standard-setting project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics (i.e. the 'solely payments of principal and interest' (SPPI) requirements).

This paper set out the staff's recommendations for clarifying amendments to the contractual cash flow characteristics requirements in IFRS 9. The purpose of the additional application guidance and illustrative examples is to clarify some of the underlying principles of the SPPI assessment to assist with the consistent application of these requirements.

Staff recommendation

The staff recommended clarifying that for contractual cash flows to be SPPI, a basic lending arrangement does not give rise to variability in cash flows due to risks or factors that are unrelated to the borrower, even if such terms and conditions are common in the specific market in which the entity operates.

The staff further recommended clarifying that a financial asset that includes contractual terms that change the timing and amount of the contractual cash flows could be consistent with a basic lending arrangement and therefore have SPPI cash flows, if:

- The contractual cash flows that could arise from any contingent events are SPPI in all circumstances (i.e. the probability of a contingent event occurring is not considered)
- The contingent event is specific to the borrower
- The timing and amount of any variability in contractual cash flows are determinable and specified in the contract
- The contractual cash flows arising from the contingent event do not represent an investment in the borrower or exposure to the performance of the underlying assets

The staff also recommended adding examples to illustrate the application of the SPPI requirements to specific fact patterns.

The staff asked the IASB whether they agree with their recommendations.

IASB discussion

Overall, IASB members were in agreement with the staff recommendations. One IASB member highlighted that it would be useful to think about what is driving the variability when performing the SPPI assessment rather than the level of variability.

IASB members highlighted, and the staff agreed, that the drafting of the amendments and the application guidance will need to be specific and clear to ensure preparers understand the requirements clearly. One example highlighted was in relation to the requirement where a contingent event has to be specific to the borrower, it needs to be clear whether Scope 3 greenhouse gases would be considered specific to the borrower.

One IASB member asked what the term 'determinable' meant. The staff noted that this term is used elsewhere in the Standards and it means that the cash flows are predefined, i.e. the cash flows are known before and after the contingent event. The timing or the contingent event may not be known but the way the cash flows will change if and when the event occurs is known. The IASB requested that this should be made clear in the amendments.

IASB decision

11 out of 11 voted in favour of the staff's recommendations.

Financial assets with non-recourse features and contractually linked instruments (Agenda Paper 16B)

This paper considered potential clarifications to that could be made to IFRS 9 in relation to assessing the contractual cash flow characteristics of financial assets with non-recourse features and contractually linked instruments (CLIs).

Staff recommendation

Financial assets with non-recourse features

To assist with the consistent application of the SPPI assessment, the staff recommended clarifying that in the case of a financial asset with non-recourse features:

- The lender is exposed to the performance risk of the underlying asset(s) throughout the life of the instrument both for the payment of the contractual payments as well as in default
- The lender's contractual right to receive contractual payments over the life of the instrument is restricted to the cash flows generated by the underlying asset

The staff further recommended including examples of relevant factors an entity could consider when assessing the particular underlying assets or cash flows, such as:

- The legal or capital structure of the borrower
- The extent to which the expected cash flows from the underlying assets exceeds the contractual cash flows on the financial asset
- Whether there are other sources of finance (i.e. loans) that are subordinated to the loan from the lender

CLI requirements

The staff recommended including distinguishing characteristics of CLIs as part of the application guidance of IFRS 9 to assist with the consistent application of the CLI requirements. The unique characteristics of a CLI structure are:

- Use of multiple contractually linked instruments
- Non-recourse features
- Prioritisation of payments through a waterfall payment structure that creates concentrations of credit risk resulting in a disproportionate reduction in contractual rights in the event of cash flow shortfalls

The staff further recommended clarifying that the reference to 'instruments' in paragraph B4.1.23 of IFRS 9 also includes financial instruments that are not fully in the scope of IFRS 9 such as lease receivables.

The staff asked IASB whether they agree with their recommendations.

IASB discussion

IASB members stated that this paper and the amendments were helpful as they clarified the terminology used in IFRS 9. One IASB member was positive about the amendments however noted that the 'devil will be in the detail'. He therefore asked the staff to run these amendments through financial institutions to understand the impact. The staff confirmed that they are working with banks to understand how these will apply.

IASB decision

11 out of 11 voted in favour of the staff's recommendations.

Extractive Activities

Cover Paper (Agenda Paper 19)

The Extractive Activities research project was activated in 2018 with the aim of gathering evidence to help decide whether to start a project to develop proposals that would amend or replace IFRS 6. At its meeting in September 2021, the IASB decided on the project objectives and scope. This project was last discussed in March 2022 when the IASB agreed a project plan with 3 phases as follows:

- Phase I – desktop review of disclosure-related feedback received since 2018
- Phase II – limited outreach with users, preparers and auditors
- Phase III – limited outreach with national standard setters.

The purpose of this session was to report the results of Phase I and to update the IASB on what the staff proposed to explore further in Phases II and III.

The IASB was not asked to make any decisions during this session.

Disclosure feedback summary (Agenda Paper 19A)

This paper summarised the staff review of disclosure-related stakeholder feedback from research carried out between 2018 and 2021, relevant academic literature and relevant jurisdictional requirements.

Annual filings review (Agenda Paper 19B)

This paper summarised the staff review of a sample of entities' annual filings to understand what information entities provide about exploration and evaluation (E&E) expenditure and activities.

Suggestions for further research (Agenda Paper 19C)

The final paper set out the staff analysis of the findings in Agenda Papers 19A and 19B and considered which aspects of information about E&E expenditure and activities to explore further in Phases II and III. The staff suggested to further research:

- Information to help understand the accounting for E&E expenditure
- Information to help compare entities with different accounting policies for E&E expenditure
- Information to help understand the risks and uncertainties of E&E activities

IASB discussion

All agenda papers were discussed together.

Overall, IASB members expressed support for the proposed direction of the project and for the three suggested areas for further research. One IASB member noted that it was very important to communicate clearly to stakeholders that these are the only topics that will be taken forward in this project, and that other potential areas identified have now been scoped out.

One IASB member added that there are two different elements at play: the identification of useful information which is not yet required to be disclosed; and disclosures that are currently required which are not being provided. Some IASB members noted that it is important to investigate this further and perform outreach to explore the reasons why many entities, including large entities, are not providing the required disclosures in order to identify whether the current requirements are in need of improvement.

In relation to the first research topic, whether and how entities can disclose better information to help understand the accounting for E&E expenditure, a number of IASB members voiced their agreement with the three proposed areas of focus being unit of account, E&E expenditure and when capitalisation starts and stops.

One IASB member opposed the use of "<u>whether</u> and how", noting that the work that has taken place so far has highlighted that there is a deficiency in the accounting policy information being provided, so the reference to "whether" should be withdrawn. Some IASB members disagreed however, noting that users do not appear to be asking for additional information and as such, it is important to explore users' needs to ensure additional disclosures will be useful.

One IASB member commented that it would be interesting to explore further how much linkage users would like to see between the front half and back half of the financial statements. Some users are happy with the level of information they are receiving however this is likely to be in jurisdictions that require additional disclosure in the front half or outside of the financial statements.

One IASB member noted that disclosures around risks and uncertainties should be very specific to entities therefore it is important to think carefully about what kind of information would be useful to users. Other IASB member voiced concern that risk and uncertainties disclosures are not specific to the extractives industry and therefore should be considered as part of a wider project instead.

Some IASB members expressed a view that the risks and uncertainties disclosures should also extend to climate risk given this could have a significant impact for this industry. Other IASB members disagreed, noting that this was already being covered by the ISSB sustainability standards. Another IASB member added that climate risk applied to all entities, not just those in the extractive industry.

One IASB member commented that disclosing a breakdown of E&E assets or expenditure by major project could provide very useful information for users. However, another IASB member cautioned that preparers may be reluctant to provide such information as it could be deemed to be commercially sensitive. It was proposed that this question be explored further with preparers during the outreach to be performed in the next phase of the project.

Next steps

The staff will proceed with Phases II and III of the project which involve further exploring the suggestions in Agenda Paper 19C. The work to remove the temporary status of IFRS 6 is expected to be completed alongside the work to improve the disclosure objectives and requirements.

Maintenance and consistent application

Cover paper (Agenda Paper 12)

At this meeting, the IASB discussed an agenda decision from the IFRS Interpretations Committee (IFRS IC) and sweep issues on ED/2021/9 *Non-current Liabilities with Covenants.*

Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)—Next steps (Agenda Paper 12A)

At its June 2022 meeting, the IFRS IC voted to finalise the agenda decision *Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)*. The agenda decision addresses the recognition of cash received via an electronic transfer system as settlement for a trade receivable.

In the fact pattern described in the submission:

- The electronic transfer system has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient’s bank account) two working days after they are initiated by the payer
- An entity has a trade receivable with a customer. At the entity’s reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date

The Committee concluded in a tentative agenda decision that, applying IFRS 9, the entity:

- Derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire
- Recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date

Many respondents to the tentative agenda decision suggested that the Committee not finalise the agenda decision but, instead, refer the matter to the IASB. These respondents said:

- Finalising the agenda decision would not be cost-effective because its implementation would require significant cost and might not improve financial reporting
- The agenda decision has broad and pervasive implications beyond the submitted fact pattern
- Further research is needed to understand the scope of transactions affected by the agenda decision and thus its overall effects on entities

Staff recommendation

Based on the staff’s analysis in the paper, they recommended that the IASB explore narrow-scope standard-setting in response to respondents’ comments as part of its PIR of IFRS 9. On balance, the staff think it is possible that the benefits of narrow-scope standard-setting could outweigh the costs.

If the IASB agrees with the recommendation, the staff will bring to a future meeting a paper including analysis of possible narrow-scope standard-setting. In particular, the staff will provide analysis on:

- The form that any narrow-scope standard-setting would take (for example, whether it might be an exemption from specific requirements or a practical expedient to facilitate the application of existing requirements)
- The scope of transactions to which it would apply (for example, whether it would apply to payments an entity makes, receives, or both)

If the IASB disagrees with the recommendation, the staff ask the IASB members whether they object to the Committee's:

- Decision not to add a standard-setting project to the work plan
- Conclusion that the agenda decision (set out in Appendix A) does not add or change requirements in IFRS Accounting Standards

IASB discussion

IASB members agreed with the staff recommendation. They highlighted the excellent work of the IFRS IC who did the best they could within their limitations. However, constituents' concerns are valid and therefore the IASB should now explore standard-setting.

Several IASB members noted that the IASB should move quickly as it affects almost all entities in all industries. The Chair acknowledged this but said that there are limitations as to how quickly a solution could be provided given the IASB's due process and endorsement processes around the world.

It was noted that the relevant principles in IFRS 9 are very fundamental, so the IASB should be cautious when changing them as there is potential for significant disruption of practice. The Chair said that it is important to note that the staff recommendation uses the term 'explore standard-setting' which means that it is not certain yet that standard-setting will be undertaken. Only if the issue can be resolved in a timely fashion without significant disruption would the IASB move to standard-setting.

IASB decision

All IASB members voted in favour of the staff recommendation.

Non-current Liabilities with Covenants (IAS 1)—Sweep issue (Agenda Paper 12B)

In June 2022, the IASB decided to finalise its proposed amendments to IAS 1 published in ED/2021/9 with some changes to the proposals.

The purpose of this paper was to consider the following sweep issue:

The IASB tentatively decided to allow an entity to early apply the 2022 amendments or the 2020 *Classification of Liabilities as Current or Non-current* amendments, but only if the entity applies both amendments at the same time. The staff has since found that such a requirement would force entities that have already early applied the 2020 amendments to reverse the application of these amendments until they apply the 2022 amendments. In the staff's view, such an outcome would be inappropriate.

Staff recommendation

The staff recommended that the IASB:

- Allow early application of the 2020 amendments; but
- Require entities that early apply the 2020 amendments after the issue of the 2022 amendments to apply both amendments at the same time.

IASB decision

There was no discussion of this paper. The IASB voted unanimously in favour of the staff recommendation.

Rate-regulated Activities

Cover note (Agenda Paper 9)

At this meeting, the staff continued to redeliberate the proposals in the Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*.

Scope—Interaction with IFRIC 12 (Agenda Paper 9A)

Many respondents to the ED said that it is unclear how the proposals in the ED interact with IFRIC 12 *Service Concession Arrangements*. To address respondents' concerns, the staff developed some examples that illustrate the interaction between the proposed model and IFRIC 12 and used them to discuss the interaction with different types of stakeholders in different jurisdictions.

This paper:

- Summarised feedback from these stakeholders
- Analysed the feedback
- Recommended how the final Accounting Standard could clarify the interaction between the model and IFRIC 12

Staff recommendation

The staff recommended that the final Accounting Standard:

- Clarifies the intended interaction between the model and IFRIC 12. That is, an entity would apply IFRIC 12 first and then, apply the requirements of the final Accounting Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities
- Includes examples to illustrate the interaction between the model and IFRIC 12

IASB discussion

IASB members generally agreed that IFRIC 12 should be applied before the new Standard, however there were mixed views about how to achieve this. Some IASB members preferred Illustrative Examples, while others preferred to add a clear statement to the Standard. One IASB member said that instead of a statement, the rationale should be explained in the Standard as to why IFRIC 12 should apply first. The staff responded that such rationale would be better suited for the Basis for Conclusions to the Standard, which could then be accompanied by Application Guidance or Illustrative Examples. It was noted that any statement should be generic, i.e. other Standards apply first, rather than making explicit reference to IFRIC 12.

One IASB member cautioned that examples should not affect accounting requirements in IFRIC 12 as preparers could read examples as application guidance of IFRIC 12.