

IASB

Pre-meeting Summary

October 2022

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Preview	2
Rate-regulated Activities	3
Cover note (Agenda Paper 9)	3
Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives (Agenda Paper 9B)	4
Consultative Group for Rate Regulation meeting (Agenda Paper 9C)	4
Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)	4
Disclosure, transition and effective date (Agenda Paper 16)	4
Equity Method	6
Cover Paper (Agenda Paper 13)	6
IFRS Taxonomy	6
IFRS Taxonomy due process (Agenda Paper 25)	6
Disclosure Initiative: Targeted Standards-level Review of Disclosures	7
Decide project direction—Cover paper (Agenda Paper 11)	7
Decide project direction—Guidance for the Board (Agenda Paper 11A)	7
Decide project direction—A middle ground approach to drafting disclosure requirements (Agenda Paper 11B)	8
Decide project direction—Proposed amendments to IFRS 13 <i>Fair Value Measurement</i> and IAS 19 <i>Employee Benefits</i> (Agenda Paper 11C)	9
Maintenance and consistent application	9
Cover paper (Agenda Paper 12)	9
Provisions—Targeted Improvements—Discount rates—non-performance risks (Agenda Paper 12A)	10
Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)—Finalisation of agenda decision (Agenda Paper 12B)	10
Special Purpose Acquisition Companies (SPAC)—Accounting for Warrants at Acquisition—Finalisation of agenda decision (Agenda Paper 12C)	10
Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)—Finalisation of agenda decision (Agenda Paper 12D)	10
IFRIC Update September 2022 (Agenda Paper 12E)	10
Post-implementation Review (PIR) of IFRS 9—Classification and Measurement	10
Equity instruments and other comprehensive income (Agenda Paper 3A)	10
Business model assessment (Agenda Paper 3B)	11
Exploring possible narrow-scope amendments for electronic cash transfers (Agenda Paper 3C)	12
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures	14
Cover Paper (Agenda Paper 31)	14
Objective of the draft Standard (Agenda Paper 31A)	14
Approach to developing the proposed disclosure requirements (Agenda Paper 31B)	15

Addressing comments on proposed disclosure requirements (Agenda Paper 31C)	15
Structure of the draft Standard (Agenda Paper 31D).....	15
Goodwill and Impairment.....	16
Cover paper (Agenda Paper 18)	16
Subsequent accounting for goodwill—Overview of feedback and research (Agenda Paper 18A)	16
Subsequent accounting for goodwill – Possible ways forward (Agenda Paper 18B)	17
ISSB Update	18

Preview

The IASB meets in London from 18-20 October 2022. The following topics are on the agenda:

Rate-regulated Activities

The staff recommend that the final Accounting Standard retains the definition of allowable expense proposed in the ED, clarifies that a regulatory agreement may determine the amount that compensates for an allowable expense using the same or a different basis from the basis an entity uses for measuring the allowable expense in accordance with IFRS Accounting Standards; and clarifies the treatment of allowable expenses based on benchmarks and includes examples to help entities identify differences in timing in those cases. The staff also recommend that the final Accounting Standard retains the proposals in the ED for entities to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and assets' useful lives when there is a direct relationship between an entity's regulatory capital base and its property, plant and equipment; provides guidance to help entities determine when there is no direct relationship between their regulatory capital base and their property, plant and equipment; and requires entities that have concluded there is no direct relationship between their regulatory capital base and their property, plant and equipment to provide disclosures to enable users of financial statements to understand the reasons for their conclusion.

Contractual Cash Flow Characteristics

The staff recommend that IFRS 7 be amended to require disclosure of, for each class of financial assets and financial liabilities not measured at fair value through profit or loss, of a qualitative description of the nature of the contingent events that could change the timing or amount of contractual cash flows; quantitative information about the potential range of changes to contractual cash flows that could result from the contractual terms; and the gross carrying amount of financial assets and amortised cost financial liabilities subject to these contractual terms. The effective date would be set after the proposals have been exposed.

Equity Method

The purpose of this session is to review the progress of the equity method research project. The staff acknowledge that developing solutions to the application questions has taken longer than anticipated, but they still think it is possible to develop solutions. The IASB is being asked whether they agree to continue the research project with its current objective and approach.

IFRS Taxonomy

The staff recommends a 30-day comment period for the Proposed IFRS Accounting Taxonomy Update for *Lease Liability in a Sale and Leaseback* and *Non-current Liabilities with Covenants*.

Maintenance and consistent application

The IASB has on its work plan a project to make three targeted improvements to IAS 37, including one in relation to the discount rate an entity applies in measuring a provision. The IASB will consider developing proposals to specify in IAS 37 whether that rate should reflect its own performance risk. The staff are gathering

information to help the IASB reach a tentative decision on this question at a future meeting. The IASB will be asked if any members object to the publication of three IFRS Interpretations Committee agenda decisions: Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21); Special Purpose Acquisition Companies (SPAC)—Accounting for Warrants at Acquisition; and Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16).

Disclosure Initiative—Targeted Standards-level Review of Disclosures

The staff recommend that the IASB develop a middle ground approach to drafting disclosure requirements with the aim of providing a better framework for entities to use judgement to identify and disclose useful information to users of financial statements. Applying such an approach, disclosure objectives would be accompanied by a prescriptive list of items of information that an entity should disclose to meet the objectives. The staff further recommend the IASB publish the Guidance for the Board as a document posted on the IFRS Foundation website. Furthermore, the staff recommend that the IASB not proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19.

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

The staff are not recommending any changes to the requirements in IFRS 9. However, to increase the usefulness and transparency of information provided about the overall performance of equity investments for which the other comprehensive income (OCI) presentation election was made, the staff recommend amending paragraph 11A of IFRS 7 to require disclosure of the aggregated fair value of equity investments for which the OCI presentation option is applied at the end of the reporting period and changes in fair value recognised in OCI during the period.

Disclosure Initiative—Subsidiaries without public accountability: Disclosures

In this session, the IASB will discuss the objective and structure of the new Standard and the approach to developing disclosure requirements.

Goodwill and Impairment

The purpose of this meeting is to initiate the IASB's discussion on the subsequent accounting for goodwill. The IASB will not be asked to make any decisions at this meeting. The staff remind the IASB of its preliminary decision to retain the impairment-only model for the subsequent accounting of goodwill. The staff also provide an overview of respondents' feedback on the DP and a summary of additional information and recent developments since the feedback on the DP.

ISSB Update

There is no paper for this session.

Rate-regulated Activities

Cover note (Agenda Paper 9)

At this meeting, the IASB will continue redeliberating the proposals in the Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* relating to total allowed compensation.

Proposed definition of allowable expense and benchmark expenses (Agenda Paper 9A)

This paper sets out staff analysis and recommendations about the proposals for allowable expense in the ED. In particular, this paper focuses on the proposed definition of allowable expense and on benchmark expenses.

Staff recommendation

The staff recommend that the final Accounting Standard:

- Retains the definition of allowable expense proposed in the ED
- Clarifies that a regulatory agreement may determine the amount that compensates for an allowable expense using the same or a different basis from the basis an entity uses for measuring the allowable expense in accordance with IFRS Accounting Standards
- Clarifies the treatment of allowable expenses based on benchmarks and includes examples to help entities identify differences in timing in those cases

Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives (Agenda Paper 9B)

This paper sets out staff analysis and recommendations on the proposals for accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives in the ED.

Staff recommendation

The staff recommend the final Accounting Standard:

- Retains the proposals in the ED for entities to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and assets' useful lives when there is a direct relationship between an entity's regulatory capital base and its property, plant and equipment
- Provides guidance to help entities determine when there is no direct relationship between their regulatory capital base and their property, plant and equipment
- Requires entities that have concluded there is no direct relationship between their regulatory capital base and their property, plant and equipment to provide disclosures to enable users of financial statements to understand the reasons for their conclusion

Consultative Group for Rate Regulation meeting (Agenda Paper 9C)

This paper includes the summary notes and the material prepared for the Consultative Group for Rate Regulation (CGRR) meeting held on 28 March 2022. At that meeting the CGRR discussed how the IASB could respond to feedback on its proposals on the accounting for regulatory assets and regulatory liabilities arising from differences between the recovery pace of the regulatory capital base and the assets' useful lives.

These notes and the material are for information only and the staff are not asking the IASB to make decisions on this paper.

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

Disclosure, transition and effective date (Agenda Paper 16)

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). In September 2022, the IASB tentatively decided on the clarifying amendments.

This paper considers whether any additional disclosure requirements need to be added to IFRS 7 to complement the proposed clarifications to the requirements in IFRS 9, as well as any transition requirements and the potential effective date.

Staff recommendation

Disclosures

Although the amendments relate to financial assets, the staff believe that information about the effect of such features on the contractual cash flows of financial liabilities would be equally useful to users of financial statements. Therefore, the staff recommend requiring that, for each class of financial assets and financial liabilities not measured at fair value through profit or loss, an entity shall disclose:

- A qualitative description of the nature of the contingent events that could change the timing or amount of contractual cash flows
- Quantitative information about the potential range of changes to contractual cash flows that could result from the contractual terms
- The gross carrying amount of financial assets and amortised cost financial liabilities subject to these contractual terms

Transition requirements

The staff recommend proposing that an entity should:

- Apply the amendments retrospectively in accordance with IAS 8, except as specified in the bullet below
- Not be required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in IFRS 9. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments

In addition, to the extent that the initial application of the proposed amendments results in a change in the classification of financial assets, the staff recommend requiring an entity to disclose the following information as at the date of initial application of the amendments:

- The previous measurement category and carrying amount determined immediately before applying these amendments
- The new measurement category and carrying amount determined after applying these amendments

Potential effective date

The staff recommend that the effective date would be determined after exposure of the proposed amendments however recommend that early application of the amendments is permitted

The staff will ask the IASB if they agree with their recommendations.

Equity Method

Cover Paper (Agenda Paper 13)

Background

The equity method research project has the following background:

- Added to the IASB Agenda in 2011 following the agenda consultation
- Work commenced on the project in June 2015 to address application problems arising from the equity method
- Project deferred in May 2016 until after completion of Post-implementation Review of IFRS 10, 11 and 12
- In October 2020, the IASB moved the project to the research programme with the following objective: “To assess whether application problems with the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28”.

The project is focused on identifying application questions and addressing these by explaining the underlying principles of IAS 28. This may help the IASB develop new requirements, application guidance or other amendments to IAS 28.

The purpose of this paper is to help the IASB review the progress of the project.

Project status

In March 2021, the IASB discussed the process for selecting application questions in scope of the project. The application questions selected can be found in Appendix C to the paper.

The IASB also reviewed IAS 28 and set out the principles that underlie it, as set out in Appendix B to the paper. A process was agreed to identify missing principles by analogising to the principles of IAS 28 and applying the judgement required when developing an accounting policy applying IAS 8.

The staff have acknowledged that developing solutions to the application questions has taken longer than anticipated due to having to extend the analysis to incorporate aspects that were initially considered to be outside the scope of the project and due to the underlying IAS 28 principles not providing an appropriate basis for addressing the questions.

However, the staff still think it is possible to develop solutions to the application questions using the agreed approach.

The staff do not recommend deciding on the type of consultation document to be published at this time.

The IASB is being asked whether they agree to continue the research project with its current objective and approach.

IFRS Taxonomy

IFRS Taxonomy due process (Agenda Paper 25)

This paper seeks the IASB’s permission to shorten the comment period for the Proposed IFRS Accounting Taxonomy Update for the amendments arising from:

- *Lease Liability in a Sale and Leaseback*, which amends IFRS 16
- *Non-current Liabilities with Covenants*, which amends IAS 1

The staff has prepared one Proposed IFRS Accounting Taxonomy Update for these amendments because these are narrow-scope amendments and there is no significant impact on the Taxonomy arising from these amendments.

Staff recommendation

The staff recommends a 30-day comment period for the Proposed IFRS Accounting Taxonomy Update for *Lease Liability in a Sale and Leaseback* and *Non-current Liabilities with Covenants* because:

- A short comment period will enable the staff to publish the final IFRS Accounting Taxonomy Update and incorporate the changes in the IFRS Accounting Taxonomy 2023—the annual IFRS Accounting Taxonomy reflects the IFRS Accounting Standards issued as at 1 January of the relevant year, and is scheduled to be issued around March each year
- The changes are narrow in scope—the Proposed IFRS Accounting Taxonomy Update will propose elements to the IFRS Accounting Taxonomy that would not require extensive consultation

Disclosure Initiative: Targeted Standards-level Review of Disclosures

Decide project direction—Cover paper (Agenda Paper 11)

In March 2021, the IASB published Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach: Proposed amendments to IFRS 13 and IAS 19* which sets out a proposed new approach to developing and drafting disclosure requirements in IFRS Accounting Standards.

The purpose of this meeting is for the IASB to decide the next steps for the Targeted Standards-level Review of Disclosures project based on the feedback on the ED.

Decide project direction—Guidance for the Board (Agenda Paper 11A)

This paper analyses the courses of action available to the IASB and recommends a course of action to respond to the feedback on the proposed approach to developing and drafting disclosure requirements in IFRS Accounting Standards (Guidance for the Board), as set out in the ED.

At its meeting in July 2022, no IASB members expressed support for using the approach to drafting as proposed because of concerns from stakeholders about the significant cost of using judgement in applying the requirements drafted using that approach.

Consequently, this agenda paper discusses whether to:

- Discontinue work on the proposed approach to drafting disclosure requirements
- Develop a middle ground approach to drafting disclosure requirements

Discontinue work on the proposed approach to drafting disclosure requirements

The IASB could decide to discontinue work on the proposed approach to drafting disclosure requirements because feedback suggests that:

- The proposed approach may not be effective in shifting entities from using a checklist approach to disclosing items of information specified in an Accounting Standard, to using judgement to identify and disclose information that meets disclosure objectives
- Even if the IASB were to make changes to the proposed approach to resolve stakeholders' concerns, for example using prescriptive language when referring to items of information, changing the proposed approach, or the way the IASB drafts the disclosure requirements, may not bring about the shift the IASB was aiming to achieve through the project

- A checklist approach to disclosing items of information specified in an Accounting Standard may help entities provide comparable information

Develop a middle ground approach to drafting disclosure requirements

The IASB could decide to develop a middle ground approach to drafting disclosure requirements with the aim of providing a better framework for entities to use judgement to identify and disclose useful information to users of financial statements. Applying such an approach, disclosure objectives would be accompanied by a prescriptive list of items of information that an entity should disclose to meet the objectives.

Staff recommendation

The staff recommend that the IASB develop a middle ground approach to drafting disclosure requirements because:

- Discontinuing the work on approaches to drafting disclosure requirements would not contribute to solving the disclosure problem
- A middle ground approach would improve the IASB's approach to drafting disclosure requirements and help address the disclosure problem to some extent. By pursuing a middle ground approach, the IASB would be better placed to encourage other stakeholders to help address the disclosure problem.
- Stakeholders' concerns about the proposals were primarily related to prescriptive overall disclosure objectives and less prescriptive language when referring to items of information. A middle ground approach that addresses these concerns would likely receive widespread support while still improving the IASB's approach to drafting disclosure requirements

The staff further recommend the IASB publish the Guidance for the Board as a document posted on the IFRS Foundation website. As a reference, the IASB had previously published on the website a document which explains the objectives and process of post-implementation reviews (PIRs).

This recommendation would ensure that the Guidance for the Board:

- Would be publicly available—any stakeholder could access the document and understand how the IASB would develop disclosure requirements in IFRS Accounting Standards
- Would be flexible and iterative as the IASB intended, for example, whenever the IASB needs to amend the methodology based on feedback from stakeholders, the IASB can make changes immediately

Decide project direction—A middle ground approach to drafting disclosure requirements (Agenda Paper 11B)

This paper analyses the recommended middle ground approach to drafting disclosure requirements.

Staff recommendation

Should the IASB decide to proceed with developing a middle ground approach to drafting disclosure requirements, the staff recommend that the IASB, when drafting disclosure requirements:

- Provide context-setting, non-prescriptive overall disclosure objectives that describe the overall information needs of users of financial statements
- Not include a cross-reference to paragraph 31 of IAS 1 at the beginning of the disclosure section of each Accounting Standard
- Require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements
- Support specific disclosure objectives with explanations of the assessments that users make that rely on information disclosed applying the specific disclosure objectives

- Use prescriptive language when referring to items of information that an entity should disclose to meet a specific disclosure objective, subject to the requirements of paragraph 31 of IAS 1

Decide project direction—Proposed amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* (Agenda Paper 11C)

This paper analyses the courses of action available to the IASB and recommends a course of action to respond to the feedback on the proposed disclosure requirements in IFRS 13 and IAS 19 as set out in the ED.

This paper discusses whether the IASB should:

- Further develop the proposed disclosure requirements with or without using the middle ground approach to drafting
- Not proceed with any further work on the disclosure requirements in the two Accounting Standards

The IASB could make separate decisions in relation to the two test Accounting Standards.

Staff recommendation

The staff recommend that the IASB not proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19 on the basis that:

- The PIR of IFRS 13 did not identify possible improvements to the disclosure requirements as high priority. On completion of the PIR, the IASB concluded that the information required by IFRS 13 is useful to users of financial statements. The IASB fed the PIR findings to the Targeted Standards-level Review of Disclosures project and decided to conduct no other follow-up in response to findings from the PIR
- The PIR of IFRS 13 and the IASB's work leading to the Exposure Draft has highlighted that users of financial statements want information about material Level 2 measurements that are closer to Level 3. Therefore, in accordance with Paragraph 31 of IAS 1, if an entity concludes that information about its Level 2 measurements that are closer to Level 3 is material to its users of financial statements, the entity should be disclosing that information
- Making the disclosure requirements in IFRS 13 more explicit for Level 2 measurements close to Level 3 is unlikely to meet the prioritisation criteria the IASB set in its Third Agenda Consultation
- Improving the disclosure requirements in IAS 19 was not on the IASB's work plan prior to its decision in the Targeted Standards-level Review of Disclosures project to test the Guidance for the Board on IAS 19. The staff think it is unlikely that the IASB would have decided to explore amending the disclosure requirements of IAS 19 outside this project
- While it is possible for the IASB to make improvements to the disclosure requirements in IAS 19, feedback suggests that the benefits of amending the requirements may not outweigh the costs
- To develop disclosure proposals for IAS 19 that stakeholders think would result in more useful information, the IASB would need to perform extensive outreach with stakeholders. However, improving the disclosure requirements in IAS 19 is unlikely to meet the criteria the IASB used in its Third Agenda Consultation for assessing the priority of potential projects

Maintenance and consistent application

Cover paper (Agenda Paper 12)

At this meeting, the IASB will discuss targeted improvements to IAS 37, IFRS Interpretations Committee (IFRS IC) agenda decision and the latest edition of *IFRIC Update*.

Provisions—Targeted Improvements—Discount rates—non-performance risks (Agenda Paper 12A)

The IASB has on its work plan a project to make three targeted improvements to IAS 37. One improvement relates to the discount rate an entity applies in measuring a provision. The IASB will consider developing proposals to specify in IAS 37 whether that rate should reflect ‘non-performance risk’—the risk that the entity will not fulfil its obligation. The staff are gathering information to help the IASB reach a tentative decision on this question at a future meeting.

This paper presents the information the staff have gathered to date, along with a preliminary staff analysis of factors that could affect the IASB’s decision. The IASB is invited to ask questions and raise comments, including on what, if any, further information the IASB needs to reach a tentative decision at a future meeting and the completeness of the staff analysis—whether there are other factors the IASB should consider in reaching its decision.

Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)—Finalisation of agenda decision (Agenda Paper 12B)

At its September 2022 meeting, the IFRS IC decided not to add a standard-setting project to the work plan in response to a request on IFRS 17 and IAS 21. The Committee instead decided to publish an agenda decision. The purpose of this meeting is to ask IASB members whether they object to the agenda decision.

Special Purpose Acquisition Companies (SPAC)—Accounting for Warrants at Acquisition—Finalisation of agenda decision (Agenda Paper 12C)

At its September 2022 meeting, the IFRS IC decided not to add a standard-setting project to the work plan in response to a request about how an entity accounts for warrants on acquiring a special purpose acquisition company (SPAC). The Committee instead decided to publish an agenda decision. The purpose of this meeting is to ask IASB members whether they object to the agenda decision.

Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)—Finalisation of agenda decision (Agenda Paper 12D)

At its September 2022 meeting, the IFRS IC decided not to add a standard-setting project to the work plan in response to a request on Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16). The Committee instead decided to publish an agenda decision. The purpose of this meeting is to ask IASB members whether they object to the agenda decision.

IFRIC Update September 2022 (Agenda Paper 12E)

This agenda paper reproduces the *IFRIC Update* for September 2022.

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

Equity instruments and other comprehensive income (Agenda Paper 3A)

In June 2022, the IASB discussed feedback to Request for Information (RFI) *Post-implementation Review of IFRS 9—Classification and Measurement* on equity instruments and the other comprehensive income (OCI) presentation option.

At this meeting, the IASB will be asked to decide whether, and if so when, to take further action to respond to these findings.

Staff recommendation

Based on the analysis of feedback against the PIR framework, the staff are not recommending any changes to the requirements in IFRS 9. However, to increase the usefulness and transparency of information provided about the overall performance of equity investments for which the OCI presentation election was made, the staff recommend amending paragraph 11A of IFRS 7 to require disclosure of the aggregated fair value of equity investments for which the OCI presentation option is applied at the end of the reporting period and changes in fair value recognised in other comprehensive income during the period.

Business model assessment (Agenda Paper 3B)

The purpose of this meeting is to ask the IASB to decide whether they agree with the staff recommendation to not take any further action on the matters identified with regards to the business model requirements.

Summary of general feedback

Most of respondents shared the view that generally the business model assessment achieves the IASB's objective of providing users of financial statements. However, respondents expressed mixed views on its consistent application. Some respondents acknowledge that differences exist in how entities determine business model, however it doesn't necessarily reflect inconsistent application. Many respondents said that the business model assessment is not always being applied consistently and asked the IASB to provide additional application guidance and illustrative examples. Some respondents (particularly regulators, standard-setters and investors) expressed support for the IFRS 9 requirements for reclassification while some others (particularly preparers) said the requirements are too restrictive. These respondents suggested the IASB to change the requirements to be less restrictive in relation to specific circumstances such as loan syndications, factoring arrangements, internal transfers and changes in economic environments.

Key application questions

Overall, respondents expressed positive views on the business model requirements. Most respondents encourage the IASB to use the PIR as an opportunity to make targeted improvements to the classification and measurement requirements in relation to specific transactions, rather than fundamental aspects of IFRS 9.

Level at which business model is assessed

Questions were raised about the business model assessment in a consolidated group with multiple levels of subsidiaries. Respondents said that it is possible for the same asset to be managed by different entities within a consolidated group, which lead to different business model assessments. Those respondents asked the IASB to clarify how to determine the level at which to assess the business model both within an entity and a consolidated entity because the classification can be different depending on the level of aggregation.

The staff considered whether more application guidance would help to resolve any diversity in practice that arise from the application of the business model requirements and concluded that IFRS 9 already provides detailed application guidance. Therefore, the staff are not recommending further application guidance to be added.

How to consider sales in the business model assessment

Respondents asked for more application guidance concerning how to consider 'sales' in the determination of the business model for a portfolio of assets. A few respondents asked the IASB to explain sufficiently the terms 'infrequent' and 'insignificant', and even suggested providing a threshold for each in order to increase comparability. A few other respondents also said that the IASB should amend those requirements to include the rebalancing of portfolios for reasons other than changes in credit risk, for instance shifting of portfolios toward ESG investments or sales related to unexpected circumstances, such as the COVID-19 pandemic.

The staff acknowledged that judgement is involved based on relevant information available at the time when assessing the entity's business model, and therefore adding a quantitative threshold of 'sales' to distinguish between business models, would not only be arbitrary, but also inappropriate considering the different ways entities conduct business and use financial assets to achieve their objectives.

Distinction between the business models

Questions were raised about the distinction between the 'held to collect' and the 'held to collect and sell' business models, and also about the difference between a 'significant' buying and selling activity in the 'held to collect and sell' business model and an 'active' buying and selling activity in another business model. A few respondents were of the view that users of financial statements would be best served with information from only two measurement categories (fair value through profit or loss (FVTPL) or amortised cost).

A few respondents said that sometimes it is difficult to determine the business model and asked for additional guidance. However, the staff found that feedback on the RFI and outreach did not suggest any evidence that matters are widespread. The staff therefore are of the view that there is no evidence that the benefits of removing the fair value through OCI (FVTOCI) category will outweigh the cost of maintaining the current three measurement categories.

Reclassification and consideration of management's intention

A few respondents asked how to understand the difference between business models and management's intention. Respondents said that the initial business model does not change easily because IFRS 9 permits reclassification only under rare circumstances. However, there are some situations where the business model (or management intention) has to be changed. They are of the view that sometimes a 'held to collect' business model would no longer reflect how financial assets are managed and how cash flows are expected to be realised at the reporting date if the financial assets are not reclassified.

The staff considered that it is not possible to develop a principle-based solution for when reclassifications should be required, other than for changes in the business model. This is because management's intentions are affected and influenced by a wide range of factors and could change quite frequently. Requiring or permitting reclassifications in such cases would lead to frequent changes to the measurement basis of financial assets. This is something that users have said previously would not result in useful information. The staff therefore do not recommend any changes to be made to the reclassification requirements in IFRS 9.

Other application questions

The staff also analysed other application questions that were raised by respondents to the RFI related to features that expire with the passage of time, amending the reclassification accounting out of the FVTOCI measurement category into amortised cost, whether 'reporting period' includes interim reporting periods and business model assessment for assets and liabilities that are managed together.

The staff recommend no further action to be taken on those matters.

Exploring possible narrow-scope amendments for electronic cash transfers (Agenda Paper 3C)

In September 2021, the IFRS Interpretations Committee (IFRS IC) published an agenda decision about the recognition of cash received via an electronic transfer (payment) system as settlement for a financial asset applying IFRS 9, recommending not to add a standard-setting project to the work plan.

In September 2022 the IASB tentatively decided to explore narrow-scope standard-setting as part of its post-implementation review (PIR) of IFRS 9—Classification and Measurement.

At this meeting, IASB members will be asked whether they agree with the staff proposal to explore permitting the derecognition of financial liabilities before settlement date if specified criteria are met, and whether they have any other comments or suggestions to help direct the staff's further work.

Objectives of narrow-scope standard-setting

The staff noted that there is no evidence to suggest that a fundamental change to the derecognition requirements in IFRS 9 is justified or needed, which is consistent with the overall feedback to the PIR that the derecognition requirements in IFRS 9 work as intended, and with the Accounting Standards Advisory Forum (ASAF) feedback that, although questions arise in practice about the application of the derecognition requirements, these questions are not pervasive and therefore not a priority for the IASB to consider.

The staff think that there are two potential narrow-scope standard-setting avenues to explore:

- Clarification of particular aspects of the derecognition requirements in IFRS 9
- Development of an accounting policy choice to permit derecognition of a financial liability before the settlement date when specified criteria are met

Staff analysis on possible narrow scope of standard-setting

Clarification of particular aspects of the derecognition requirements of IFRS 9

The objective of such a potential clarification to IFRS 9 would be to clarify when the contractual rights to the cash flows from a financial asset expire or a financial liability is extinguished. Respondents to the IFRS IC's tentative agenda decision said that determining the exact timing of the extinguishment of the liability and of expiry of the rights to the cash flows could be time-consuming, costly and may involve significant (legal) analysis. They also said the legal analysis could identify a difference in timing between when a trade payable is extinguished and when the cash transferred as settlement for that trade payable is no longer available to the entity.

The staff's preliminary view is that clarifying the general derecognition requirements in IFRS 9 could have unintended consequences. It could potentially result in requiring a fundamental change to the existing requirements that would affect transactions beyond which concerns were raised. Also, considering such an amendment would go beyond a narrow-scope project. It would require consultation, time and resources and, therefore, could not be completed in a timely manner.

Accounting policy choice when specified criteria are met

The objective of this approach would be to explore whether derecognition could be permitted before the settlement date when specified criteria are met. For the purpose of exploring potential narrow-scope standard-setting, the staff think it might be helpful to consider whether an entity has lost control of cash when initiating an electronic payment. A potential accounting policy choice would permit an entity to derecognise a financial liability before the settlement date when using an electronic transfer system, provided that:

- The entity is irrevocably committed to the cash payment and therefore has effectively lost control of the cash
- The initiation and completion of the cash transfer takes place within a short timeframe as established by market convention for such electronic payments
- Completion of the cash transfer is subject only to an administrative process and not settlement risk of the entity

The staff's preliminary view is that the introduction of an accounting policy choice for financial liabilities is the preferred option to pursue to ensure a timely and effective response to the concerns raised while avoiding unintended consequences.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

Cover Paper (Agenda Paper 31)

Background

In July 2021, the IASB published Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* which sets out the IASB's proposal for a new IFRS Accounting Standard that would permit an eligible subsidiary to apply reduced disclosure requirements when applying IFRS Accounting Standards.

Objective of the draft Standard (Agenda Paper 31A)

Background

This agenda paper discusses the feedback on the proposed objective of the draft Standard and asks the IASB to confirm the proposed objective of the draft Standard.

Staff analysis

Costs and benefits to subsidiaries and the group

In deciding whether to apply the Standard an eligible subsidiary would consider:

- Its current financial reporting framework
- Its significance to the group
- The financial reporting processes of the subsidiary and the group

There may also be other factors to consider, for example if the local GAAP is aligned with local tax laws and legislation.

Effects on users of the financial statements

The IASB expects that the draft Standard will retain the usefulness of the financial statements for users of these eligible subsidiaries' financial statements, further:

- A parent can request additional information from its subsidiaries at any time
- Based on interviews with lenders during the development of the ED, lenders use financial statements as a verification tool when making lending decisions about entities without public accountability and can request additional information (e.g. about future cash flow information).

Staff view

The cost-benefits assessment may differ depending on the circumstances of the eligible subsidiary. If the costs of applying the draft Standard do not justify the benefits, the subsidiary would choose to not apply the draft Standard.

The proposed disclosure requirements in the draft Standard are developed to address the needs of users of subsidiaries' financial statements. Transition from IFRS Accounting Standards to the draft Standard will eliminate disclosure requirements designed for publicly accountable entities.

Most respondents agreed with the objective as proposed in the draft Standard and reiterated the expected benefits of the proposals. Consequently, the staff think that the feedback supports retaining the objective in the draft Standard.

Staff recommendations

The staff recommend that the IASB confirms the proposed objective of the draft Standard.

Approach to developing the proposed disclosure requirements (Agenda Paper 31B)

Background

This agenda paper discusses the feedback on the approach to developing the proposed disclosure requirements in the draft Standard and recommends that the IASB:

- Modify the approach to developing the proposed disclosure requirements in the draft Standard to ensure that the language used in the disclosure requirements are the same as IFRS Accounting Standards
- Explain in the Basis for Conclusions to the Standard:
 - Why the disclosure requirements in the *IFRS for SMEs* Accounting Standard are an appropriate starting point
 - How cost-benefit considerations are taken into account
 - The reason for the exceptions made to the approach

Addressing comments on proposed disclosure requirements (Agenda Paper 31C)

Background

The agenda paper outlines the staff's recommended process to address comments on the proposed disclosure requirements in the draft Standard.

Staff recommendations

The staff recommend that the IASB applies the following process:

- Step 1—stratify the comments on the proposed disclosure requirements based on how the requirements were developed
- Step 2—assess comments against a set of factors: consider principles on users' information needs of non-publicly accountable entities' financial statements, cost-benefit considerations, distribution of the comment, overall usefulness of information and previous IASB discussions and decisions on the topic
- Step 3—recommend changes to the proposed disclosure requirements in the draft Standard.

Structure of the draft Standard (Agenda Paper 31D)

Background

This agenda paper discusses the feedback on the structure of the draft Standard and asks the IASB to decide on the structure of the standard, proposed in the ED.

Staff recommendations

The staff recommend the Standard:

- Omits Appendix A proposed in the ED—that lists the disclosure requirements in other IFRS Accounting Standards replaced by the Standard
- Includes within the main body of the Standard a paragraph that cross-references to disclosure requirements in other IFRS Accounting Standards that remain applicable, replacing those footnotes related to disclosure requirements that remain applicable proposed in the ED

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.

The purpose of this meeting is to initiate the IASB's discussion on the subsequent accounting for goodwill.

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

Subsequent accounting for goodwill—Overview of feedback and research (Agenda Paper 18A)

In this paper, the staff remind the IASB of their preliminary decision to retain the impairment-only model for the subsequent accounting of goodwill.

The staff also provide an overview of respondents' feedback on the DP and a summary of additional information and recent developments since the feedback on the DP.

Overview of feedback to the DP

The staff outline how respondents' views were mixed, with many agreeing with the IASB's preliminary view, and many others instead supporting the reintroduction of amortisation.

The staff also outline that many of these conceptual and practical reasons for and against the reintroduction of amortisation are often diametrically opposed, for instance some respondents holding out that goodwill is a wasting asset while others believe the opposite.

Additional information and recent developments

The staff outline additional information, evidence, and recent developments since the feedback on the DP.

Feedback on convergence and developments on FASB project

The staff highlight that the International Organization of Securities Commissions (IOSCO) provided feedback on the importance of convergence of IFRS Accounting Standards and US GAAP. Similarly, the Accounting Standards Advisory Forum (ASAF) have commented that convergence between IFRS Accounting Standards and US GAAP is important. On the other hand, the Capital Markets Advisory Committee (CMAC) have commented that, though divergence is not desirable, different models for the subsequent accounting for goodwill are manageable.

The staff also note that the FASB have deprioritised their project to review the subsequent accounting for goodwill and remove it from their technical agenda.

Additional staff research

The staff summarise the results of their research into the feasibility of estimating the useful life of goodwill and the pattern in which it diminishes, and the reliability of such information, highlighting that there were again mixed views from respondents regarding the feasibility, auditability, and usefulness of such estimates.

The staff also summarise their research into the impact of transitioning to an amortisation-based model, again finding mixed views, with many respondents suggesting there would be a significant impact on entities' financial position and performance due to the size of historical goodwill balances and conversely many other

respondents saying the consequences of transition would be limited and should not by themselves prevent reintroduction of an amortisation-based model.

Other developments

The staff summarise the findings of the research conducted by the UK Endorsement Board (UKEB) into the subsequent measurement of goodwill.

Although some of the findings correspond to feedback obtained by the IASB staff, there were some findings which differed, namely, that the UKEB found a majority of respondents said it would be possible to estimate a useful life of goodwill. A majority of respondents stated that a maximum or minimum useful life would partially negate the anticipated improved reporting outcomes, and that transition to an amortisation-based model have limited adverse impact on financial stability.

The staff also summarise the tentative decision taken by the IASB in the September 2022 meeting to proceed with the amended version of their preliminary views regarding disclosures about business combinations.

The staff also provide an update on feedback regarding the usefulness of the existing disclosure requirements of IFRS 3.

Subsequent accounting for goodwill – Possible ways forward (Agenda Paper 18B)

In this paper, the staff set out the possible ways forward for the IASB when deciding whether to retain the impairment-only model for the subsequent accounting for goodwill, namely, confirming the preliminary view to retain the impairment-only model or exploring the reintroduction of amortisation of goodwill.

Exploring the reintroduction of amortisation

The staff note that there are two broad objectives for those who suggest reintroducing amortisation of goodwill: improving information and reducing cost.

Improving information

The staff highlight that the proponents of this objective are in favour of reintroducing amortisation of goodwill because:

- The impairment test is not working as intended
- Goodwill is a wasting asset
- Amortisation would result in an income statement expense that reflects the consumption of goodwill
- Amortisation would directly target goodwill, unlike impairment
- The improved disclosures suggested by the IASB's preliminary views would not solve what is in essence a measurement issue due to limitations of the impairment test

Reducing costs

The staff highlight that the proponents of this objective are in favour of reintroducing amortisation of goodwill because:

- The impairment test is not working as intended
- The impairment test is costly and complex
- The IASB's amended preliminary views will provide users with better information about subsequent performance than possible under the impairment test
- An amortisation-based model will reduce costs and reduce the overall cost of any package of amendment proposed by the IASB, allowing them to meet the project objective

Retaining the impairment only model

- The staff highlight that the proponents of retaining the impairment only model would argue:
- A compelling case for change has not been identified
- Stakeholder views are strongly held and divergent
- Both models have limitations
- Reintroduction of amortisation does not resolve concerns around timely recognition of impairment losses
- Reintroduction of amortisation would not represent a significant improvement in financial reporting that would justify divergence from US GAAP

ISSB Update

There is no agenda paper for this session.