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IASB

Meeting Summary

October 2022

This is a compilation of the summary available on IAS Plus at:
https://www.iasplus.com/en/meeting-notes/iasb/2022/october/
The meeting agenda and all of the staff papers are available on the IASB website:
https://www.ifrs.org/news-and-events/calendar/2022/october/international-accounting-standards-board/

Overview

The IASB met in London from 18-20 October 2022. The following items were discussed:

Rate-regulated Activities

The IASB decided 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 IASB also decided that the final Accounting Standard retain 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 IASB decided 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, 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 meeting was to review the progress of the equity method research project. The staff acknowledged that developing solutions to the application questions has taken longer than anticipated, but they still think it is possible to develop solutions. The IASB decided to continue the research project with its current objective and approach.

IFRS Taxonomy

The IASB decided to shorten the comment period to 30 days 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 is considering 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. In addition, no IASB members objected 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 IASB decided 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. The IASB decided to publish the Guidance for the Board as a document posted on the IFRS Foundation website. Furthermore, the IASB decided not to 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 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. The IASB also decided to continue to consider as part of this review the accounting for BACS transfers and to explore permitting the derecognition of financial liabilities before settlement date if specified criteria are met. The staff plan to bring a paper back in November.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed the objective and structure of the new standard and the approach to developing disclosure requirements. The IASB agreed with all of the staff recommendations.

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 reminded the IASB of its preliminary decision to retain the impairment-only model for the subsequent accounting of goodwill. The staff also provided an overview of respondents' feedback on the Discussion Paper (DP) and a summary of additional information and recent developments since the feedback on the DP. No decisions were made, but the IASB indicated that it has sufficient information to be in a position to make a decision at a future meeting.

ISSB Update

The ISSB Chair gave an overview of the first meetings of the ISSB, including this week's meeting and decisions made to date. The ISSB Chair reiterated the importance of building a global baseline for sustainability reporting and therefore, the ISSB is working closely with the European Financial Reporting Advisory Group (EFRAG) who is currently developing European Sustainability Reporting Standards (ESRS). He also listed the various consultative groups that have been established over the last few months to inform the standard-setting process of the ISSB.

Rate-regulated Activities

Cover note (Agenda Paper 9)

At this meeting, the IASB continued redeliberating the proposals in 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 set out staff analysis and recommendations about the proposals for allowable expense in the ED.

In particular, this paper focused on the proposed definition of allowable expense and on benchmark expenses.

Staff recommendation

The staff recommended 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

IASB discussion

The main discussion focused on whether to retain the definition of allowable expense. Most IASB members favoured this approach, while one IASB member said that if the definition is causing confusion, he would prefer it is changed rather than publishing application guidance to explain the definition. The Chair and another IASB member understood the concern but said it would be very difficult to draft a definition that would remove all confusion. Such a definition would be complex and lengthy and the approach to clarify in the application guidance was therefore the better approach. The IASB member with a preference to change the definition said that he would accept a complex and lengthy definition as it was a complex topic. The staff reassured the IASB that it had not been many respondents to the ED who expressed concerns about the definition.

IASB decision

All IASB members voted in favour of the staff recommendation.

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

This paper set 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 recommended 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 that 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

IASB discussion

IASB members generally agreed with the staff recommendation. There was consensus that the Standard would not be operational without the additional guidance. It is crucial for an entity to determine whether there is a direct relationship between its regulatory capital base and its property, plant and equipment. IASB members said that application guidance as to how to make that determination is required. It should be clear that the determination is based on facts and circumstances and is not an accounting policy choice. One IASB member said drafting the application as openly as possible would be key as there should be room for judgement.

IASB decision

All IASB member supported the staff recommendation.

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

This paper included 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 did not ask the IASB to make decisions on this paper. There was also no discussion 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 considered 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 recommended 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 recommended 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 recommended 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 recommended that the effective date would be determined after exposure of the proposed amendments however recommended that early application of the amendments is permitted.

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

IASB discussion

Overall, IASB members were in agreement with the staff recommendations and one IASB member noted that the disclosures are an important element of the clarifications made.

The IASB asked the staff to ensure the scope of the disclosures is clear. The IASB asked whether the disclosure requirements include equity instruments measured at fair value through other comprehensive income (FVTOCI). The staff noted that it does not include these instruments but does include other instruments measured at FVTOCI as for these instruments the P&L is measured at amortised cost. Another question asked was whether these disclosures are specific for the clarifications proposed or whether they would cover other events like changes in the time value of money. The staff confirmed that the disclosures are specific for the amendments and noted that drafting of the wording would need to be specific in this regard.

The staff paper recommended disclosure of possible changes based on 'all possible cash flows'. The IASB noted that this could be wide-ranging for a preparer. The staff confirmed they mean all possible cash flows within the contract. IASB members agreed with this and asked the staff to consider the language used in the exposure draft (ED).

One IASB member asked if a question could be included in the invitation to comment in the ED on whether these disclosures would meet the cost-benefit equation. If the instrument meets SPPI criteria, the IASB member noted that the disclosure required should not be onerous, however asked the staff to request feedback in this regard.

IASB decision

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

Equity Method research project

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 was 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 did not recommend deciding on the type of consultation document to be published at this time.

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

IASB discussion

The majority of IASB members, including the Chair, supported continuing with the project.

Some IASB members explained that this was because it is clear that there are practical issues being faced by preparers and diversity in practice that the project would help resolve.

The Chair noted that he wished for the project to continue as the IASB has tried to solve issues relating to IAS 28 on two previous occasions and stakeholders have continued to ask them to solve these. He added that it would be better if principles in IAS 28 could be pointed to in resolving the practical questions.

Some of the IASB members who supported continuing the project noted that it would be best to continue in a way that would be most efficient and potentially not to resolve all of the practical questions if this would take too much resource.

A minority of IASB members did not want to continue with the project as resources used on the project could be better utilised on other projects. They noted that whilst the project would reduce diversity, the information produced using the equity method was not utilised sufficiently by investors to make the project worthwhile.

One IASB member supported the objective but not the approach laid out in the staff paper. They explained that the approach was much broader than the objective as it includes considerations of the boundary of the reporting entity and identifying missing principles in IAS 28.

IASB decision

8 IASB members of 11 voted in support of continuing the project.

1 member highlighted that he had voted against as he supported the objective but not the approach.

IFRS Taxonomy

IFRS Taxonomy due process (Agenda Paper 25)

This paper sought 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 had 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 recommended 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

IASB decision

There was no discussion of this paper, only an IASB member comment that the changes are indeed narrow in scope. All IASB members supported the staff recommendation.

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 was for the IASB to decide the next steps for the Targeted Standards-level Review (TSLR) of Disclosures project based on the feedback on the ED.

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

This paper analysed 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 discussed 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 recommended 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 recommended 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

IASB discussion

Many IASB members supported the staff recommendation to document the proposed methodology for developing disclosure requirements and use it when developing disclosure requirements in future standard-setting activities and to publish the Guidance for the Board as a separate document on the IFRS Foundation website. They stated that this would be a good document to share with the stakeholders to explain why the IASB are doing things a certain way and that it would be similar to a PIR. They stated that the IASB should share their understanding and conclusion of what can be put in place and that they should be transparent to stakeholders on what will be considered going forward with disclosure requirements.

Two IASB members mentioned that the document can be caveated to say that the document is subject to change based on the future learnings of the IASB.

One IASB member discussed about how this document must have an anchor or reference to some existing guidance such as the *Conceptual Framework*. To this, another IASB member mentioned that the topic of the next paper (11B) might be more closely linked to the *Conceptual Framework* than this document. She also suggested to add wording to suggest that this document must be read in conjunction with what is published as an outcome of Agenda Paper 11B.

One IASB member stated that it was not clear whether the document would be binding or authoritative. He suggested that it should not be a separate document but an appendix to the project summary. He also stated that the IASB may be questioned if there are departures from or changes to the methodology defined in the document and that it might be expected to seek feedback or comments on the document.

Another IASB member mentioned that the project summary cannot be updated whereas this document could be updated in the future and thus should be maintained separately from the project summary. The Chair mentioned that if the document is created separately, the IASB must also think about the process around updating it. Another IASB member stated that the IASB should explain in the Basis for Conclusions (BC) if the proposed methodology is not followed. The document as such helps to add discipline and a reasonably consistent process to the disclosure requirements.

Most IASB members agreed with developing a middle ground approach to drafting disclosure requirements. One IASB member stated it might be relevant to address what would be considered the right level of required disclosure when developing the approach.

IASB decision

10 of the 11 IASB members voted in favour of documenting the proposed methodology and using it when developing disclosure requirements in future standard-setting activities.

11 of the 11 IASB members voted in favour of developing a middle ground approach to drafting disclosure requirements.

10 of the 11 IASB members voted in favour of publishing the Guidance for the Board as a document posted on the IFRS Foundation website.

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

This paper analysed 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 recommended 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

IASB discussion

Many IASB members were supportive of the staff recommendation that a middle ground approach should include context-setting, non-prescriptive overall disclosure objectives that describe the overall information needs of users of financial statements. A few IASB members stated that it would be good to see an example of how the middle ground approach should be applied.

One IASB member stated that the approach gives the preparers an understanding of what the users require and would be a tool to help better linkage between materiality and various disclosure requirements that will be set. Another IASB member stated a preference for the use of the wording "context-setting".

Many IASB members were supportive of the staff recommendation that a reference to paragraph 31 of IAS 1 should not be included at the beginning of the disclosure section of each Accounting Standard. One IASB member said that this reference should not be added as it would be a repetition and would not be neutral, and that it also seemed to be one-directional to remind preparers of the concept of materiality. Another IASB member said that it might not be a bad idea to have the reminder but did not seem to be something that should be done for every standard.

One IASB member said that the reference should not be included because there may be an unintended consequence of preparers sticking to that paragraph of the standard and not the standard as a whole. She also mentioned that this can be referenced in the BC related to disclosure requirements. Two IASB members initially disagreed with the staff recommendation. One IASB member mentioned that adding the reference to paragraph 31 of IAS 1 acts as an intermediary step as a reminder and also suggested that this should be done consistently across all standards. Another IASB member mentioned that paragraph 31 of IAS 1 is very important and linkage with that seemed appropriate.

The Chair reminded IASB members that the materiality concept is not working well and there needs to be a more robust approach. He also mentioned that they have an obligation as standard-setter to develop this approach. A few IASB members acknowledged that there is an issue related to materiality but adding it as a reminder to one standard is not likely to resolve the issue.

Most IASB members agreed with the staff recommendation on requiring entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements and supporting specific disclosure objectives with explanations of the assessments that users make that rely on information disclosed applying the specific disclosure objectives.

One IASB member mentioned that this approach addressed the materiality issue to some extent as it explains the user needs and how that information will be used. Another IASB member stated that adding examples seemed like a lot of information was being added and it was becoming more prescriptive and that perhaps should be reconsidered.

Most IASB members agreed with using prescriptive language when referring to items of information that satisfy a specific disclosure objective, subject to the requirements of paragraph 31 of IAS 1. One IASB member stated that they should formalise the periodic review of disclosures as part of the PIR of new standards as they would need to know which disclosures are working as well as whether the manner in which the disclosures were written affected performance. Another IASB member stated that the application of materiality requires time, effort and resources and it is typically easier for some entities to take the list of disclosures to meet their requirements.

IASB decision

11 of the 11 IASB members voted in favour of the middle ground approach including context-setting and non-prescriptive overall disclosure objectives that describe the overall information needs of users of financial statements.

9 of the 11 IASB members voted against including a reference to paragraph 31 of IAS 1 at the beginning of the disclosure section of each Accounting Standard.

11 of the 11 IASB members voted in favour of requiring entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements.

11 of the 11 IASB members voted in favour of supporting specific disclosure objectives with explanations of the assessments that users make that rely on information disclosed applying the specific disclosure objectives.

11 of the 11 IASB members voted in favour of using prescriptive language when referring to items of information that satisfy 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 analysed the courses of action available to the IASB and recommended 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 discussed 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 recommended 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 TSLR 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 ED 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 TSLR 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

IASB discussion

Most IASB members agreed with the staff's recommendation to not proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19. A few IASB members stated that it was not that the PIR of IFRS 13 did not identify possible improvements to the disclosure requirements as high priority, but that it was concluded in the PIR to address the issue as part of the TSLR project. However, based on the feedback received and the development of the middle ground approach, it did not seem like this project would address the issue appropriately such that the benefit would exceed the costs to it.

One IASB member noted that one of the key changes coming out of IFRS 13 was that of Level 2 investments close to Level 3, but that change was not just a disclosure change but a more substantial one. A few IASB members noted that the disclosure issue in these standards still exists and recommended that it may need to be considered in future agenda consultations.

IASB decision

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

Maintenance and consistent application

Cover paper (Agenda Paper 12)

At this meeting, the IASB discussed targeted improvements to IAS 37, IFRS Interpretations Committee (IFRS IC) agenda decisions 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 presented 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 was 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.

IASB discussion

IASB members noted that the IASB would need to get clarity as to what exactly users are asking of the IASB with regard to reflecting non-performance risk. One IASB member said it should be clear whether it was actually non-performance risk, or whether it was credit risk or even own credit risk they ask for. These may not be identical in all cases.

There was also some discussion around whether convergence with US GAAP should be an objective for this project, however one IASB member said that US GAAP has a fragmented approach with regard to accounting for liabilities and therefore convergence was difficult or even impossible to achieve.

One IASB member said that the way in which the liability is settled should play a role in determining the accounting treatment. It was also mentioned that inflation could play a role.

No decisions were made.

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 was to ask IASB members whether they object to the agenda decision.

IASB decision

There was no discussion on this paper. None of the IASB members objected to finalising 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 was to ask IASB members whether they object to the agenda decision.

IASB discussion

It was noted that the agenda decision is fact pattern-specific, i.e. changing the fact pattern may change the accounting outcome. One IASB member asked how this agenda decision interacts with a previous agenda decision on a similar (but different) fact pattern and whether it would be helpful to include a cross-reference in this agenda decision or to withdraw the old agenda decision. The staff replied that the IFRS IC discussed this but decided not to add any cross-references between the agenda decisions. Also, in general, agenda decisions stand as published at the time unless the underlying requirements change. In that case agenda decisions are withdrawn, and the Bound Volume would only include the agenda decisions that are applicable at the time the Bound Volume is published. However, this is not the case here.

IASB decision

No IASB members objected to finalising 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 was to ask IASB members whether they object to the agenda decision.

IASB discussion

One IASB member reminded the staff that this agenda decision should be considered during the PIR of the IFRS 9 impairment requirements. Another IASB member noted that four IFRS IC members voted against finalising the agenda decision and asked what their reasons were. The staff replied that these IFRS IC members all had different reasons for not supporting the agenda decision. For example, one IFRS IC member voted against finalising the agenda decision as it does not specify any presentation requirements. That IFRS IC member did not otherwise object to the agenda decision.

IASB decision

No IASB members objected to finalising the agenda decision.

IFRIC Update September 2022 (Agenda Paper 12E)

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

There was no discussion of this paper.

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 was 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 did not recommend 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 recommended 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.

IASB discussion

IASB members were overall supportive of the staff recommendation not to make any changes to the requirements in IFRS 9. IASB members were also supportive of the staff suggestion to amend IFRS 7 to include additional disclosures requirements. Two IASB members questioned whether the amendment should require the additional disclosure in a reconciliation format. However, other members stated that the requirements should not prescribe the format.

Business model assessment (Agenda Paper 3B)

The purpose of this paper was 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.

<u>Level at which business model is assessed</u>

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 did 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 recommended no further action to be taken on those matters.

IASB discussion

IASB members were overall supportive of the staff recommendation not to take any further action on the matters identified with regards to the business model requirements.

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 was 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

<u>Clarification of particular aspects of the derecognition requirements of IFRS 9</u>

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.

<u>Accounting policy choice when specified criteria are met</u>

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.

IASB discussion

IASB members were overall supportive of the staff recommendation to introduce an accounting policy choice for financial liabilities. One IASB member questioned why the proposed accounting policy choice is limited to electronic cash transfers rather than a principle-based delimitation to include other forms of payments. The staff clarified that such scope widening would consume a significant amount of time. In benefit of time and provided that the Board agree with the criteria proposed, the staff suggested to consider what can be done in relation to the scope and present an adjusted proposal at the November IASB meeting. At that meeting, the IASB would be asked permission to include this proposal in the Exposure Draft (ED) related to SPPI, avoiding having two EDs running simultaneously.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

Cover Paper (Agenda Paper 31)

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)

This agenda paper discussed 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

<u>Costs and benefits to subsidiaries and the group</u>

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 recommended that the IASB confirms the proposed objective of the draft standard.

IASB discussion

Most respondents agreed with the objective proposed in the draft standard. The purpose for the change is to reduce the costs and simplify the preparation of financial statements for eligible subsidiaries without losing useful information to the users of financial statements.

Some IASB members noted that the benefit of the standard would depend on various factors including relevant jurisdictions and current accounting frameworks.

One IASB member expressed a concern about users of financial statements being expected to rely on supplementary information, e.g. lenders requesting cash flow projections. They suggested the focus should be on the requirements of the standard instead of considering information that may be available through other means.

One IASB member expressed a concern about the cost-benefit assessment being related to "a subsidiary's importance to the group". The materiality will be defined by subsidiary, and this will be separate from the materiality for the information they need to report to the parent company.

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

This agenda paper discussed the feedback on the approach to developing the proposed disclosure requirements in the draft standard.

Staff recommendations

The staff recommended 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 in 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

IASB discussion

IASB members discussed that using full IFRS or the *IFRS for SMEs* Accounting Standard as the starting point for the new standard would ultimately end in the same result. In particular, a number of IASB members stated that the *IFRS for SMEs* Accounting Standard would not necessarily follow developments in the new standard.

IASB members agreed that the language should be consistent with IFRS Accounting Standards as this will be part of the set of standards.

One IASB member expressed a concern about users expecting that the *IFRS for SMEs* Accounting Standard to follow the evolution of the new standard. However, other IASB members made it clear that the two standards should be independent. It was noted however that it would be efficient to consider updates to the new standard when considering updates to the *IFRS for SMEs* Accounting Standard.

IASB decision

11 out of 11 agreed with the staff recommendation.

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

The agenda paper outlined 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.

IASB decision

There was no significant discussion on this topic. All IASB members agreed with the staff recommendations.

Structure of the draft Standard (Agenda Paper 31D)

This agenda paper discussed the feedback on the structure of the draft standard and asked the IASB to decide on the structure of the standard, proposed in the ED.

Staff recommendations

The staff recommended that 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

IASB discussion

Some IASB members expressed the view that Appendix A should be retained, because it provided clarity on how to apply the standard and would facilitate a gap analysis between the full and reduced disclosure requirements. Appendix A would be particularly helpful to users who prepare or audit full disclosure and subsidiary disclosures. Some IASB members believed that Appendix A would potentially create confusion about the requirements of the new standard. Other IASB members expressed concerns about the burden of maintaining Appendix A for future changes in other standards.

Some IASB members suggested that if Appendix A were removed, an alternative framework would be required. Strong opinions were expressed on both sides. It was noted that further work was required on the transitional provisions before the issue could be finally decided.

IASB decision

7 out of 11 agreed to omit Appendix A proposed in the ED.

11 out of 11 agreed to replace the footnotes with cross-references to disclosure requirements that remain applicable in other IFRS Accounting Standards, under each IFRS Accounting Standard subheading.

Staff recommendations

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

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 was to initiate the IASB's discussion on the subsequent accounting for goodwill.

The IASB was not 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 reminded the IASB of their preliminary decision to retain the impairment-only model for the subsequent accounting of goodwill.

The staff also provided 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 outlined 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 outlined 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 outlined additional information, evidence, and recent developments since the feedback on the DP.

Feedback on convergence and developments on FASB project

The staff highlighted 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 noted 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 summarised 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 summarised 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 summarised 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 summarised 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 provided an update on feedback regarding the usefulness of the existing disclosure requirements of IFRS 3.

IASB discussion

The IASB was asked if they had enough information to make a tentative decision to either retain the impairment-only model or to explore reintroducing amortisation of goodwill at a future meeting. IASB members generally agreed that sufficient information had been obtained to be able to decide, highlighting the polarised mixed views in the feedback, but also the lack of any substantially new arguments.

One member noted that one argument in favour of retaining the impairment-only model that had not been explored was the improvement performing the test annually had caused in corporate governance and controls. Another noted that there could be more analysis of costs and benefits of either approach. In particular, it was noted that the costs of applying the impairment test to smaller entities had not really been considered.

Some members observed that, with the future project on intangible assets, there is the possibility that the decision on reintroducing amortisation could be deferred until then, to avoid coming to a decision now which may prejudice that project. This would also allow the staff to progress more quickly with the disclosure package.

One IASB member also reminded the IASB of requirements under a local GAAP, which allowed an entity the accounting policy choice of applying an impairment-only or amortisation based approach, and whether such a policy choice could also be considered in this project.

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

<u>Improving information</u>

The staff highlighted 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

<u>Reducing costs</u>

The staff highlighted 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 highlighted 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

IASB discussion

Following the previous discussion, the IASB also considered deferral and the introduction of an accounting policy choice as possible ways forward.

The IASB members' views were mixed on the deferral option, with some members highlighting that there is already an implicit deferral by virtue of the decision being to "explore reintroducing amortisation of goodwill" rather than to decide on its reintroduction, while others believed this was not a 'true' deferral, as it will still require the staff to conduct research.

IASB members were generally against exploring an accounting policy choice, believing it would negatively impact comparability, understandability, and reliability of the financial statements if preparers were given a choice. Others also felt it would add a further layer of complexity, and potentially turn users away from using the annual report. However, some IASB members highlighted that it may be worth exploring the view of users and preparers around an accounting policy choice.

When summarising, the staff confirmed that the IASB had sufficient information to decide at a future meeting, and that they had planned to reference to the accounting policy choice available under 'old UK GAAP' in an agenda paper to that meeting.

ISSB Update

No paper was provided for this session.

The ISSB Chair gave an overview of the first meetings of the ISSB, including this week's meeting and decisions made to date. The ISSB Chair reiterated the importance of building a global baseline for sustainability reporting and therefore, the ISSB is working closely with the European Financial Reporting Advisory Group (EFRAG) who is currently developing European Sustainability Reporting Standards (ESRS). He also listed the various consultative groups that have been established over the last few months to inform the standard-setting process of the ISSB.

Very recently, the ISSB decided to base the materiality definition for IFRS Sustainability Disclosure Standards on IAS 1. The ISSB also decided to remove the definition of enterprise value from IFRS S1 to avoid incompatibility with local regulations that have a different definition of enterprise value.

The ISSB's agenda consultation will take place in the first half of 2023 to decide which topics the ISSB will focus on in addition to the core items it is already addressing.

One IASB member noted that there is an imbalance between entities that can provide the information readily and those that will struggle. He asked how the ISSB intends to address this issue. The ISSB Chair replied that the ISSB is exploring tools like a grace period for first-time reporters or allowing estimates when actual figures are impracticable to obtain. The ISSB will decide in the future how this affects the compliance statement.

Another IASB member asked which priority the cross-cutting projects (i.e. management commentary, intangible assets, climate-related risks in financial statements) will take on the ISSB's agenda. The ISSB Chair replied that these projects are foundational and the ISSB will treat them as a priority regardless of the outcome of the agenda consultation.

When asked whether the ISSB was planning to issue a Practice Statement on materiality, the ISSB Chair confirmed that they are looking into it.